SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-Q
August 04, 2009

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 June 30, 2009

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 ¨

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

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

Large accelerated filer ¨ Accelerated filer x 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 x

The number of shares of the registrant’s common stock outstanding on July 24, 2009 was 23,639,517.

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

ASSETS	June 30, 2009	December 31, 2008
Current Assets		
Cash and cash equivalents	$13,266	$5,240
Accounts receivable, net	16,921	16,131
Vendor credits receivable	178	5,232
Income taxes receivable	—	7,366
Materials and supplies	4,600	6,376
Prepaid expenses and other	2,512	2,283
Assets held for sale	10,782	28,310
Deferred income taxes	1,848	1,483
Total current assets	50,107	72,421
Investments, including $1,635 and $1,440 carried at fair value	8,406	8,388
Property, Plant and Equipment		
Plant in service	336,598	323,096
Plant under construction	20,797	5,076
	357,395	328,172
Less accumulated amortization and depreciation	166,284	151,695
Net property, plant and equipment	191,111	176,477
Other Assets		
Intangible assets, net	2,871	3,163
Cost in excess of net assets of businesses acquired	4,547	4,547
Deferred charges and other assets, net	1,523	1,841
Net other assets	8,941	9,551
Total assets	$258,565	$266,837

See accompanying notes to unaudited condensed consolidated financial statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2009	December 31, 2008
Current Liabilities		
Current maturities of long-term debt	$5,703	$4,399
Accounts payable	6,823	5,607
Advanced billings and customer deposits	6,305	5,151
Accrued compensation	2,041	2,584
Liabilities held for sale	827	1,013
Income taxes payable	2,308	-
Accrued liabilities and other	5,189	5,631
Total current liabilities	29,196	24,385
Long-term debt, less current maturities	24,476	36,960
Other Long-Term Liabilities		
Deferred income taxes	23,416	29,505
Deferred lease payable	3,208	3,142
Other liabilities	8,665	6,533
Total other liabilities	35,289	39,180
Commitments and Contingencies		
Shareholders' Equity		
Common stock	16,877	16,139
Retained earnings	155,233	152,706
Accumulated other comprehensive loss, net of tax	(2,506)	(2,533)
Total shareholders' equity	169,604	166,312
Total liabilities and shareholders' equity	$258,565	$266,837

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 June 30, 2008		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating revenues	$40,140	$36,309	$80,241	$69,896
Operating expenses:				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	13,044	10,017	25,749	20,682
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	7,348	6,255	14,878	13,328
Depreciation and amortization	8,111	6,459	15,965	12,820
Total operating expenses	28,503	22,731	56,592	46,830
Operating income	11,637	13,578	23,649	23,066
Other income (expense):				
Interest expense	(405)	(346)	(935)	(680)
Gain (loss) on investments, net	223	90	(404)	(359)
Non-operating income, net	188	279	355	484
Income from continuing operations before income taxes	11,643	13,601	22,665	22,511
Income tax expense	4,828	5,596	9,693	9,106
Net income from continuing operations	6,815	8,005	12,972	13,405
Loss from discontinued operations, net of tax (expense) benefits of $(363), $514, $6,391 and $928, respectively	(75)	(820)	(10,445)	(1,493)
Net income	$6,740	$7,185	$2,527	$11,912
Basic and diluted income (loss) per share:				
Net income from continuing operations	$0.29	$0.34	$0.55	$0.57
Loss from discontinued operations	—	(0.03)	(0.44)	(0.06)
Net income	$0.29	$0.31	$0.11	$0.51
Weighted average shares outstanding, basic	23,637	23,533	23,629	23,527
Weighted average shares, diluted	23,732	23,575	23,715	23,582

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 AND COMPREHENSIVE INCOME
(in thousands, except per share amounts)

