SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-Q
May 09, 2012

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 March 31, 2012

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 þ 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 þ 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 þ 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 þ

The number of shares of the registrant’s common stock outstanding on April 26, 2012 was 23,849,226.

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

ASSETS	March 31, 2012	December 31, 2011
Current Assets		
Cash and cash equivalents	$19,643	$ 15,874
Accounts receivable, net	22,242	21,483
Income taxes receivable	1,347	12,495
Materials and supplies	7,258	7,469
Prepaid expenses and other	5,433	3,844
Assets held for sale	919	2,797
Deferred income taxes	130	502
Total current assets	56,972	64,464
Investments, including $1,986 and $2,160 carried at fair value	8,446	8,305
Property, plant and equipment, net	311,531	310,754
Other Assets		
Intangible assets, net	79,474	81,346
Cost in excess of net assets of businesses acquired	10,962	10,962
Deferred charges and other assets, net	4,220	4,148
Net other assets	94,656	96,456
Total assets	$471,605	$ 479,979

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	March 31, 2012	December 31, 2011
Current Liabilities		
Current maturities of long-term debt	$21,916	$ 21,913
Accounts payable	9,569	11,708
Advanced billings and customer deposits	11,108	10,647
Accrued compensation	2,128	2,094
Liabilities held for sale	42	267
Accrued liabilities and other	8,302	8,950
Total current liabilities	53,065	55,579
Long-term debt, less current maturities	153,224	158,662
Other Long-Term Liabilities		
Deferred income taxes	46,034	51,675
Deferred lease payable	4,296	4,174
Asset retirement obligations	7,693	7,610
Other liabilities	4,845	4,620
Total other liabilities	62,868	68,079
Commitments and Contingencies		
Shareholders' Equity		
Common stock	22,366	22,043
Retained earnings	180,082	175,616
Total shareholders' equity	202,448	197,659
Total liabilities and shareholders' equity	$471,605	$ 479,979

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 March 31, 2012	Three Months Ended March 31, 2011
Operating revenues	$ 68,823	$ 60,428
Operating expenses:		
Cost of goods and services, exclusive of depreciation and amortization shown separately below	29,029	26,061
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	15,170	13,338
Depreciation and amortization	15,807	13,938
Total operating expenses	60,006	53,337
Operating income	8,817	7,091
Other income (expense):		
Interest expense	(1,795)	(1,819)
Gain (loss) on investments, net	471	(125)
Non-operating income, net	188	218
Income from continuing operations before income taxes	7,681	5,365
Income tax expense	3,273	2,305
Net income from continuing operations	4,408	3,060
Income (loss) from discontinued operations, net of tax (expense) benefit of $(38) and $22, respectively	58	(33)
Net income	$4,466	$3,027
Basic and diluted income (loss) per share:		
Net income from continuing operations	$0.19	$0.13
Net earnings (loss) from discontinued operations	-	-
Net income	$0.19	$0.13
Weighted average shares outstanding, basic	23,843	23,767
Weighted average shares, diluted	23,868	23,849

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	Common Stock	Retained Earnings	Total
Balance, December 31, 2010	23,767	$19,833	$170,472	$190,305
Net income	-	-	12,993	12,993
Dividends declared ($0.33 per share)	-	-	(7,849)	(7,849)
Dividends reinvested in common stock	51	529	-	529
Stock-based compensation	-	1,718	-	1,718
Common stock issued through exercise of incentive stock options	5	37	-	37
Common stock issued for share awards	19	-	-	-
Common stock issued	1	13	-	13
Common stock repurchased	(5)	(92)	-	(92)
Net excess tax benefit from stock options exercised and stock awards	-	5	-	5
Balance, December 31, 2011	23,838	$22,043	$175,616	$197,659
Net income	-	-	4,466	4,466
Stock-based compensation	-	403	-	403
Common stock issued for share awards	16	-	-	-
Common stock repurchased	(5)	(47)	-	(47)
Common stock issued	-	2	-	2
Net tax deficiency from stock awards	-	(35)	-	(35)
Balance, March 31, 2012	23,849	$22,366	$180,082	$202,448

