OTELCO INC.

FORM 8-K/A
(Amended Current report filing)

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Address	505 THIRD AVE E ONEONTA, AL 35121
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K/A

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

Date of report (Date of earliest event reported): **October 14, 2011**

Otelco Inc.
(Exact Name of Registrant as Specified in its Charter)

Delaware	**1-32362**	**52-2126395**
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

505 Third Avenue East, Oneonta, AL 35121
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(205) 625-3574**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

As previously reported on a Current Report on Form 8-K filed on October 14, 2011 (the “Original Filing”), on October 14, 2011, pursuant to that certain Stock Purchase Agreement, dated as of April 1, 2011, by and among Shoreham Telephone LLC (the “Buyer”), a direct wholly-owned subsidiary of Otelco Inc., Donald S. Arnold, III, James C. Arnold, Susan E. Arnold (the foregoing three individuals, collectively, the “Sellers”) and Shoreham Telephone Company, Inc. (“Shoreham”), as amended on October 14, 2011, the Buyer purchased all of the issued and outstanding capital stock of Shoreham from the Sellers (the “Stock Purchase”). As also previously reported on the Original Filing, immediately following the closing of the Stock Purchase, Shoreham merged with and into the Buyer, with the Buyer continuing as the surviving entity in the merger. This Current Report on Form 8-K/A amends the Original Filing to include the financial statements and pro forma financial information required by Item 9.01 of Form 8-K.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Businesses Acquired.

The audited financial statements of Shoreham as of and for the years ended December 31, 2010 and 2009 are filed as Exhibit 99.1 to this Current Report on Form 8-K/A. The unaudited financial statements of Shoreham as of and for the nine months ended September 30, 2011 are filed as Exhibit 99.2 to this Current Report on Form 8-K/A.

(b) Pro Forma Financial Information.

The unaudited pro forma consolidated balance sheet as of September 30, 2011 and consolidated statements of income for the year ended December 31, 2010 and for the nine months ended September 30, 2011 are filed as Exhibit 99.3 to this Current Report on Form 8-K/A.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of Berry Dunn McNeil & Parker, LLC, an independent public accounting firm
99.1	Audited financial statements of Shoreham as of and for the years ended December 31, 2010 and 2009
99.2	Unaudited financial statements of Shoreham as of and for the nine months ended September 30, 2011
99.3	Unaudited pro forma consolidated balance sheet as of September 30, 2011 and consolidated statements of income for the year ended December 31, 2010 and for the nine months ended September 30, 2011

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

OTELCO INC.
(Registrant)

Date: December 22, 2011

By: /s/ Curtis L. Garner, Jr.
Name: Curtis L. Garner, Jr.
Title: Chief Financial Officer

Exhibit 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-169738 on Form S-3 of Otelco Inc. of our report dated February 3, 2011, with respect to the balance sheets of Shoreham Telephone Company, Inc. as of December 31, 2010 and 2009 and the related statements of income and retained earnings and cash flows for the years then ended, and our report dated December 5, 2011, with respect to the balance sheet of Shoreham Telephone Company, Inc. as of September 30, 2011 and the related statements of income and retained earnings and cash flows for the nine-month period then ended and the statement of operations and retained earnings for the three-month period then ended, which appear in this Current Report on Form 8-K/A of Otelco Inc.

/s/ Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 22, 2011

Exhibit 99.1

INDEPENDENT AUDITORS' REPORT

Board of Directors
Shoreham Telephone Company, Inc.

We have audited the accompanying balance sheets of Shoreham Telephone Company, Inc. as of December 31, 2010 and 2009, and the related statements of income and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Shoreham Telephone Company, Inc. as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

/s/ Berry Dunn McNeil & Parker, LLC

Portland, Maine
February 3, 2011
VT Registration No. 92-000278

SHOREHAM TELEPHONE COMPANY, INC.