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2007, as previously reported	23,509	$ 14,691	$ 136,667	$ (1,739)	149,619
Prior period adjustment (see note 3)	—	—	(1,036)	—	(1,036)
Balance, December 31, 2007, as adjusted	23,509	$ 14,691	$ 135,631	$ (1,739)	$ 148,583
Comprehensive income:					
Net income	—	—	24,145	—	24,145
Reclassification adjustment for unrealized loss from pension plans included in net income, net of tax	—	—	—	137	137
Net unrealized loss from pension plans,net of tax	—	—	—	(931)	(931)
Total comprehensive income					23,351
Dividends declared ($0.30 per share)	—	—	(7,070)	—	(7,070)
Dividends reinvested in common stock	24	550	—	—	550
Stock—based compensation	—	161	—	—	161
Conversion of liability classified awards to equity classified awards	—	65	—	—	65
Common stock issued through exercise of incentive stock options	72	597	—	—	597
Net excess tax benefit from stock options exercised	—	75	—	—	75
Balance, December 31, 2008	23,605	$ 16,139	$ 152,706	$ (2,533)	$ 166,312
Comprehensive income:					
Net income	—	—	2,527	—	2,527
Reclassification adjustment for unrealized loss from pension plansincluded in net income, net of tax	—	—	—	27	27
Total comprehensive income					2,554
Stock—based compensation	—	318	—	—	318
Conversion of liability classified awards to equity classified awards	—	85	—	—	85
Common stock issued through exercise of incentive stock options	32	277	—	—	277

Net excess tax benefit from stock optionsexercised	—		58		—		—			58
Balance, June 30, 2009	23,637	$	16,877	$	155,233	$	(2,506	)	$	169,604

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)

	Six Months Ended June 30, 2009	2008
Cash Flows from Operating Activities		
Net income	$2,527	$11,912
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment on assets held for sale	17,545	—
Depreciation	15,676	15,075
Amortization	289	326
Stock based compensation expense	296	(18)
Excess tax benefits on stock option exercises	(58)	(45)
Deferred income taxes	(6,453)	(1,253)
Loss on disposal of assets	285	127
Realized losses on investments carried at fair value	188	39
Unrealized (gains) losses on investments carried at fair value	(307)	198
Net (gain) loss from patronage and equity investments	422	203
Other	1,978	(777)
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(502)	(1,951)
Materials and supplies	1,801	277
Increase (decrease) in:		
Accounts payable	1,225	(1,156)
Deferred lease payable	64	119
Other prepaids, deferrals and accruals	9,656	3,452
Net cash provided by operating activities	$44,632	$26,528
Cash Flows From Investing Activities		
Purchase and construction of plant and equipment	$(25,506)	$(18,734)
Proceeds from sale of equipment	66	108
Purchase of investment securities	(331)	(337)
Proceeds from investment activities	10	72
Net cash used in investing activities	$(25,761)	$(18,891)

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

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash Flows From Financing Activities		
Principal payments on long—term debt	$(13,180)	$(2,106)
Amounts borrowed under debt agreements	2,000	—
Excess tax benefits on stock option exercises	58	45
Proceeds from exercise of incentive stock options	277	186
Net cash provided by (used in) financing activities	$(10,845)	$(1,875)
Net increase in cash and cash equivalents	$8,026	$5,762
Cash and cash equivalents:		
Beginning	5,240	17,245
Ending	$13,266	$23,007
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$1,017	$805
Income taxes	$189	$4,889

During the six months ended June 30, 2009, the Company utilized $5,054 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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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, 2008. The balance sheet information at December 31, 2008 was derived from the audited December 31, 2008 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. During the second quarter of 2009, the Company determined that it had understated its asset retirement obligations relating to co-located cell sites beginning with the year ended December 31, 2003. As a result, the Company has corrected its consolidated balance sheet as of December 31, 2008 and its consolidated income statements for the three months and six months ended June 30, 2008, included in this report.

The cumulative effect of this correction, net of tax effects, is a reduction of retained earnings of $1,036,000 as of the beginning of fiscal year 2008 and a decrease to net income of $65,000 and $130,000 for the three and six months ended June 30, 2008, respectively.

The corrections do not affect historical net cash flows from operating, investing or financing activities.

