SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-Q
November 05, 2008

UNITED STATES OF AMERICA

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2008

o 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 x No o

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 definition of “accelerated filer” “large accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

Yes o No x

The number of shares of the registrant’s common stock outstanding on October 27, 2008 was

23,559,402.

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SHENANDOAH TELECOMMUNICATIONS COMPANY

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

ASSETS	September 30, 2008	December 31, 2007
Current Assets		
Cash and cash equivalents	$ 7,318	$ 17,245
Accounts receivable, net	16,046	12,338
Income taxes receivable	220	3,762
Materials and supplies	5,000	4,664
Prepaid expenses and other	9,571	2,221
Assets held for sale	27,178	—
Deferred income taxes	775	906
Total current assets	66,108	41,136
Investments, including $1,702 and $2,602 carried at fair value	8,877	9,936
Property, Plant and Equipment		
Plant in service	284,093	289,279
Plant under construction	17,585	11,343
	301,678	300,622
Less accumulated amortization and depreciation	145,267	145,198
Net property, plant and equipment	156,411	155,424
Other Assets		
Intangible assets, net	88	2,331
Cost in excess of net assets of businesses acquired	3,313	9,852
Deferred charges and other assets, net	2,117	2,845
Net other assets	5,518	15,028
Total assets	$ 236,914	$ 221,524

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, 2008		December 31, 2007
Current Liabilities				
Current maturities of long-term debt	$	4,360	$	4,248
Accounts payable		7,693		6,073
Advanced billings and customer deposits		5,443		5,455
Accrued compensation		2,170		3,098
Liabilities held for sale		639		—
Accrued liabilities and other		2,937		5,182
Total current liabilities		23,242		24,056
Long-term debt, less current maturities		14,375		17,659
Other Long-Term Liabilities				
Deferred income taxes		22,099		20,970
Pension and other		3,619		5,000
Deferred lease payable		2,888		2,715
Total other liabilities		28,606		28,685
Commitments and Contingencies				
Shareholders' Equity				
Common stock		15,285		14,691
Retained earnings		157,021		138,172
Accumulated other comprehensive loss, net of tax		(1,615)		(1,739)
Total shareholders' equity		170,691		151,124
Total liabilities and shareholders' equity	$	236,914	$	221,524

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Three Months Ended September 30, 2008	2007	Nine Months Ended September 30, 2008	2007
Operating revenues	$ 37,409	$ 32,655	$ 107,304	$ 95,755
Operating expenses:				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	10,662	9,986	31,244	29,075
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	7,724	6,834	21,052	20,003
Depreciation and amortization	6,424	6,113	19,127	17,468
Total operating expenses	24,810	22,933	71,423	66,546
Operating income	12,599	9,722	35,881	29,209
Other income (expense):				
Interest expense	(103)	(453)	(782)	(1,433)
Gain (loss) on investments, net	(386)	250	(746)	658
Non-operating income, net	152	483	637	1,142
Income from continuing operations before income taxes	12,262	10,002	34,990	29,576
Income tax expense	4,818	3,929	14,013	11,855
Net income from continuing operations	$ 7,444	$ 6,073	$ 20,977	$ 17,721
Loss from discontinued operations, net of tax benefits of $429, $627, $1,357 and $1,661, respectively	(636)	(966)	(2,128)	(2,596)
Net income	$ 6,808	$ 5,107	$18,849	$ 15,125
Income (loss) per share, basic and diluted:				
Net income from continuing operations	$ 0.32	$ 0.26	$ 0.89	$ 0.76
Discontinued operations	(0.03)	(0.04)	(0.09)	(0.11)
Net income	$ 0.29	$ 0.22	$ 0.80	$ 0.65
Weighted average shares outstanding, basic	23,541	23,379	23,532	23,345
Weighted average shares, diluted	23,610	23,501	23,591	23,474

See accompanying notes to unaudited condensed consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