Balance Sheets

December 31, 2010 and 2009

ASSETS

	2010	2009
Current assets		
Cash and cash equivalents, including interest-bearing deposits of $292,000 in 2010 and $247,000 in 2009	**$ 603,558**	$ 613,882
Marketable securities - available for sale	**99,827**	-
Marketable securities - held to maturity, current portion	**115,330**	100,242
Accounts receivable, less allowance for doubtful accounts of $75,000 in 2010 and 2009	**368,694**	369,448
Materials and supplies	**125,399**	108,986
Prepaid expenses	**20,347**	29,023
Total current assets	**1,333,155**	1,221,581
Property, plant and equipment, at cost		
Telecommunications plant in service		
General support assets	**2,236,728**	2,219,461
Central office equipment	**5,887,015**	5,622,160
Cable and wire facilities	**4,154,936**	4,076,462
Nonregulated plant	**150,921**	139,753
Telecommunications plant under construction	**330**	325
	12,429,930	12,058,161
Less accumulated depreciation	**8,930,569**	8,515,854
Net property, plant and equipment	**3,499,361**	3,542,307
Other noncurrent assets		
Marketable securities - held to maturity, excluding current portion	**272,516**	186,336
Cash surrender value of life insurance	**37,515**	40,242
Other investments	**1,000**	1,000
Total other noncurrent assets	**311,031**	227,578
	$ 5,143,547	$ 4,991,466

The accompanying notes are an integral part of these financial statements.

SHOREHAM TELEPHONE COMPANY, INC.

LIABILITIES AND STOCKHOLDERS' EQUITY

	2010	2009
Current liabilities		
Current portion of long-term debt	**$ 163,000**	$ 153,000
Accounts payable	**51,972**	46,209
Accrued profit sharing	**62,804**	62,504
Accrued expenses	**247,394**	251,252
Customer deposits	**8,834**	7,122
Due to stockholder	**20,964**	23,691
Unearned revenue	**51,900**	52,400
Total current liabilities	**606,868**	596,178
Long-term debt, excluding current portion	**65,077**	227,388
Total liabilities	**671,945**	823,566
Commitments and contingencies (Note 4)		
Stockholders' equity		
Common stock, $10 par value; authorized 5,000 shares; issued and outstanding 4,361½ shares	**43,615**	43,615
Additional paid-in capital	**37,560**	37,560
Retained earnings	**4,390,427**	4,086,725
Total stockholders' equity	**4,471,602**	4,167,900
	$ 5,143,547	$ 4,991,466

The accompanying notes are an integral part of these financial statements.

SHOREHAM TELEPHONE COMPANY, INC.

Statements of Income and Retained Earnings

Years Ended December 31, 2010 and 2009

	2010	2009
Operating revenues		
Local network services	**$ 580,709**	$ 618,697
Interstate access services	**1,810,346**	1,792,165
Intrastate access services	**43,365**	45,267
Miscellaneous	**34,971**	43,803
Uncollectible revenues, net of recoveries	**(57,586)**	(7,499)
Total operating revenues	**2,411,805**	2,492,433
Operating expenses		
Plant specific operations	**680,804**	691,354
Plant nonspecific operations	**105,810**	153,527
Depreciation and amortization	**398,139**	456,433
Customer operations	**243,466**	272,285
Corporate operations	**520,445**	531,761
Total operating expenses	**1,948,664**	2,105,360
Operating income before taxes	**463,141**	387,073
Other operating taxes	**111,437**	110,846
Net operating income	**351,704**	276,227
Fixed charges, interest	**10,197**	14,691
Nonoperating and nonregulated income (expense)		
Interest and dividends	**3,683**	6,571
Net nonregulated (expense) income	**(41,488)**	34,535
Net nonoperating and nonregulated (expense) income	**(37,805)**	41,106
Net income	**303,702**	302,642
Retained earnings, beginning of year	**4,086,725**	3,784,083
Retained earnings, end of year	**$ 4,390,427**	$ 4,086,725

The accompanying notes are an integral part of these financial statements.

SHOREHAM TELEPHONE COMPANY, INC.

Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	2010	2009
Cash flows from operating activities		
Net income	**$ 303,702**	$ 302,642
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	**414,715**	469,185
Unrealized loss on held to maturity securities	**-**	148
Decrease (increase) in		
Accounts receivable, net	**754**	12,173
Prepaid expenses and other current assets	**8,676**	(17,775)
Materials and supplies	**(16,413)**	(20,097)
Increase (decrease) in		
Accounts payable	**5,763**	16,024
Accrued profit sharing	**300**	853
Accrued expenses	**(3,858)**	(7,720)
Customer deposits	**1,712**	(7,590)
Unearned revenue	**(500)**	(500)
Net cash provided by operating activities	**714,851**	747,343
Cash flows from investing activities		
Plant additions	**(371,769)**	(373,641)
Maturities of held to maturity securities	**100,000**	-
Purchase of securities	**(301,095)**	(286,726)
Net cash used by investing activities	**(572,864)**	(660,367)
Cash flows from financing activities		
Principal payments on long-term debt	**(152,311)**	(76,529)
Net cash used by financing activities	**(152,311)**	(76,529)
Net (decrease) increase in cash and cash equivalents	**(10,324)**	10,447
Cash and cash equivalents, beginning of year	**613,882**	603,435
Cash and cash equivalents, end of year	**$ 603,558**	$ 613,882
Cash paid for interest:		
Long-term debt	**$ 15,829**	$ 7,541

The accompanying notes are an integral part of these financial statements.