Following is a summary of the effects of these changes on the Company’s consolidated balance sheet as of December 31, 2008, as well as the effects of these changes on the Company’s consolidated statements of income for the three months and six months ended June 30, 2008; and the effects of these changes on the consolidated statement of shareholders’ equity and comprehensive income for the year ended December 31, 2008:

Consolidated Statements of Income

	As Previously Reported	Adjustments (in thousands)	As Adjusted
Three months ended June 30, 2008			
Cost of goods and services	$9,967	$ 50	$10,017
Depreciation and amortization	6,400	59	6,459
Total operating expenses	22,622	109	22,731
Operating income	13,687	(109)	13,578
Income from continuing operations before income taxes	13,710	(109)	13,601
Income tax expense	5,640	(44)	5,596
Net income from continuing operations	8,070	(65)	8,005
Net income	7,250	(65)	7,185
Six months ended June 30, 2008			
Cost of goods and services	$20,582	$ 100	$20,682
Depreciation and amortization	12,702	118	12,820
Total operating expenses	46,612	218	46,830
Operating income	23,284	(218)	23,066

Income from continuing operations before income taxes	22,729	(218)	22,511
Income tax expense	9,194	(88)	9,106
Net income from continuing operations	13,535	(130)	13,405
Net income	12,042	(130)	11,912

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Consolidated Balance Sheet

	As Previously Reported	Adjustments (in thousands)	As Adjusted
December 31, 2008			
Plant in service	$321,044	$ 2,052	$323,096
Accumulated amortization and depreciation	150,499	1,196	151,695
Net property, plant and equipment	175,621	856	176,477
Total assets	265,981	856	266,837
Deferred income taxes	30,401	(896)	29,505
Other liabilities	3,485	3,048	6,533
Total other liabilities	37,028	2,152	39,180
Retained earnings	154,002	(1,296)	152,706
Total shareholders' equity	167,608	(1,296)	166,312
Total liabilities and shareholders' equity	265,981	856	266,837

Consolidated Statement of Shareholders' Equity and Comprehensive Income

	As Previously Reported	Adjustments (in thousands)	As Adjusted
As of December 31, 2007			
Retained earnings	$136,667	$ (1,036)	$135,631
Total stockholders' equity	149,619	(1,036)	148,583

4. 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.

The Company began an auction process with respect to the sale of the Converged Services assets in the fourth quarter of 2008. The Company determined, both at September 30, 2008 and December 31, 2008, based on its analysis of similar transactions, comparable values for other companies in the industry, and the broad range of values indicated by potential buyers during the early stages of the auction process, that no write-down of the carrying value of the net assets held for sale was required.

Subsequently, in connection with the preparation of the Company's first quarter 2009 financial statements, based upon changes in the marketplace for this type of asset and further developments in the auction process, 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 June 30, 2009, 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:

June 30, 2009

				December 31, 2008
Assets held for sale:				
Property, plant and equipment, net	$	7,577	$	15,414
Goodwill		—		6,539
Intangible assets, net		915		1,931
Deferred charges		1,603		3,384
Other assets		687		1,042
	$	10,782	$	28,310
Liabilities:				
Other liabilities	$	827	$	1,013

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating revenues	$3,354	$2,827	$6,910	$5,727
Income (loss) before income taxes	$288	$(1,334)	$(16,836)	$(2,421)

5. 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. During 2007, the Company issued approximately 68,000 performance share units that are “contingently issuable shares” under the treasury stock method. Based upon the Company’s stock price during the thirty day periods prior to June 30, 2009 and 2008, these shares did not meet the threshold to be considered dilutive shares, and were excluded from the respective diluted net income per share computations. At June 30, 2009, approximately 57,000 share units were outstanding, while at June 30, 2008, approximately 61,000 performance share units were outstanding. During February 2009, the Company issued approximately 169,000 options to purchase shares at an exercise price of $25.26 per share. Based upon the Company’s average daily closing price, these options were anti-dilutive and were excluded from the dilutive net income (loss) per share calculation for the three months and six months ended June 30, 2009. There were no adjustments to net income.

6. Investments include $1.6 million and $1.4 million of investments carried at fair value as of June 30, 2009 and December 31, 2008, respectively, consisting of equity, bond and money market mutual funds. These investments were acquired under a rabbi trust arrangement related to a non-qualified supplemental retirement plan maintained by the Company. During the three months ended June 30, 2009, the Company contributed $23 thousand to the trust, recognized net losses on dispositions of investments of $7 thousand, recognized $9 thousand in dividend and interest income from investments, and recognized net unrealized gains of $204 thousand on these investments. During the six months ended June 30, 2009, the Company contributed $64 thousand to the trust, recognized net losses on dispositions of investments of $188 thousand, recognized $18 thousand in dividend and interest income from investments, and recognized net unrealized gains of $300 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.

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, market value approximates its carrying value.