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Cash Flows From Operating Activities		
Net income	$4,466	$3,027
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	13,929	10,898
Amortization	1,878	3,040
Provision for bad debt	624	1,284
Stock based compensation expense	403	310
Deferred income taxes	(5,304)	(1,341)
Net loss on disposal of equipment	55	53
Realized (gain) loss on disposal of investments	(48)	27
Unrealized (gains) on investments	(161)	(98)
Net (gain) loss from patronage and equity investments	(343)	186
Other	229	25
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	(704)	(20)
Materials and supplies	211	1,450
Income taxes receivable	11,147	2,576
Increase (decrease) in:		
Accounts payable	(2,095)	(3,617)
Deferred lease payable	122	107
Income taxes payable	-	539
Other prepaids, deferrals and accruals	(1,959)	(495)
Net cash provided by operating activities	$22,450	$17,951
Cash Flows From Investing Activities		
Purchase and construction of property, plant and equipment	$(14,831)	$(16,121)
Proceeds from sales of assets	1,146	-
Proceeds from sale of equipment	71	70
Purchase of investment securities	-	(84)
Proceeds from sale of investment securities	412	317
Net cash used in investing activities	$(13,202)	$(15,818)

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

	Three Months Ended March 31,	
	2012	2011
Cash Flows From Financing Activities		
Principal payments on long-term debt	$(5,434)	$(3,032)
Repurchases of stock	(47)	-
Proceeds from sale of stock	2	4
Net cash used in financing activities	$(5,479)	$(3,028)
Net increase (decrease) in cash and cash equivalents	$3,769	$(895)
Cash and cash equivalents:		
Beginning	15,874	27,453
Ending	$19,643	$26,558
Supplemental Disclosures of Cash Flow Information		
Cash paid (received) for:		
Interest	$1,636	$1,988
Income taxes	$(2,532)	$509

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. 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. 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, 2011. The balance sheet information at December 31, 2011 was derived from the audited December 31, 2011 consolidated balance sheet. Operating revenues and income from operations for any interim period are not necessarily indicative of results that may be expected for the entire year.

2. Discontinued Operations

In September 2008, the Company announced its intention to sell its Converged Services operation, and the related assets and liabilities were reclassified as held for sale in the consolidated balance sheet and the historical operating results were reclassified as discontinued operations. Depreciation and amortization on long-lived assets was also discontinued. During 2009, 2010 and 2011, the Company recorded impairment charges totaling $20.0 million ($12.2 million, net of tax). Most of the impairment charge was recorded in 2009.

In several transactions during 2011, the Company sold service contracts and related equipment for Converged Services' properties to third-party purchasers, receiving cash proceeds of $3.0 million (with an additional $2.3 million in proceeds placed in escrow). The total proceeds approximated the carrying value of the assets sold in each transaction.

During the first quarter of 2012, the Company sold service contracts and related equipment for Converged Services' properties to third party purchasers, receiving cash proceeds of $1.1 million, with an additional $0.4 million placed in escrow. The total proceeds approximated the carrying value of the assets sold.

At March 31, 2012, the Company had signed contracts with purchasers covering the remaining assets held for sale. The Company is working with property owners, where required, to obtain needed consents to transfer service and complete the sale transactions. The Company expects to receive such consents and complete these transactions in the next 60 to 90 days and complete the disposition of Converged Services.

Assets and liabilities held for sale consisted of the following:

	March 31, 2012	December 31, 2011
Assets held for sale:		
Property, plant and equipment, net	$ 871	$ 2,424
Other assets	48	373
	$ 919	$ 2,797
Liabilities:		
Other liabilities	$ 42	$ 267

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

Three Months Ended

	March 31,	
	2012	2011
Operating revenues	$ 765	$ 3,306
Earnings (loss) before income taxes	$ 97	$ (55)

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3. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	March 31, 2012	December 31, 2011
Plant in service	$ 545,069	$ 536,267
Plant under construction	17,075	12,389
	562,144	548,656
Less accumulated amortization and depreciation	250,613	237,902
Net property, plant and equipment	$ 311,531	$ 310,754

During the first quarter of 2012, the Company entered into agreements with Sprint Nextel and Alcatel-Lucent to begin updating the Company's Wireless network. The update will use base station equipment to be acquired from Alcatel-Lucent in conjunction with Sprint Nextel's wireless network upgrade plan known as Network Vision. Beginning in the second quarter of 2012, the Company will begin replacing cell site equipment at a number of its cell sites. The Company expects to replace all of its existing cell site equipment by the end of 2013. The Company has accelerated depreciation on these assets so that net book value at time of trade-in will equal the expected value to be realized upon trade-in. Accumulated amortization and depreciation shown above as of March 31, 2012, includes approximately $2.0 million of accelerated expense.

4. Earnings per share

Basic net income (loss) per share was computed on the weighted average number of shares outstanding. Diluted net income (loss) per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period, for all dilutive stock options. Of 600 thousand and 533 thousand shares and options outstanding at March 31, 2012 and 2011, respectively, 424 thousand and 219 thousand were anti-dilutive, respectively. These options have been excluded from the computations of diluted earnings per share for their respective period. There were no adjustments to net income for either period.