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, 2006	23,284	$ 11,322	$ 125,690	$ (1,823)	$ 135,189
Comprehensive income:					
Net income	—	—	18,803	—	18,803
Reclassification adjustment for unrealized loss from pension plans included in net income, net of tax	—	—	—	476	476
Net unrealized loss from pension plans, net of tax	—	—	—	(392)	(392)
Total comprehensive income					18,887
Dividends declared ($0.27 per share)	—	—	(6,321)	—	(6,321)
Dividends reinvested in common stock	23	518	—	—	518
Common stock repurchased	(26)	(636)	—	—	(636)
Common stock issued for share awards	98	2,075	—	—	2,075
Stock-based compensation	—	153	—	—	153
Conversion of liability classified awards to equity classified awards	—	55	—	—	55
Common stock issued through exercise of incentive stock options	130	1,048	—	—	1,048
Net excess tax benefit from stock options exercised	—	156	—	—	156
Balance, December 31, 2007	23,509	$ 14,691	$ 138,172	$ (1,739)	$ 151,124
Comprehensive income:					
Net income	—	—	18,849	—	18,849
Reclassification adjustment for unrealized loss from pension plans included in net income, net of tax	—	—	—	124	124

Total comprehensive income									18,973
Stock-based compensation	—		112		—		—		112
Conversion of liability classified awards to equity classified awards	—		50		—		—		50
Common stock issued through exercise of incentive stock options	48		378		—		—		378
Net excess tax benefit from stock options exercised	—		54		—		—		54
Balance, September 30, 2008	23,557	$	15,285	$	157,021	$	(1,615)	$	170,691

See accompanying notes to unaudited condensed consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30, 2008	2007
Cash Flows from Operating Activities		
Net income	$ 18,849	$ 15,125
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	22,141	21,415
Amortization	454	441
Stock based compensation expense	84	173
Excess tax benefits on stock option exercises	(54)	(131)
Deferred income taxes	1,397	(2,930)
Loss on disposal of assets	256	631
Realized losses on investments carried at fair value	94	—
Unrealized (gains) losses on investments carried at fair value	398	(79)
Net (gain) loss from patronage and equity investments	275	(662)
Other	(3,885)	(292)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(3,810)	(1,353)
Materials and supplies	(386)	(1,145)
Increase (decrease) in:		
Accounts payable	1,589	(2,300)
Deferred lease payable	210	154
Other prepaids, deferrals and accruals	(6,400)	2,610
Net cash provided by operating activities	$ 31,212	$ 31,658
Cash Flows From Investing Activities		
Purchase and construction of plant and equipment	$ (38,900)	$ (18,076)
Proceeds from sale of equipment	210	390
Purchase of investment securities	(342)	(2,619)
Proceeds from investment activities	633	475
Net cash used in investing activities	$ (38,399)	$ (19,830)

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SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

	Nine Months Ended September 30, 2008	2007
Cash Flows From Financing Activities		
Principal payments on long-term debt	$ (3,172)	$ (3,069)
Excess tax benefits on stock option exercises	54	131
Proceeds from exercise of incentive stock options	378	872
Net cash used in financing activities	$ (2,740)	$ (2,066)
Net increase(decrease) in cash and cash equivalents	$ (9,927)	$ 9,762
Cash and cash equivalents:		
Beginning	17,245	13,440
Ending	$ 7,318	$ 23,202
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 1,181	$ 1,417
Income taxes	$ 7,853	$ 13,466

During the nine months ended September 30, 2008, in a like-kind exchange, the Company traded-in approximately $4.1 million of property, plant and equipment as partial payment for property, plant and equipment acquired.

See accompanying notes to unaudited condensed consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

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, 2007. The balance sheet information at December 31, 2007 was derived from the audited December 31, 2007 consolidated balance sheet.

2. During September 2008, the Company announced its intention to sell its Converged Services operation, and as of September 30, 2008, the assets and liabilities related to the Converged Services operation were classified as held for sale in the consolidated balance sheet. The historical operating results of the entity have been reclassified as discontinued operations for all periods presented, and depreciation and amortization on long-lived assets was discontinued. No impairment charges were taken at the time of the classification as held for sale. Converged Services does not include the Company's Converged Services of West Virginia subsidiary, which was established to provide fiber-to-the-home services, and has been included in the "Other" category in the Company's segment financial statements.