Nature of Business

Shoreham Telephone Company, Inc. (the Company) derives substantially all of its operating revenues from providing basic local network services, access to intrastate and interstate long-distance telephone services, and other telecommunications services to subscribers in Benson, Cornwall, Hubbardton, Orwell, Shoreham, and Whiting, Vermont. The Company extends credit at standard terms, after appropriate review, to subscribers and domestic interexchange carriers. The Company is subject to regulation by the Federal Communications Commission (FCC) and the Vermont Public Service Board (VPSB) for rates and other matters.

1. Summary of Significant Accounting Policies

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

Regulatory Accounting

The Company follows the accounting prescribed by the Uniform System of Accounts of the FCC, the VPSB and Financial Accounting Standards Board Accounting Standards Codification (ASC) 980, *Regulated Operations* . This accounting recognizes the economic effect of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. The Company annually reviews the continued applicability of ASC 980 based on the current regulatory and competitive environment.

Operating Revenues

Operating revenues are recognized when services are provided to customers. Interstate network access services revenues are recorded using interstate pooling methods based on average schedule settlement formulas calculated by the National Exchange Carrier Association (NECA), of which the Company is a member. NECA negotiates interstate access charge tariff agreements with the FCC and accumulates and distributes pooled revenues derived from such agreements to its members. The Company records the effect of NECA settlements, including retroactive adjustments, if applicable, upon notification of such settlements from NECA. Local services and intrastate access are billed at tariff rates, under a bill and keep arrangement, approved by the VPSB.

Non-regulated Income

Non-regulated income consist mainly of digital subscriber line revenues and toll resale services. These are recognized when services are provided to customers.

Unearned Revenue

Unearned revenue consists of advance payments received from customers for local basic service and end user revenues. The amounts are recognized as earned.

Cash and Cash Equivalents

All liquid investments with an original maturity of three months or less are considered to be cash equivalents.

The Company maintains its cash in bank accounts, which balances may exceed federally insured limits. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant risk regarding cash and cash equivalents.

Marketable Securities

The Company classifies its debt securities as held to maturity and equity securities as available for sale. Securities held to maturity are presented at their original cost, net of amortization of premiums and accretion of discounts. Securities available for sale are reported at fair value with net unrealized gains or losses reported within stockholders' equity. There were no unrealized gains or losses recorded in 2010, as cost approximates fair value as measured by Level 1 quoted market prices in active markets, as defined in ASC 820, *Fair Value Measures and Disclosures* . Realized gains and losses are determined using the specific identification method.

Held to maturity securities are made up of U.S. Government Agency bonds with fair value of $393,777 and $286,727 at December 31, 2010 and 2009, respectively. Unrealized gains were $5,931 for 2010 and $563 for 2009. Unrealized losses were $414 in 2009.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts (allowance) based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

Materials and Supplies

Materials and supplies are valued at their average cost.

Capitalization Policy

Additions to property, plant and equipment and replacements of retirement units of property are capitalized at original cost, which includes labor, material, and overhead.

Depreciation

Depreciation is computed on average plant investment by primary plant accounts using the straight-line method over the assets' useful lives.

Other Investments

Other investments consist of nonmarketable stock investments in the Company's lender stated at cost.

Profit Sharing Plan

The Company maintains a profit sharing plan for eligible employees. The plan is funded by discretionary contributions determined by the stockholders.

Income Taxes

The Company elected to be an S corporation under the Internal Revenue Code effective January 1, 1991. Income, losses, and other tax attributes are primarily passed through to stockholders and taxed at the individual level. The Company expects to make distributions to stockholders which, at a minimum, will be sufficient to satisfy stockholder income taxes related to the Company's earnings.

As of December 31, 2010, the tax years after 2006 remain subject to examination by federal and state authorities.