5. Investments Carried at Fair Value

Investments include $2.0 million and $2.2 million of investments carried at fair value as of March 31, 2012 and December 31, 2011, 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 March 31, 2012, the Company recognized $48 thousand in net gains on dispositions of investments, recognized $18 thousand in dividend and interest income from investments, and recognized net unrealized gains of $161 thousand on these investments. The Company also received $402 thousand distributed from the rabbi trust in connection with a payout from the non-qualified supplemental retirement plan to a participant. Fair values for these investments held under the rabbi trust were determined by Level 1 quoted market prices for the underlying mutual funds.

6. Financial Instruments

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, interest rate swap and variable rate long-term debt.

The Company measures its interest rate swap at fair value based on information provided by the counterparty and recognizes it as a liability on the Company's condensed consolidated balance sheet. Changes in the fair value of the swap are recognized in interest expense, as the Company did not designate the swap agreement as a cash flow hedge for accounting purposes.

7. Segment Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The Company has three reportable segments, which the Company operates and manages as strategic business units organized by lines of business: (1) Wireless, (2) Wireline, and (3) Cable. A fourth segment, Other, primarily includes Shenandoah Telecommunications Company, the parent holding company as well as certain general and administrative costs historically charged to Converged Services that cannot be allocated to discontinued operations.

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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 Cable segment provides video, internet and voice services in Virginia, West Virginia and Maryland.

The Wireline segment provides regulated and unregulated voice services, dial-up and DSL internet access, and long distance access services throughout Shenandoah County and portions of northwestern Augusta County, Virginia, and leases fiber optic facilities throughout the northern Shenandoah Valley of Virginia, northern Virginia and adjacent areas along the Interstate 81 corridor, including portions of West Virginia and Maryland.

Selected financial data for each segment is as follows:

Three months ended March 31, 2012

(In thousands)	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$38,403	$16,052	$3,868	$-	$ -	$ 58,323
Other	3,451	2,456	4,593	-	-	10,500
Total external revenues	41,854	18,508	8,461	-	-	68,823
Internal revenues	815	75	4,449	-	(5,339)	-
Total operating revenues	42,669	18,583	12,910	-	(5,339)	68,823
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	16,393	12,226	5,229	17	(4,836)	29,029
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	7,994	5,047	1,717	915	(503)	15,170
Depreciation and amortization	7,757	5,852	2,173	25	-	15,807
Total operating expenses	32,144	23,125	9,119	957	(5,339)	60,006
Operating income (loss)	10,525	(4,542)	3,791	(957)	-	8,817

Three months ended March 31, 2011

(In thousands)	Wireless	Cable	Wireline	Other	Eliminations	Consolidated Totals
External revenues						
Service revenues	$32,204	$14,461	$3,585	$-	$ -	$ 50,250
Other	3,475	2,033	4,670	-	-	10,178
Total external revenues	35,679	16,494	8,255	-	-	60,428
Internal revenues	790	37	3,828	-	(4,655)	-

Total operating revenues	36,469	16,531	12,083	-	(4,655)	60,428
Operating expenses						
Costs of goods and services, exclusive of depreciation and amortization shown separately below	13,614	11,924	4,533	33	(4,043)	26,061
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	6,545	4,629	1,801	975	(612)	13,338
Depreciation and amortization	6,235	5,698	1,949	56	-	13,938
Total operating expenses	26,394	22,251	8,283	1,064	(4,655)	53,337
Operating income (loss)	10,075	(5,720)	3,800	(1,064)	-	7,091

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A reconciliation of the total of the reportable segments' operating income to consolidated income from continuing operations before income taxes is as follows:

	Three Months Ended March 31,	
	2012	2011
Total consolidated operating income	$ 8,817	$ 7,091
Interest expense	(1,795)	(1,819)
Non-operating income (expense), net	659	93
Income from continuing operations before income taxes	$ 7,681	$ 5,365

The Company's assets by segment are as follows:

(In thousands)	March 31, 2012	December 31, 2011
Wireless	$ 124,233	$ 147,093
Cable	218,393	212,683
Wireline	81,651	84,456
Other (includes assets held for sale)	406,451	381,230
Combined totals	830,728	825,462
Inter-segment eliminations	(359,123)	(345,483)
Consolidated totals	$ 471,605	$ 479,979

8. 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 2008 are no longer subject to examination. The Company is under audit in the state of Maryland for the 2007, 2008 and 2009 tax years, and in the state of Pennsylvania for the 2009 tax year. No other state or federal income tax audits were in process as of March 31, 2012.