In accordance with accounting guidance, specifically EITF Issue No. 87-24, certain costs previously charged or allocated to the Converged Services segment cannot be allocated to discontinued operations. As a result, certain general corporate overhead costs, affiliated interest charges, and certain investment gains and losses have been excluded from the reported discontinued operations. These items have been reclassified to the "Other" category in the segment financial statements for all reported periods (see Note 7).

As of September 30, 2008, assets and liabilities held for sale consisted of the following:

Assets:

Assets:		
Property, plant and equipment, net	$	15,305
Goodwill		6,539
Intangible assets, net		5,023
Other assets		311
Assets held for sale	$	27,178
Liabilities:		
Other liabilities	$	639

Discontinued operations included the following amounts of operating revenues and loss before income taxes:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Operating revenues	$ 3,387	$ 2,884	$ 9,410	$ 8,113
Loss before income taxes	$ 1,065	$ 1,593	$ 3,485	$ 4,257

3. Operating revenues and income from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.

4. In 1999, the Company executed a Management Agreement (the "Agreement") with Sprint Nextel whereby the Company committed to construct and operate a PCS network using CDMA air interface technology. Under the Agreement, the Company is the exclusive PCS Affiliate of Sprint Nextel providing wireless mobility communications network products and services on the 1900 MHz band in its territory which extends from Altoona, York and Harrisburg, Pennsylvania, and south along the Interstate 81 corridor through Western Maryland, the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is authorized to use the Sprint brand in its territory, and operate its network under the Sprint Nextel radio spectrum license. As an exclusive PCS Affiliate of Sprint Nextel, the Company has the exclusive right to build, own and maintain its portion of Sprint Nextel's nationwide PCS network, in the aforementioned areas, to Sprint Nextel's specifications. The initial term of the Agreement is for 20 years and is automatically renewable for three 10-year options, unless terminated by either party under provisions outlined in the Agreement.

On March 13, 2007, the Company's PCS Subsidiary and Sprint Nextel entered into a series of agreements, the principal operating effects of which were to:

- Amend, as of January 1, 2007, the Agreement to simplify the methods used to settle revenue and expenses between the Company and Sprint Nextel;
- Transfer, effective in May 2007, 13 Sprint Nextel operated Nextel store locations within the Company's PCS service area to the Company's PCS Subsidiary. The Company, as an agent, now sells Sprint Nextel iDEN (Integrated Digital Enhanced Network) phones and provides local customer service support for Sprint Nextel iDEN customers in the Company's service area.

5. Basic net income per share was computed on the weighted average number of shares outstanding. Diluted net income per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period for all dilutive stock options. At September 30, 2008, the Company had outstanding approximately 60,000 performance share units that are "contingently issuable shares" under the treasury stock method; based upon the Company's stock price during the thirty day period prior to September 30, 2008, these shares did not meet the threshold to be considered dilutive shares, and were excluded from the diluted net income per share computation. There were no adjustments to net income.

6. Investments include $1.7 million of investments carried at fair value as of September 30, 2008, consisting of equity, bond and money market mutual funds. These investments were acquired under a rabbi trust arrangement related to a non-qualified supplemental retirement plan maintained by the Company. During the three months ended September 30, 2008, the Company contributed $27 thousand to the trust, recognized $55 thousand in net losses on dispositions of investments, recognized $10 thousand in dividend and interest income from investments, and recognized net unrealized losses of $200 thousand on these investments. The Company also withdrew $543 thousand from the trust to fund a payout and reflect a forfeiture of an unvested participant balance. During the nine months ended September 30, 2008, the Company contributed $102 thousand to the trust, recognized net losses on dispositions of investments of $94 thousand, recognized $34 thousand in dividend and interest income from investments, and recognized net unrealized losses of $398 thousand on these investments. Following the initial contribution of slightly less than $2.5 million to the trust on June 30, 2007, during the three months ended September 30, 2007 the Company contributed $26 thousand to the trust, recognized no net losses on dispositions of investments, recognized $9 thousand in dividend and interest income from investments, and recognized net unrealized gains of $79 thousand on these investments. Fair values for these investments held under the rabbi trust are determined by quoted market prices for the underlying mutual funds.