Taxes Collected from Customers and Remitted to Governmental Authorities

The Company reports certain taxes on the net basis. Accordingly, they are recorded as a liability when billed to customers and excluded from revenue and expenses.

Reclassifications

Certain reclassifications have been made to the December 31, 2009 balances to conform to the December 31, 2010 presentation.

Subsequent Events

For purposes of the preparation of the financial statements in conformity with U.S. generally accepted accounting principles, the Company has considered transactions or events occurring through February 3, 2011, which was the date that the financial statements were available to be issued.

2. Long-Term Debt

The Company has available a $1,500,000 credit facility ($228,077 and $380,388 outstanding at December 31, 2010 and 2009, respectively), from Yankee Farm Credit, ACA, collateralized by all assets of the Company. The credit facility carried a variable interest rate of 3.75% at December 31, 2010, and is due in quarterly installments of $42,035 for principal and interest.

Maturities on long-term debt are estimated to be $163,000 for 2011 and $65,077 for 2012.

3. Profit Sharing

The Company maintains a defined contribution profit sharing plan for all eligible employees. Eligibility requirements are twelve months of service, at least 1,000 hours of employment during the year, and a minimum age of 21. The Company has elected to contribute 7% of total compensation of eligible employees. The profit sharing expense approximated $62,000 for 2010 and 2009.

4. Commitments and Contingencies

The Company is, from time to time, involved in legal and environmental claims, actions, or complaints in the normal course of business. Liabilities, if any, for these claims are recorded when it is probable that obligations have been incurred, and the amounts can be reasonably estimated. However, management does not believe that any such proceedings will have a material adverse effect on the Company’s results of operations or financial position.

Exhibit 99.2

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

Board of Directors
Shoreham Telephone Company, Inc.

We have reviewed the accompanying balance sheet of Shoreham Telephone Company, Inc. (the Company) as of September 30, 2011 and the related statements of income and retained earnings and cash flows for the nine-month period then ended, and the statement of operations and retained earnings for the three-month period ended September 30, 2011. This interim financial information is the responsibility of the Company's management.

We conducted our review in accordance with standards of the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit in accordance with U.S. generally accepted auditing standards, the objective of which is to express an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

/s/ Berry Dunn McNeil & Parker, LLC

Portland, Maine
December 5, 2011
VT Registration No. 92-000278

SHOREHAM TELEPHONE COMPANY, INC.

Balance Sheet

September 30, 2011

ASSETS

Current assets	
Cash and cash equivalents, including interest-bearing deposits of $157,000	$ 401,461
Accounts receivable, less allowance for doubtful accounts of $42,700	378,832
Prepaid expenses	33,656
Materials and supplies	134,281
Total current assets	948,230
Property, plant and equipment, at cost	
Telecommunications plant in service	
General support assets	2,242,628
Central office equipment	6,479,512
Cable and wire facilities	4,261,380
Nonregulated plant	186,271
Telecommunications plant under construction	335
	13,170,126
Less accumulated depreciation	9,276,119
Net property, plant and equipment	3,894,007
Other investments	1,000
	$ 4,843,237

See independent accountants’ review report. The accompanying notes are an integral part of these financial statements.

SHOREHAM TELEPHONE COMPANY, INC.

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities	
Long-term debt	$ 410,928
Accounts payable	163,703
Accrued expenses	134,385
Customer deposits	8,462
Unearned revenue	132,965
Total liabilities	850,443
Contingencies (Note 3)	
Stockholders' equity	
Common stock, $10 par value; authorized 5,000 shares; issued and outstanding 4,361½ shares	43,615
Additional paid-in capital	37,560
Retained earnings	3,911,619
Total stockholders' equity	3,992,794
	$ 4,843,237

See independent accountants' review report. The accompanying notes are an integral part of these financial statements.

SHOREHAM TELEPHONE COMPANY, INC.

Statement of Operations and Retained Earnings

For the Three-Month Period Ended September 30, 2011

Operating revenues	
Local network services	$ 154,183
Interstate access services	489,504
Intrastate access services	8,663
Miscellaneous	6,223
Uncollectible revenues, net of recoveries	(3,565)
Total operating revenues	655,008
Operating expenses	
Plant specific operations	200,380
Plant nonspecific operations	27,930
Depreciation and amortization	116,281
Customer operations	34,522
Corporate operations	55,012
Total operating expenses	434,125
Operating income before taxes	220,883
Other operating taxes	27,885
Net operating income	192,998
Fixed charges, interest	4,369
Nonoperating and nonregulated (expense) income	
Interest and dividends	13,214
Net nonregulated expense	(283,566)
Net nonoperating and nonregulated expense	(270,352)
Net loss	(81,723)
Retained earnings, beginning of period	4,444,341
Distributions declared	450,999
Retained earnings, end of period	$ 3,911,619

See independent accountants' review report. The accompanying notes are an integral part of these financial statements.