9. Long-Term Debt

As of March 31, 2012 and December 31, 2011, the Company's outstanding long-term debt consisted of the following:

(In thousands)

	March 2012	December 2011
CoBank (fixed term loan)	$ 3,881	$ 4,524
Term Loan A	170,820	175,565
Other debt	439	486
	175,140	180,575
Current maturities	21,916	21,913
Total long-term debt	$ 153,224	$ 158,662

As of March 31, 2012, the Company was in compliance with the covenants in its Credit Agreement.

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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, 2011. 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, 2011, including the financial statements and related notes included therein.

General

Overview. Shenandoah Telecommunications Company is a diversified telecommunications company providing both regulated and unregulated telecommunications services through its wholly owned subsidiaries. These subsidiaries provide wireless personal communications services (as a Sprint PCS Affiliate of Sprint Nextel), local exchange telephone services, video, Internet and data services, long distance, fiber optics facilities, and leased tower facilities. The Company has the following three reporting segments, which it operates and manages as strategic business units organized by lines of business:

* The Wireless segment provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia, as a Sprint PCS Affiliate of Sprint Nextel. This segment also owns cell site towers built on leased land, and leases space on these towers to both affiliates and non-affiliated service providers.

* The Cable segment provides video, internet and voice services in franchise areas in Virginia, West Virginia and Maryland.

* The Wireline segment provides regulated and unregulated voice services, dial-up and DSL internet access, and long-distance access services throughout Shenandoah County and portions of Rockingham and Augusta Counties, 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.

* A fourth segment, Other, primarily includes Shenandoah Telecommunications Company, the parent holding company, as well as certain general and administrative costs historically charged to Converged Services that cannot be allocated to discontinued operations.

In September 2008, the Company announced its intention to sell its Converged Services operation, and the related assets and liabilities were reclassified as held for sale in the consolidated balance sheet and the historical operating results were reclassified as discontinued operations. Depreciation and amortization on long-lived assets was also discontinued. During 2009, 2010 and 2011, the Company recorded impairment charges totaling $20.0 million ($12.2 million, net of tax). Most of the impairment charge was recorded in 2009.

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In several transactions during 2011, the Company sold service contracts and related equipment for Converged Services' properties to third-party purchasers, receiving cash proceeds of $3.0 million (with an additional $2.3 million in proceeds placed in escrow). The total proceeds approximated the carrying value of the assets sold in each transaction. During the first quarter of 2012, the Company sold service contracts and related equipment for Converged Services' properties to third party purchasers, receiving cash proceeds of $1.1 million, with an additional $0.4 million placed in escrow. The total proceeds approximated the carrying value of the assets sold. At March 31, 2012, the Company had signed contracts with purchasers covering the remaining assets held for sale. The Company is working with property owners, where required, to obtain needed consents to transfer service and complete the sale transactions. The Company expects to receive such consents and complete these transactions in the next 60 to 90 days and complete the disposition of Converged Services.

During the first quarter of 2012, the Company entered into agreements with Sprint Nextel and Alcatel-Lucent to begin updating the Company's Wireless network. The update will use base station equipment to be acquired from Alcatel-Lucent in conjunction with Sprint Nextel's wireless network upgrade plan known as Network Vision. Beginning in the second quarter of 2012, the Company will begin replacing cell site equipment at a number of its cell sites. The Company expects to replace all of its existing cell site equipment by the end of 2013. The Company has accelerated depreciation on these assets so that net book value at time of trade-in will equal the expected value to be realized upon trade-in. Depreciation expense for the three months ended March 31, 2012, includes approximately $2.0 million of accelerated depreciation in the Wireless segment. The Company expects accelerated depreciation expense in the Wireless segment to remain at similar elevated levels through the remainder of 2012, and at lower but still elevated levels in 2013. The Company also expects Wireless segment operating expenses to begin to increase in the near future as changes to backhaul arrangements and cell site lease agreements take effect.

Results of Operations

Three Months Ended March 31, 2012 Compared with the Three Months Ended March 31, 2011

Consolidated Results

The Company's consolidated results from continuing operations for the first quarter of 2012 and 2011 are summarized as follows:

(in thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Change $	Change %
Operating revenues	$ 68,823	$ 60,428	$ 8,395	13.9
Operating expenses	60,006	53,337	6,669	12.5
Operating income	8,817	7,091	1,726	24.3
Interest expense	(1,795)	(1,819)	24	(1.3)
Other income (expense)	659	93	566	608.6
Income before taxes	7,681	5,365	2,316	43.2
Income tax expense	3,273	2,305	968	42.0
Net income from continuing operations	$ 4,408	$ 3,060	$ 1,348	44.1