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. During 2009, the Company restructured its business segments to reflect changes in the Company’s corporate direction and strategy in response to changes in the economic environment and other factors. 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. The Other column primarily includes Shenandoah Telecommunications Company, the parent holding company. Prior period comparative information has been restated to conform to the current structure.

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, 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 cable television services in Shenandoah County, Virginia, and beginning December 1, 2008, in various franchise areas in West Virginia and Alleghany County, Virginia.

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Selected financial data for each segment is as follows:

Three months ended June 30, 2009

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$25,701	$3,324	$3,549	$—	$ —	$ 32,574
Access charges	—	2,152	—	—	—	2,152
Facilities and tower lease	1,109	1,398	—	—	—	2,507
Equipment	1,169	53	24	—	—	1,246
Other	434	987	240	—	—	1,661
Total external revenues	28,413	7,914	3,813	—	—	40,140
Internal revenues	647	3,059	8	—	(3,714)	—
Total operating revenues	29,060	10,973	3,821	—	(3,714)	40,140
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	8,904	4,212	3,089	86	(3,247)	13,044
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	3,948	1,770	1,275	822	(467)	7,348
Depreciation and amortization	4,971	2,183	874	83	—	8,111
Total operating expenses	17,823	8,165	5,238	991	(3,714)	28,503
Operating income (loss)	11,237	2,808	(1,417)	(991)	—	11,637
Non-operating income (expense)	91	121	33	490	(324)	411
Interest expense	(54)	(60)	(54)	(561)	324	(405)
Income (loss) from continuing operations before income taxes	11,274	2,869	(1,438)	(1,062)	—	11,643
Income taxes	(4,667)	(1,081)	549	371	—	(4,828)
Net income (loss) from continuing operations	$6,607	$1,788	$(889)	$(691)	$ —	$ 6,815

Three months ended June 30, 2008

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$22,510	$3,273	$1,197	$—	$ —	$ 26,980
Access charges	—	2,320	—	—	—	2,320

Facilities and tower lease	1,006	1,652	—	—	—	2,658
Equipment	1,511	58	15	—	—	1,584
Other	1,710	957	100	—	—	2,767
Total external revenues	26,737	8,260	1,312	—	—	36,309
Internal revenues	604	2,861	8	—	(3,473)	—
Total operating revenues	27,341	11,121	1,320	—	(3,473)	36,309
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	8,181	3,842	932	94	(3,032)	10,017
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	3,634	1,958	331	773	(441)	6,255
Depreciation and amortization	4,261	1,864	262	72	—	6,459
Total operating expenses	16,076	7,664	1,525	939	(3,473)	22,731
Operating income (loss)	11,265	3,457	(205)	(939)	—	13,578
Non—operating income (expense)	170	86	8	711	(606)	369
Interest expense	(118)	(121)	(66)	(647)	606	(346)
Income (loss) from continuing operations before income taxes	11,317	3,422	(263)	(875)	—	13,601
Income taxes	(4,667)	(1,306)	100	277	—	(5,596)
Net income (loss) from continuing operations	$6,650	$2,116	$(163)	$(598)	$ —	$ 8,005

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Six months ended June 30, 2009

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
External Revenues						
Service revenues	$51,061	$6,589	$7,155	$—	$ —	$ 64,805
Access charges	—	4,576	—	—	—	4,576
Facilities and tower lease	2,187	2,811	—	—	—	4,998
Equipment	2,439	87	35	—	—	2,561
Other	908	1,934	459	—	—	3,301
Total external revenues	56,595	15,997	7,649	—	—	80,241
Internal Revenues	1,269	6,128	16	—	(7,413)	—
Total operating revenues	57,864	22,125	7,665	—	(7,413)	80,241
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	17,939	8,218	5,926	151	(6,485)	25,749
Selling, general and administrative, exclusive of depreciation and amortization shown separately below 8,115	3,439	2,457	1,795	(928)	14,878	
Depreciation and amortization	9,843	4,334	1,619	169	—	15,965
Total operating expenses	35,897	15,991	10,002	2,115	(7,413)	56,592
Operating income (loss)	21,967	6,134	(2,337)	(2,115)	—	23,649
Non—operating income (expense)	68	102	20	385	(624)	(49)
Interest expense	(167)	(124)	(91)	(1,177)	624	(935)
Income (loss) from continuing operations before income taxes	21,868	6,112	(2,408)	(2,907)	—	22,665
Income taxes	(9,065)	(2,310)	916	766	—	(9,693)
Net income (loss) from continuing operations	$12,803	$3,802	$(1,492)	$(2,141)	$ —	$ 12,972