7. SFAS Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information," establishes standards for reporting information about operating segments. 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. Following the Company's decision to dispose of the Converged Services segment (see Note 2), the Company has five reportable segments, which the Company operates and manages as strategic business units organized geographically and by lines of business: (1) PCS, (2) Telephone, (3) Mobile, (4) Cable TV and (5) Other.

The PCS segment, as a Sprint PCS Affiliate of Sprint Nextel, provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia.

The Telephone segment provides both regulated and unregulated telephone services and leases fiber optic facilities primarily in Shenandoah County and throughout the northern Shenandoah Valley of Virginia.

The Mobile segment provides tower rental space to affiliates and non-affiliates in the Company's PCS service area and paging services throughout the northern Shenandoah Valley.

The Cable TV segment provides cable television services under various franchise agreements within the incorporated areas of Shenandoah County, Virginia, as well as in the unincorporated areas of Shenandoah County.

Selected financial data for each segment is as follows:

For the three months ended September 30, 2008

(In thousands)

	PCS	Telephone	Mobile	Cable TV	Other	Eliminations	Consolidated Totals
External Revenues							
Service revenues	$ 24,240	$ 1,513	$ —	$ 1,187	$ 1,736	$ —	$ 28,676
Access charges	—	2,968	—	—	—	—	2,968
Facilities and tower lease	—	878	1,017	—	698	—	2,593
Equipment	1,410	10	—	19	423	—	1,862
Other	211	794	43	113	149	—	1,310
Total external revenues	25,861	6,163	1,060	1,319	3,006	—	37,409
Internal Revenues	-	1,926	606	8	973	(3,513)	—
Total operating revenues	25,861	8,089	1,666	1,327	3,979	(3,513)	37,409
Operating expenses							
Costs of goods and services, exclusive of depreciation and amortization shown separately below	7,927	1,850	606	902	2,440	(3,063)	10,662
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	4,350	1,225	207	336	2,056	(450)	7,724
Depreciation and amortization	3,979	1,644	222	263	316	—	6,424
Total operating expenses	16,256	4,719	1,035	1,501	4,812	(3,513)	24,810
Operating income (loss)	9,605	3,370	631	(174)	(833)	—	12,599
Non-operating income (expense)	116	46	12	(15)	358	(751)	(234)
Interest expense	—	(2)	(84)	(67)	(701)	751	(103)
Income (loss) from continuing operations before income taxes	9,721	3,414	559	(256)	(1,176)	—	12,262
Income taxes	(4,048)	(1,289)	(226)	97	648	—	(4,818)
Net income (loss) from continuing operations	$ 5,673	$ 2,125	$ 333	$ (159)	$ (528)	$ —	$ 7,444

For the three months ended September 30, 2007

(In thousands)

	PCS	Telephone	Mobile	Cable TV	Other	Eliminations	Consolidated Totals
External Revenues							
Service revenues	$ 19,966	$ 1,569	$ —	$ 1,113	$ 1,729	$ —	$ 24,377
Access charges	—	2,841	—	—	—	—	2,841
Facilities and tower lease	—	875	957	—	625	—	2,457
Equipment	1,238	8	—	13	61	—	1,320
Other	549	793	51	105	162	—	1,660
Total external revenues	21,753	6,086	1,008	1,231	2,577	—	32,655
Internal Revenues	—	1,724	595	8	945	(3,272)	—
Total operating revenues	21,753	7,810	1,603	1,239	3,522	(3,272)	32,655
Operating expenses							
Costs of goods and services, exclusive of depreciation and amortization shown separately below	7,329	1,798	453	949	2,281	(2,824)	9,986
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	3,777	1,231	186	397	1,691	(448)	6,834
Depreciation and amortization	3,771	1,537	233	254	318	—	6,113
Total operating expenses	14,877	4,566	872	1,600	4,290	(3,272)	22,933
Operating income (loss)	6,876	3,244	731	(361)	(768)	—	9,722
Non-operating income (expense)	172	234	—	—	915	(588)	733
Interest expense	—	(1)	(89)	(71)	(880)	588	(453)
Income (loss) from continuing operations before income taxes	7,048	3,477	642	(432)	(733)	—	10,002
Income taxes	(2,914)	(1,316)	(257)	193	365	—	(3,929)
Net income (loss) from continuing operations	$ 4,134	$ 2,161	$ 385	$ (239)	$ (368)	$ —	$ 6,073