Operating revenues

For the three months ended March 31, 2012, operating revenues increased $8.4 million, or 13.9%. Wireless segment revenues increased $6.2 million compared to the first quarter of 2011. Net postpaid service revenues increased $3.6 million, as data fees on smartphones increased $2.4 million in the 2012 period from 2011's first quarter, while 5.6% growth in quarter-over-quarter average postpaid subscribers added an additional $1.2 million to net postpaid service revenue. Net prepaid service revenues grew $2.6 million, or nearly 58%, compared to the 2011 first quarter. Average prepaid subscribers increased 50.4% in 2012 over 2011. Cable segment revenues increased $2.1 million due to a 7% increase in revenue generating units and a 4% price increase, compared to the first quarter of 2011.

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Operating expenses

For the three months ended March 31, 2012, operating expenses increased $6.7 million, or 12.5%, compared to the 2011 period. Wireless segment operating expenses increased $5.8 million, including $1.9 million in higher handset costs, $0.7 million each for network costs and postpaid marketing costs, $0.3 million in prepaid selling costs, $0.2 million in 4G fees, $0.5 million in other sales and marketing costs, and $1.5 million of net incremental depreciation and amortization expense. The increase in depreciation and amortization includes $2.0 million of accelerated depreciation associated with Network Vision upgrades offset by a reduction of $0.4 million in amortization from the acquired prepaid subscribers. Cable segment operating expenses increased $0.9 million, driven by higher customer acquisition costs and costs to provide expanded service offerings.

Other income (expense)

The increase in other income (expense) resulted primarily from improved investment results in the first quarter of 2012, compared to the first quarter of 2011.

Income tax expense

The Company's effective tax rate on income from continuing operations decreased from 43.0% in the first quarter of 2011 to 42.6% in the first quarter of 2012 principally due to changes in the mix of taxable income, resulting in a decrease in the effective state tax rate. Corporate changes being undertaken to simplify the Company's structure are expected to reduce the impact of state taxes on the Company's overall effective tax rate by 3 percentage points by the end of 2012.

Net income from continuing operations

For the three months ended March 31, 2012, net income from continuing operations increased $1.4 million, or 44.7%, reflecting improvements in cable operations, continued growth in the wireless subscriber base, and increases in revenues.

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 Personal Communications Company ("PCS"), a Sprint PCS Affiliate of Sprint Nextel. This segment also leases land on which it builds Company-owned cell towers, which it leases to affiliated and non-affiliated wireless service providers, throughout the same four-state area described above, through Shenandoah Mobile Company ("Mobile").

PCS receives revenues from Sprint Nextel for subscribers that obtain service in PCS's network coverage area. PCS relies on Sprint Nextel to provide timely, accurate and complete information to record the appropriate revenue for each financial period. Postpaid revenues received from Sprint Nextel are recorded net of certain fees totaling 20% of net postpaid billed revenue retained by Sprint Nextel. These fees include an 8% management fee and 12% net service fee. Sprint Nextel also retains a 6% management fee on prepaid revenues.

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

	Mar. 31, 2012	Dec. 31, 2011	Mar. 31, 2011	Dec. 31, 2010
Retail PCS Subscribers – Postpaid	250,684	248,620	237,825	234,809
Retail PCS Subscribers – Prepaid	114,384	107,100	80,243	66,956
PCS Market POPS (000) (1)	2,388	2,388	2,360	2,337
PCS Covered POPS (000) (1)	2,055	2,055	2,083	2,049
CDMA Base Stations (sites)	510	509	503	496
EVDO-enabled sites	434	433	390	381
EVDO Covered POPS (000) (1)	2,027	2,027	2,010	1,981
Towers, Company owned	149	149	148	146
Non-affiliate cell site leases	219	219	217	216

	Three Months Ended March 31,			
	2012		2011	
Gross PCS Subscriber Additions – Postpaid	15,966		15,486	
Net PCS Subscriber Additions – Postpaid	2,064		3,016	
Gross PCS Subscriber Additions – Prepaid	19,364		23,170	
Net PCS Subscriber Additions – Prepaid	7,285		13,287	
PCS Average Monthly Retail Churn % - Postpaid	1.86	%	1.76	%
PCS Average Monthly Retail Churn % - Prepaid	3.65	%	4.50	%

1)POPS refers to the estimated population of a given geographic area and is based on information purchased from third parties. 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 Company's network.

Three Months Ended March 31, 2012 Compared with the Three Months Ended March 31, 2011

(in thousands)	Three Months Ended March 31,		Change	
	2012	2011	$	%