SHOREHAM TELEPHONE COMPANY, INC.

Statement of Income and Retained Earnings

For the Nine-Month Period Ended September 30, 2011

Operating revenues	
Local network services	$ 435,781
Interstate access services	1,406,609
Intrastate access services	26,559
Miscellaneous	22,595
Uncollectible revenues, net of recoveries	(4,326)
Total operating revenues	1,887,218
Operating expenses	
Plant specific operations	537,468
Plant nonspecific operations	82,099
Depreciation and amortization	333,032
Customer operations	160,782
Corporate operations	327,080
Total operating expenses	1,440,461
Operating income before taxes	446,757
Other operating taxes	83,655
Net operating income	363,102
Fixed charges, interest	9,061
Nonoperating and nonregulated (expense) income	
Interest and dividends	16,083
Net nonregulated expense	(348,280)
Net nonoperating and nonregulated expense	(332,197)
Net income	21,844
Retained earnings, beginning of period	4,390,427
Distributions declared	500,652
Retained earnings, end of period	$ 3,911,619

See independent accountants' review report. The accompanying notes are an integral part of these financial statements.

SHOREHAM TELEPHONE COMPANY, INC.

Statement of Cash Flows

For the Nine-Month Period Ended September 30, 2011

Cash flows from operating activities	
Net income	$ 21,844
Adjustments to reconcile net income to net cash provided by operating activities	
Depreciation and amortization	341,302
Increase in unearned revenue	81,065
Increase in	
Accounts receivable, net	(10,138)
Prepaid expenses and other current assets	(13,309)
Materials and supplies	(8,882)
Increase (decrease) in	
Accounts payable	111,731
Accrued profit sharing	(62,804)
Accrued expenses	(113,009)
Customer deposits	(372)
Net cash provided by operating activities	347,428
Cash flows from investing activities	
Plant additions	(735,948)
Proceeds from sale of available for sale securities	99,827
Maturities of held to maturity securities	97,365
Net cash used by investing activities	(538,756)
Cash flows from financing activities	
Borrowings from long-term debt	300,000
Principal payments on long-term debt	(117,149)
Stockholder distributions	(193,620)
Net cash used by financing activities	(10,769)
Net decrease in cash and cash equivalents	(202,097)
Cash and cash equivalents, beginning of period	603,558
Cash and cash equivalents, end of period	$ 401,461
Cash paid for interest:	
Long-term debt	$ 8,956

Noncash transaction:

Distributions to stockholders of $307,032 in the form of $16,551 of net cash surrender value of life insurance and $290,481 of held to maturity securities.

See independent accountants' review report. The accompanying notes are an integral part of these financial statements.

Nature of Business

Shoreham Telephone Company, Inc. (the Company) derives substantially all of its operating revenues from providing basic local network services, access to intrastate and interstate long-distance telephone services, and other telecommunications services to subscribers in Benson, Cornwall, Hubbardton, Orwell, Shoreham, and Whiting, Vermont. The Company extends credit at standard terms, after appropriate review, to subscribers and domestic interexchange carriers. The Company is subject to regulation by the Federal Communications Commission (FCC) and the Vermont Public Service Board (VPSB) for rates and other matters.

1. Summary of Significant Accounting Policies

Use of Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Regulatory Accounting

The Company follows the accounting prescribed by the Uniform System of Accounts of the FCC, the VPSB and Financial Accounting Standards Board Accounting Standards Codification (ASC) 980, *Regulated Operations* . This accounting recognizes the economic effect of rate regulation by recording costs and a return on investment as such amounts are recovered through rates authorized by regulatory authorities. The Company annually reviews the continued applicability of ASC 980 based on the current regulatory and competitive environment.