For the nine months ended September 30, 2008

(In thousands)

	PCS	Telephone	Mobile	Cable TV	Other	Eliminations	Consolidated Totals
External Revenues							
Service revenues	$ 67,802	$ 4,592	$ —	$ 3,591	$ 5,197	$ —	$ 81,182
Access charges	—	7,780	—	—	—	—	7,780
Facilities and tower lease	—	2,694	3,010	—	2,188	—	7,892
Equipment	4,221	20	—	51	554	—	4,846
Other	2,215	2,385	223	314	467	—	5,604
Total external revenues	74,238	17,471	3,233	3,956	8,406	—	107,304
Internal Revenues	—	5,902	1,804	24	3,126	(10,856)	—
Total operating revenues	74,238	23,373	5,037	3,980	11,532	(10,856)	107,304
Operating expenses							
Costs of goods and services, exclusive of depreciation and amortization shown separately below	24,039	5,122	1,542	2,745	7,313	(9,517)	31,244
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	12,186	3,514	640	983	5,068	(1,339)	21,052
Depreciation and amortization	11,965	4,781	661	782	938	—	19,127
Total operating expenses	48,190	13,417	2,843	4,510	13,319	(10,856)	71,423
Operating income (loss)	26,048	9,956	2,194	(530)	(1,787)	—	35,881
Non-operating income (expense)	335	124	40	(19)	1,323	(1,912)	(109)
Interest expense	(22)	(10)	(265)	(197)	(2,200)	1,912	(782)
Income (loss) from continuing operations before income taxes	26,361	10,070	1,969	(746)	(2,664)	—	34,990
Income taxes	(10,928)	(3,822)	(803)	284	1,256	—	(14,013)
Net income (loss) from continuing operations	$ 15,433	$ 6,248	$ 1,166	$ (462)	$ (1,408)	$ —	$ 20,977

For the nine months ended September 30, 2007

(In thousands)

	PCS	Telephone	Mobile	Cable TV	Other	Eliminations	Consolidated Totals
External Revenues							
Service revenues	$58,252	$ 4,712	$ —	$ 3,373	$ 5,157	$ —	$ 71,494
Access charges	—	8,412	—	—	—	—	8,412
Facilities and tower lease	—	2,640	2,738	—	1,780	—	7,158
Equipment	3,436	19	—	32	182	—	3,669
Other	1,597	2,434	191	307	493	—	5,022
Total external revenues	63,285	18,217	2,929	3,712	7,612	—	95,755
Internal Revenues	—	4,948	1,621	24	2,697	(9,290)	—
Total operating revenues	63,285	23,165	4,550	3,736	10,309	(9,290)	95,755
Operating expenses							
Costs of goods and services, exclusive of depreciation and amortization shown separately below	20,112	5,600	1,355	3,098	6,920	(8,010)	29,075
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	9,829	4,544	563	1,193	5,154	(1,280)	20,003
Depreciation and amortization	11,175	3,901	697	792	903	—	17,468
Total operating expenses	41,116	14,045	2,615	5,083	12,977	(9,290)	66,546
Operating income (loss)	22,169	9,120	1,935	(1,347)	(2,668)	—	29,209
Non-operating income (expense)	472	584	—	—	3,009	(2,265)	1,800
Interest expense	(221)	(3)	(304)	(202)	(2,968)	2,265	(1,433)
Income (loss) from continuing operations before income taxes	22,420	9,701	1,631	(1,549)	(2,627)	—	29,576
Income taxes	(9,159)	(3,674)	(671)	587	1,062	—	(11,855)
Net income (loss) from continuing operations	$13,261	$ 6,027	$ 960	$ (962)	$ (1,565)	$ —	$ 17,721

The Company’s assets by segment are as follows:

