

SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-Q
May 06, 2008

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, 2008

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

For the transition period from _____ to _____

Commission File No.: 000-09881

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

VIRGINIA
(State or other jurisdiction of
incorporation or organization)

54-1162807
(I.R.S. Employer Identification No.)

500 Shentel Way, Edinburg, Virginia
(Address of principal executive offices)
(540) 984-4141

22824
(Zip Code)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 25, 2008 was 25,530,186.

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

ASSETS	March 31, 2008	December 31, 2007
Current Assets		
Cash and cash equivalents	\$ 22,995	\$ 17,245
Accounts receivable, net	11,650	12,338
Income taxes receivable		3,762
Materials and supplies	4,642	4,664
Prepaid expenses and other	2,984	2,221
Deferred income taxes	1,031	906
Total current assets	43,302	41,136
Investments, including \$2,468 and \$2,602 carried at fair value	9,509	9,936
Property, Plant and Equipment		
Plant in service	297,698	289,279
Plant under construction	10,420	11,343
	308,118	300,622
Less accumulated amortization and depreciation	152,439	145,198
Net property, plant and equipment	155,679	155,424
Other Assets		
Intangible assets, net	2,214	2,331
Cost in excess of net assets of businesses acquired	9,852	9,852
Deferred charges and other assets, net	3,171	2,845
Net other assets	15,237	15,028
Total assets	\$ 223,727	\$ 221,524

See accompanying notes to unaudited condensed consolidated financial statements.

(Continued)

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

LIABILITIES AND SHAREHOLDERS EQUITY	March 31, 2008	December 31, 2007
Current Liabilities		
Current maturities of long-term debt	\$ 4,285	\$ 4,248
Accounts payable	6,661	6,073
Advanced billings and customer deposits	5,648	5,455
Accrued compensation	1,240	3,098
Income taxes payable	130	
Accrued liabilities and other	4,786	5,182
Total current liabilities	22,750	24,056
Long-term debt, less current maturities	16,574	17,659
Other Long-Term Liabilities		
Deferred income taxes	20,320	20,970
Pension and other	5,176	5,000
Deferred lease payable	2,750	2,715
Total other liabilities	28,246	28,685
Commitments and Contingencies		
Shareholders Equity		
Common stock	14,925	14,691
Retained earnings	142,964	138,172
Accumulated other comprehensive loss, net of tax	(1,732)	(1,739)
Total shareholders equity	156,157	151,124
Total liabilities and shareholders equity	\$ 223,727	\$ 221,524

See accompanying notes to unaudited condensed consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands, except per share amounts)

	Three Months Ended March 31,	
	2008	2007
Operating revenues	\$ 36,487	\$ 33,048
Operating expenses:		
Cost of goods and services, exclusive of depreciation and amortization shown separately below	12,538	11,402
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	7,934	7,474
Depreciation and amortization	7,508	7,088
Total operating expenses	27,980	25,964
Operating income	8,507	7,084
Other income (expense):		
Interest expense	(333)	(507)
Gain (loss) on investments, net	(450)	60
Non-operating income, net	207	256
Income before income taxes	7,931	6,893
Income tax expense	3,139	2,822
Net income	\$ 4,792	\$ 4,071
Income per share:		
Basic net income per share	\$ 0.20	\$ 0.17
Weighted average shares outstanding, basic	23,521	23,304
Diluted net income per share	\$ 0.20	\$ 0.17
Weighted average shares, diluted	23,587	23,445

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			4,792		4,792
Reclassification adjustment for unrealized loss from pension plans included in net income, net of tax				7	7
Total comprehensive income					4,799
Stock-based compensation		50			50
Common stock issued through exercise of incentive stock options	21	140			140
Net excess tax benefit from stock options exercised		44			44
Balance, March 31, 2008	23,530	\$ 14,925	\$ 142,964	\$ (1,732)	\$ 156,157

See accompanying notes to unaudited condensed consolidated financial statements.

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

(in thousands)

	Three Months Ended March 31,	
	2008	2007
Cash Flows from Operating Activities		
Net income	\$ 4,792	\$ 4,071
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,352	6,945
Amortization	156	143
Stock based compensation expense	(47)	78
Excess tax benefits on stock option exercises	(44)	(39)
Deferred income taxes	(789)	(1,258)
Loss on disposal of assets	42	28
Realized losses on investments carried at fair value	39	
Unrealized losses on investments carried at fair value	158	
Net (gain) loss from patronage and equity investments	237	(93)
Other	(190)	634
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	688	676
Materials and supplies	22	150
Increase (decrease) in:		
Accounts payable	588	(3,423)
Deferred lease payable	35	62
Other prepaids, deferrals and accruals	1,231	3,335
Net cash provided by operating activities	\$ 14,270	\$ 11,309
Cash Flows From Investing Activities		
Purchase and construction of plant and equipment	\$ (7,757)	\$ (3,458)
Proceeds from sale of equipment	108	151
Purchase of investment securities	(63)	
Proceeds from investment activities	56	141
Net cash used in investing activities	\$ (7,656)	\$ (3,166)

(Continued)

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

(in thousands)

	Three Months Ended March 31,	
	2008	2007
<hr/>		
Cash Flows From Financing Activities		
Principal payments on long-term debt	\$ (1,048)	\$ (1,015)
Excess tax benefits on stock option exercises	44	39
Proceeds from exercise of incentive stock options	140	260
	<hr/>	
Net cash used in financing activities	\$ (864)	\$ (716)
	<hr/>	
Net increase in cash and cash equivalents	\$ 5,750	\$ 7,427
Cash and cash equivalents:		
Beginning	17,245	13,440
	<hr/>	
Ending	\$ 22,995	\$ 20,867
	<hr/>	
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	\$ 340	\$ 485
	<hr/>	
Income taxes	\$ 2	\$ 758
	<hr/>	

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. Operating revenues and income from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.
3. In 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 now sells Sprint Nextel iDEN (Integrated Digital Enhanced Network) phones, dual mode phones (that utilize the CDMA network for voice, and the iDEN network for push-to-talk service) and provides local customer service support for Sprint Nextel iDEN customers in the Company s service area.

4. 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 March 31, 2008, the Company had outstanding approximately 63,000 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 March 31, 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.
5. Investments include \$2.5 million of investments carried at fair value as of March 31, 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 March 31, 2008, the Company contributed \$54 thousand to the trust, recognized net losses on dispositions of investments of \$39 thousand, recognized \$9 thousand in dividend and interest income from investments, and recognized net unrealized losses of \$158 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.
6. 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. The Company has six reportable segments, which the Company operates and manages as strategic business units organized geographically and by lines of business: (1) PCS, (2) Telephone, (3) Converged Services, (4) Mobile, (5) Cable TV and (6) Other.

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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 Converged Services segment provides local and long distance voice, video and internet services on an exclusive and non-exclusive basis to MDU communities (primarily off-campus college student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee, Mississippi, Delaware and Washington, DC.

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:

Three Months Ended March 31, 2008

(In thousands)

	PCS	Telephone	Converged Services	Mobile	Cable TV	Other	Eliminations	Consolidated Totals
External Revenues								
Service revenues	\$ 21,052	\$ 1,540	\$ 2,868	\$	\$ 1,206	\$ 1,727		