Operating Revenues

Operating revenues are recognized when services are provided to customers. Interstate network access services revenues are recorded using interstate pooling methods based on average schedule settlement formulas calculated by the National Exchange Carrier Association (NECA), of which the Company is a member. NECA negotiates interstate access charge tariff agreements with the FCC and accumulates and distributes pooled revenues derived from such agreements to its members. The Company records the effect of NECA settlements, including retroactive adjustments, if applicable, upon notification of such settlements from NECA. Local services and intrastate access are billed at tariff rates, under a bill and keep arrangement, approved by the VPSB.

Nonregulated Income

Nonregulated income consists mainly of digital subscriber line revenues and toll resale services. These are recognized when services are provided to customers.

Unearned Revenue

Unearned revenue consists of advance payments received from customers for local basic service, end user revenues, and digital subscriber line charges. The amounts are recognized as earned.

Cash and Cash Equivalents

All liquid investments with an original maturity of three months or less are considered to be cash equivalents.

The Company maintains its cash in bank accounts, which balances may exceed federally insured limits. The Company has not experienced any losses in such accounts, and believes it is not exposed to any significant risk regarding cash and cash equivalents.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for doubtful accounts (allowance) based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance and a credit to accounts receivable.

Materials and Supplies

Materials and supplies are valued at their average cost.

Capitalization Policy

Additions to property, plant and equipment and replacements of retirement units of property are capitalized at original cost, which includes labor, material, and overhead.

Depreciation

Depreciation is computed on average plant investment by primary plant accounts using the straight-line method over the assets' useful lives.

Other Investments

Other investments consist of nonmarketable stock investments in the Company's lender stated at cost.

Income Taxes

The Company elected to be an S corporation under the Internal Revenue Code effective January 1, 1991. Income, losses, and other tax attributes are primarily passed through to stockholders and taxed at the individual level. The Company expects to make distributions to stockholders which, at a minimum, will be sufficient to satisfy stockholder income taxes related to the Company's earnings.

The Company follows the accounting guidance for uncertainty in income taxes which is part of ASC 740, *Income Taxes* . The guidance prescribes a recognition threshold and measurement attributes for financial statement recognition of a tax position taken or expected to be taken on a tax return.

As of September 30, 2011, the tax years after 2008 remain subject to examination by federal and state authorities.

Taxes Collected from Customers and Remitted to Governmental Authorities

The Company reports certain taxes on the net basis. Accordingly, they are recorded as a liability when billed to customers and excluded from revenue and expenses.

Subsequent Events

For purposes of the preparation of the financial statements in conformity with U.S. generally accepted accounting principles, the Company has considered transactions or events occurring through December 5, 2011, which was the date that the financial statements were available to be issued.

2. Long-Term Debt

The Company has available a $1,500,000 credit facility ($410,928 outstanding at September 30, 2011), from Yankee Farm Credit, ACA, collateralized by all assets of the Company. The credit facility carried a variable interest rate of 3.75% at September 30, 2011, and is due in quarterly installments of $42,035 for principal and interest.

The long-term debt is classified as a current asset as the debt was paid in full on October 14, 2011, the date of acquisition.

3. Contingencies

The Company is, from time to time, involved in legal and environmental claims, actions, or complaints in the normal course of business. Liabilities, if any, for these claims are recorded when it is probable that obligations have been incurred, and the amounts can be reasonably estimated. However, management does not believe that any such proceedings will have a material adverse effect on the Company's results of operations or financial position.

4. Sale of Company

On October 14, 2011, the stock of Shoreham Telephone Company, Inc. was acquired by Shoreham Telephone LLC, a subsidiary of Otelco Inc.

Exhibit 99.3

Introduction to Unaudited Pro Forma Financial Statements

The following unaudited pro forma consolidated balance sheet as of September 30, 2011 and unaudited pro forma consolidated statements of income for the year ended December 31, 2010 and for the nine months ended September 30, 2011 are based on the corresponding historical financial statements of Otelco Inc. (“Otelco”) and Shoreham Telephone Company, Inc. (“Shoreham”), after giving effect to the acquisition of Shoreham which occurred on October 14, 2011.

The unaudited pro forma consolidated balance sheet gives effect to the acquisition of Shoreham as if it had occurred on September 30, 2011. The unaudited pro forma consolidated statements of income give effect to the acquisition of Shoreham as if it had occurred on January 1, 2010.

The unaudited pro forma financial statements are based on available information and certain estimates and assumptions set forth in the accompanying notes to such financial statements. These unaudited pro forma financial statements do not give effect to any integration costs or any synergies, cost savings or other operating efficiencies that could result from the acquisition. These unaudited pro forma financial statements are provided for informational purposes only, and do not purport to represent our financial condition or our results of operations that would have been achieved if the acquisition had occurred on the dates noted above, or to project the financial condition or results of operations for any future date or period.