Six months ended June 30, 2008

(In thousands)

	Wireless	Wireline	Cable TV	Other	Eliminations	Consolidated Totals
External Revenues						
Service revenues	$43,562	$6,540	$2,403	$—	$ —	$ 52,505
Access charges	—	4,813	—	—	—	4,813
Facilities and tower lease	1,993	3,305	—	—	—	5,298
Equipment	2,811	142	32	—	—	2,985
Other	2,183	1,910	202	—	—	4,295

Total external revenues	50,549	16,710	2,637	—	—	69,896
Internal Revenues	1,199	5,833	16	—	(7,048)	—
Total operating revenues51	51,748	22,543	2,653	—	(7,048)	69,896
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	17,147	7,642	1,842	209	(6,158)	20,682
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	8,268	3,685	648	1,617	(890)	13,328
Depreciation and amortization	8,544	3,611	519	146	—	12,820
Total operating expenses	33,959	14,938	3,009	1,972	(7,048)	46,830
Operating income (loss)	17,789	7,605	(356)	(1,972)	—	23,066
Non—operating income (expense)	246	66	(3)	977	(1,161)	125
Interest expense	(202)	(225)	(131)	(1,283)	1,161	(680)
Income (loss) from continuing operations before income taxes	17,833	7,446	(490)	(2,278)	—	22,511
Income taxes	(7,368)	(2,842)	186	918	—	(9,106)
Net income (loss) from continuing operations	$ 10,465	$ 4,604	$ (304)	$ (1,360)	$ —	$ 13,405

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The Company's assets by segment are as follows:

(In thousands)

	June 30, 2009	December 31, 2008
Wireless	$ 128,794	$ 121,453
Wireline	74,613	67,884
Cable TV	19,743	19,065
Other (includes assets held for sale)	182,578	196,932
Combined totals	405,728	405,334
Inter-segment eliminations	(147,163)	(138,497)
Consolidated totals	$ 258,565	$ 266,837

9. The Company files U.S. federal income tax returns and various state and local income tax returns. With few exceptions, years prior to 2005 are no longer subject to examination. No state or federal income tax audits were in process as of June 30, 2009.

10. The Company has evaluated subsequent events for potential recognition and/or disclosure through August 3, 2009, the date the consolidated financial statements included in this Quarterly Report on Form 10-Q were issued.

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

This management's discussion and analysis includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," "plan" and similar expressions as they relate to Shenandoah Telecommunications Company or its management are intended to identify these forward-looking statements. All statements regarding Shenandoah Telecommunications Company's expected future financial position and operating results, business strategy, financing plans, forecasted trends relating to the markets in which Shenandoah Telecommunications Company operates and similar matters are forward-looking statements. We cannot assure you that the Company's expectations expressed or implied in these forward-looking statements will turn out to be correct. The Company's actual results could be materially different from its expectations because of various factors, including those discussed below and under the caption "Risk Factors" in the Company's Annual Report on Form 10-K for its fiscal year ended December 31, 2008. 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, 2008, 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. The Company has the following three reporting segments, which it operates and manages as strategic business units organized by lines of business:

- Wireless, which provides wireless personal communications services, or PCS, as a Sprint PCS Affiliate of Sprint Nextel, through Shenandoah Personal Communications Company, and tower facilities for personal communications services, leased to both affiliated and non-affiliated entities through Shenandoah Mobile Company;

- Wireline, which involves the provision of regulated and non-regulated telephone services, Internet access, and leased fiber optic facilities, primarily through Shenandoah Telephone Company, ShenTel Service Company, and Shenandoah Network Company, respectively, and long-distance and CLEC services through Shenandoah Long Distance Company, ShenTel Communications Company and Shentel Converged Services of West Virginia, Inc.; and

- Cable TV, which involves the provision of cable television services, through Shenandoah Cable Television Company in Shenandoah County, Virginia, and since December 1, 2008, in Alleghany County, Virginia and various locales throughout West Virginia, through Shentel Cable Company.

The Other category includes the provision of investments and management services to its subsidiaries, through Shenandoah Telecommunications Company.

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.