In thousands (unaudited)	September 30, 2008	December 31, 2007	September 30, 2007
PCS	$ 92,700	$ 78,278	$ 75,947
Telephone	57,152	55,364	57,606
Converged Services	27,222	27,535	27,203
Mobile	18,313	15,617	14,777
Cable TV	7,162	7,903	7,848
Other	141,480	150,704	163,571
Combined totals	341,029	35,401	346,952
Inter-segment eliminations	(104,115)	(113,877)	(127,184)
Consolidated totals	$ 236,914	$ 221,524	$ 219,768

8. In November 2006, the Company announced its intention to offer early retirement benefits to certain employees; to freeze its defined benefit plan as of January 31, 2007; and subsequently to settle such benefits and terminate the plan. In January 2007, 25 employees accepted the early retirement offer, and during the three months ended March 31, 2007, the Company recorded pension costs (special termination benefits) of $1.3 million, as well as $0.4 million in other costs associated with early retirements, and during the three months ended June 30, 2007, the Company recorded an additional $0.3 million in one-time pension costs, and $0.1 million in additional early retirement related costs. The Company contributed $1.8 million to the pension plan during the three months ended September 30, 2008, expects to contribute approximately $1.0 million in additional cash to the pension plan prior to completing the settlement of the pension plan, and currently expects to recognize approximately $2.8 million in pension expense as settlements occur. No settlement expense was recognized during the three months or nine months ended September 30, 2008 or 2007.

The following table presents pension costs for the three months ended September 30, 2008 and 2007:

In thousands (unaudited)	2008	2007
Net periodic benefit cost recognized:		
Interest cost	$ 128	$ 136
Expected return on assets	(145)	(211)
Amortization of unrecognized loss	7	3
Total	$ (10)	$ (72)

The following table presents pension costs for the nine months ended September 30, 2008 and 2007:

In thousands (unaudited)	2008	2007
Net periodic benefit cost recognized:		
Interest cost	$ 384	$ 453
Expected return on assets	(435)	(619)
Amortization of unrecognized loss	21	9
Change in plan provisions	—	280
Special termination benefits	—	1,313
Total	$ (30)	$ 1,436

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9. The Company files U.S. federal income tax returns and various state and local income tax returns. With few exceptions, years prior to 2004 are no longer subject to examination. No state or federal income tax audits were in process as of September 30, 2008.

10. On August 6, 2008, the Company entered into an asset purchase agreement to acquire certain cable assets serving customers in Virginia and West Virginia from Rapid Communications, LLC. This agreement was amended on November 4, 2008, reducing the purchase price due to significant changes in the number of anticipated homes passed. The estimated $10 million purchase includes approximately 17,200 customers located in 50 franchise areas primarily clustered around Covington, Virginia; Summerville, West Virginia; and Weston, West Virginia. The sale is subject to regulatory approvals and is expected to close prior to the end of 2008.

The Company expects to consolidate and upgrade many of these cable networks over the next few years to be able to offer most customers expanded triple play services including High Definition TV, Video on Demand, High Speed Internet and Voice. The Company intends to finance the purchase price and network upgrades utilizing a portion of its $52 million Delayed Draw Term Loan with CoBank (the Company entered into this facility on October 22, 2008). The Delayed Draw Term Loan permits the Company to draw funds through December 31, 2009. Based upon the outstanding balance at that date, the Company will make 24 equal quarterly re-payments of the outstanding balance beginning March 31, 2010.and the Delayed Draw Term Loan will bear interest at a variable rate established by CoBank, or at the option of the Company, at LIBOR plus a spread based on the Company’s leverage ratio as defined; or at a fixed rate determined by CoBank.

11. On October 20, 2008, the Board of Directors of the Company declared a cash dividend of $0.30 per share to be paid December 1, 2008, to shareholders of record on November 12, 2008. The Company expects to pay out approximately $7.1 million.