The acquisition has been recorded at fair value in accordance with Accounting Standards Codification 805, *Business Combinations* , resulting in a plant acquisition adjustment for Shoreham. Otelco acquired identifiable assets associated with the territory served by Shoreham, including a non-compete agreement with one of the former owners and the customer lists. We have reflected the preliminary assessment of the purchase price allocation. It includes assignment of value to intangibles associated with a non-compete agreement and the acquisition of customers. The final assessment of the fair value of the assets and liabilities could change. Any such change would be reflected in regular quarterly financial reporting.

These unaudited pro forma financial statements should be read in conjunction with the historical financial statements of Otelco included in its annual report on Form 10-K for the year ended December 31, 2010; its quarterly reports on Form 10-Q for the fiscal quarters ended March 31, 2011, June 30, 2011 and September 30, 2011; and the historical financial statements of Shoreham included elsewhere in this Current Report on Form 8-K/A.

OTELCO INC.

Pro Forma Consolidated Balance Sheet

As of September 30, 2011
(unaudited)

	Historical					
	Otelco Inc.	Shoreham Telephone	Pro Forma Adjustments		Pro Forma Consolidated
Assets					
Current assets					
Cash and cash equivalents	$ 17,761,824	$ 401,461	$ (5,439,043)	2	$ 12,724,242
Accounts receivable - customers	4,360,122	170,975			4,531,097
Unbilled receivables	2,197,367	29,684			2,227,051
Other receivables	5,486,213	178,173			5,664,386
Materials and supplies	1,999,397	134,281			2,133,678
Prepaid expenses	1,180,987	33,656			1,214,643
Deferred income taxes	626,267	-			626,267
Total current assets	33,612,177	948,230	(5,439,043)		29,121,364
Property and equipment, net	62,616,216	3,894,007	648,760	1	67,158,983
Other assets					
Goodwill	188,190,078	-	(3,421,760)	1	188,250,580
			1,321,655	1	
			5,282,815	2	
			(3,120,427)	5	
			(34,681)	4	
			32,900	1	
Intangible assets, net	20,501,145	-	2,666,900	1	23,241,245
			23,200	1	
			50,000	1	
Investments	1,947,963	1,000	(1,000)	3	1,947,963
Deferred financing costs	4,731,752	-			4,731,752
Deferred income taxes	4,415,097	-			4,415,097
Due from prior owners	-	-	34,681	4	34,681
Other assets	122,940	-			122,940
Total assets	$ 316,137,368	$ 4,843,237	$ (1,956,000)		$ 319,024,605

See accompanying notes to the unaudited pro forma consolidated financial statements.

OTELCO INC.

Pro Forma Consolidated Balance Sheet

As of September 30, 2011
(unaudited)

	Historical			
Liabilities and Stockholders' Equity (Deficit)	Otelco Inc.	Shoreham Telephone	Pro Forma Adjustments	Pro Forma Consolidated
Current liabilities				
Accounts payable	$ 1,460,497	$ 163,703		$ 1,624,200
Accrued expenses	7,217,175	134,385	$ (1,425) 3	7,350,135
Advance billings and payments	1,485,017	132,965		1,617,982
Deferred income taxes	353,285	-		353,285
Customer deposits	179,524	8,462		187,986
Long-term debt - current portion	-	410,928	(410,928) 3	-
Total current liabilities	10,695,498	850,443	(412,353)	11,133,588
Deferred income taxes	42,512,576	-	1,321,655 1 1,283,720 6	45,117,951
Interest rate swaps	830,299	-		830,299
Advance billings and payments	625,930	-		625,930
Other liabilities	401,144	-		401,144
Long-term notes payable	271,133,432	-		271,133,432
Total liabilities	326,198,879	850,443	2,193,022	329,242,344
Stockholders' equity (deficit)				
Class A stock $.01 par value - Otelco	132,214	-		132,214
Class A stock $.01 par value - Shoreham	-	43,615	(43,615) 5	-
Additional paid in capital	-	37,560	(37,560) 5	-
Retained earnings (deficit)	(10,193,725)	3,911,619	(156,228) 2 411,353 3 (3,039,252) 5 (1,283,720) 6	(10,349,953)
Total stockholders' equity (deficit)	(10,061,511)	3,992,794	(4,149,022)	(10,217,739)
Total liabilities and stockholders' equity (deficit)	$ 316,137,368	$ 4,843,237	$ (1,956,000)	$ 319,024,605

See accompanying notes to the unaudited pro forma consolidated financial statements.