The Company began an auction process with respect to the sale of the Converged Services assets in the fourth quarter of 2008. The Company determined, both at September 30, 2008 and December 31, 2008, based on its analysis of similar transactions, comparable values for other companies in the industry, and the broad range of values indicated by potential buyers during the early stages of the auction process, that no write-down of the carrying value of the net assets held for sale was required.

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Subsequently, in connection with the preparation of the Company's first quarter 2009 financial statements, based upon changes in the marketplace for this type of asset and further developments in the auction process, 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 June 30, 2009, negotiations to complete the sale continue, and there has been no change in the estimated fair value of the assets.

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:

	June 30, 2009	Dec. 31, 2008	June 30, 2008	Dec. 31, 2007
Retail PCS Subscribers	216,067	211,462	200,397	187,303
PCS Market POPS (000) (1)	2,324	2,310	2,308	2,297
PCS Covered POPS (000) (1)	1967	1,931	1,838	1,814
PCS Average Monthly Retail Churn % (2)	2.07 %	1.87 %	1.74 %	2.32 %
CDMA Base Stations (sites)	432	411	364	346
EVDO-enabled sites	278	211	93	52
EVDO Covered POPS (000) (1)	1,858	1,663	1,041	624
Towers (100 foot and over)	108	103	101	101
Towers (under 100 foot)	17	15	15	14
Telephone Access Lines	24,046	24,209	24,325	24,536
Total Switched Access Minutes (000)	83,488	90,460	92,917	92,331
Originating Switched Access Minutes (000)	23,903	25,425	27,235	26,128
Long Distance Subscribers	10,769	10,842	10,840	10,689
Long Distance Calls (000) (3)	7,923	7,981	8,891	7,944
Total Fiber Miles – Wireline	47,654	46,733	39,260	35,872
Fiber Route Miles – Wireline	767	756	674	647
DSL Subscribers	10,526	10,038	8,951	8,136
Dial-up Internet Subscribers	4,417	5,151	6,287	7,547
Cable Television Subscribers (4)	25,260	25,369	8,193	8,303
Employees (full time equivalents)	465	445	414	411

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) 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.
4) The increase at December 31, 2008 is primarily a result of the acquisition of cable customers from Rapid Communications, LLC, on December 1, 2008.

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Results of Operations

Three Months Ended June 30, 2009 Compared with the Three Months Ended June 30, 2008

Consolidated Results

The Company's consolidated results from continuing operations for the second quarter of 2009 and 2008 are summarized as follows:

(in thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Change $	Change %
Operating revenues	$ 40,140	$ 36,309	$ 3,831	10.6
Operating expenses	28,503	22,731	5,772	25.4
Operating income	11,637	13,578	(1,941)	(14.3)
Other income (expense)	6	23	(17)	(73.9)
Income tax expense	4,828	5,596	(768)	(13.7)
Net income from continuing operations	$ 6,815	$ 8,005	$ (1,190)	(14.9)

Operating revenues

For the three months ended June 30, 2009, operating revenue increased $3.8 million, or 10.6%, primarily due to increased service revenue in the Wireless segment and the additional revenue from the Shentel Cable acquisition in late 2008. For the quarter ended June 30, 2009, Wireless operating revenues increased $1.7 million, or 6.3%, while Cable TV segment operating revenues increased $2.5 million. All other Company revenues decreased by $0.4 million, compared to the three months ended June 30, 2008.

Operating expenses

For the quarter ended June 30, 2009, operating expenses increased $5.8 million, or 25.4%, compared to the 2008 period. The incremental costs of the Shentel Cable operations accounted for $3.7 million of the year over year increase. Additional depreciation expense on improvements to the Company's fiber optic network and to support expanded wireless coverage and additional services, specifically EVDO high speed wireless internet data access availability, added $1.3 million to operating expenses, while other costs in the Wireless segment increased $1.2 million.

Income tax expense

The Company's effective tax rate on income from continuing operations increased from 41.1% in the second quarter of 2008 to 41.5% in the second quarter of 2009 due to changes in the allocation of taxable income to higher tax states.

Net income from continuing operations

For the three months ended June 30, 2009, net income from continuing operations decreased $1.2 million, as operating expenses increased faster than operating revenues.

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Wireless

The Company’s Wireless segment provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia, through Shenandoah 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 Spri