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

This management's discussion and analysis includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions as they relate to Shenandoah Telecommunications Company or its management are intended to identify these forward-looking statements. All statements regarding Shenandoah Telecommunications Company's expected future financial position and operating results, business strategy, financing plans, forecasted trends relating to the markets in which Shenandoah Telecommunications Company operates and similar matters are forward-looking statements. We cannot assure you that the Company's expectations expressed or implied in these forward-looking statements will turn out to be correct. The Company's actual results could be materially different from its expectations because of various factors, including those discussed below and under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2007. 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, 2007, 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 local exchange telephone services and wireless personal communications services (as a Sprint PCS affiliate of Sprint Nextel), as well as cable television, video, Internet and data services, long distance, sale of telecommunications equipment, fiber optics facilities, paging and leased tower facilities. Following the classification of Converged Services to held for sale, the Company has the following five reporting segments, which it operates and manages as strategic business units organized geographically and by lines of business:

- wireless personal communications services, or PCS, as a Sprint PCS Affiliate of Sprint Nextel, in portions of Virginia, West Virginia, Maryland and Pennsylvania, through Shenandoah Personal Communications Company**;**
- telephone, which involves the provision of regulated and non-regulated telephone services in the Commonwealth of Virginia, through Shenandoah Telephone Company;
- mobile, which involves the provision of tower leasing and paging services, through Shenandoah Mobile Company;
- cable TV, which involves the provision of cable television services in Shenandoah County, Virginia, through Shenandoah Cable Television Company; and
- other, which involves the provision of Internet, network facility leasing, long-distance and CLEC services, through ShenTel Service Company, Shenandoah Network Company, Shenandoah Long Distance Company, ShenTel Communications Company and Converged Services of West Virginia, and the provision of investments and management services to its subsidiaries, through Shenandoah Telecommunications Company.

Additional Information About the Company's Business

The following table shows selected operating statistics of the Company for the three months ending on, or as of, the dates shown:

	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007	Dec. 31, 2006
Retail PCS Subscribers	205,777	187,303	178,077	153,503
PCS Market POPS (000) (1)	2,308	2,297	2,297	2,268
PCS Covered POPS (000) (1)	1,898	1,814	1,779	1,752
PCS Average Monthly Retail Churn % (2)	1.85%	2.33%	2.28%	1.88%
CDMA Base Stations (sites)	378	346	334	332
EVDO-enabled sites	134	52	—	—
EVDO Covered POPS (000)	1,292	624	—	—
Telephone Access Lines	24,193	24,536	24,712	24,830
Total Switched Access Minutes (000)	93,813	92,331	90,002	80,587
Originating Switched Access Minutes (000)	26,203	26,128	25,837	23,995
Long Distance Subscribers	10,884	10,689	10,642	10,499
Long Distance Calls (000) (3)	8,086	7,944	7,845	7,235
Total Fiber Miles	39,528	35,872	34,570	33,764
Fiber Route Miles	680	647	638	625
Towers (100 foot and over)	103	101	101	100
Towers (under 100 foot)	15	14	14	13
Cable Television Subscribers	8,142	8,303	8,330	8,440
DSL Subscribers	9,754	8,136	7,604	6,599
Dial-up Internet Subscribers	5,347	7,547	8,342	9,869
Employees (full time equivalents)	401	411	401	376

(1) – POPS refers to the estimated population of a given geographic area and is based on information purchased by Sprint Nextel from Geographic Information Services. 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) – PCS Average Monthly Retail Churn is the average of the three monthly subscriber turnover, or churn, calculations for the period.

(3) – Originated by customers of the Company's Telephone subsidiary.

Results of Operations

Three and Nine Months Ended September 30, 2008 Compared with the Three and Nine Months Ended September 30, 2007

Consolidated Results From Continuing Operations

The Company's consolidated results from continuing operations for the third quarter and the first nine months of 2008 and 2007 are as follows:

	Three Months Ended				Nine Months Ended			
(in thousands)	September 30,		Change		June 30,		Change	
	2008	2007	$	%	2008	2007	$	%
Operating revenues	$ 37,409	$ 32,655	$ 4,754	14.6	$107,304	$ 95,755	$ 11,549	12.1
Operating expenses	24,810	22,933	1,877	8.2	71,423	66,546	4,877	7.3
Operating income	12,599	9,722	2,877	29.6	35,881			