OTELCO INC.

Notes to the Unaudited Pro Forma Consolidated Balance Sheet

As of September 30, 2011

1. The Company is still in the process of performing its allocation of the purchase, and the final allocation is subject to completion of a review by a independent valuation specialist. Our preliminary allocation consists of:
    - A. Incremental value of intangible assets of $2,666,900 related to customer relationships.
    - B. Incremental value of intangible assets of $23,200 related to trade name.
    - C. Purchase accounting adjustments of $648,760 to adjust net property and equipment assets acquired to fair value.
    - D. Incremental value of covenant not to compete of $50,000.
    - E. Incremental value of goodwill of $32,900 related to assembled workforce.
    - F. Offsetting adjustment to goodwill of $3,421,760 for items as indicated above.
    - G. Recognition of deferred taxes of $1,321,655.

2. To record the activity for the acquisition. This activity consists of transaction payments totaling $5,439,043 including payments to selling shareholders of $5,282,815 and acquisition costs of $156,228, incurred after September 30, 2011.

3. Shoreham Telephone shareowners payoff of Yankee Farm Credit loan at closing, including using bank investment of $1,000. The payoff involved the following accounts:

Current portion long term debt	$ 410,928
Accrued interest	1,425
Total	$ 412,353

4. Record receivable for true-up of working capital adjustment of $34,681.

5. Reclassification of stockholders' equity to goodwill.

6. Record deferred tax liabilities of $1,283,720 for pre-acquisition liability.

7. Purchase Price Allocation
   The following table reflects the allocation of the purchase price to the assets acquired and the liabilities assumed:

OTELCO INC.

Notes to the Unaudited Pro Forma Consolidated Balance Sheet

As of September 30, 2011

Cash Paid	$ 5,282,815
Preliminary purchase price allocation:	
Cash	$ 401,461
Other current assets	546,769
Property and equipment	4,542,767
Goodwill	60,502
Intangible assets	2,740,100
Other assets	34,681
Current liabilities	(438,090)
Deferred Income tax liability	(2,605,375)
Net assets acquired	$ 5,282,815

OTELCO INC.

Pro Forma Consolidated Statements of Income

For the Year Ended December 31, 2010
(unaudited)

	Historical				
	Otelco Inc.	Shoreham Telephone	Pro Forma Adjustments		Pro Forma Consolidated
Telecommunications revenue	$ 104,400,219	$ 2,411,805	-		$ 106,812,024
Operating expenses					
Cost of services and products	41,286,418	786,614			42,073,032
Selling, general and administrative expenses	13,074,794	763,911			13,838,705
Depreciation and amortization	23,670,243	398,139	186,501	1	24,766,323
			25,000	5	
			484,892	3	
			1,548	4	
Total operating expenses	78,031,455	1,948,664	697,941		80,678,060
Income from operations	26,368,764	463,141	(697,941)		26,133,964
Other income (expense)					
Interest expense	(24,746,542)	(10,197)	10,197	2	(24,746,542)
Change in fair value of derivatives	(878,518)	-			(878,518)
Other income	556,820	(149,242)	(16,599)	2	390,979
Total other expense	(25,068,240)	(159,439)	(6,402)		(25,234,081)
Income before income tax expense	1,300,524	303,702	(704,343)		899,883
			(118,444)	6	
Income tax expense	(609,809)		274,694	6	(453,559)
Net income available to common stockholders	$ 690,715	$ 303,702	$ (548,093)		$ 446,324
Weighted average shares outstanding:					
Basic	12,985,629	-			12,985,629
Diluted	13,221,404	-			13,221,404
Net income (loss) per share					
Basic	$ 0.05	$ -	$ -	7	$ 0.03
Diluted	$ 0.05	$ -	$ -	7	$ 0.03
Dividends declared per share	$ 0.71	$ -	$ -		$ 0.71

See accompanying notes to the unaudited pro forma consolidated financial statements.

OTELCO INC.

Notes to the Unaudited Pro Forma Consolidated Statements of Income

For the Year Ended December 31, 2010
(unaudited)

1. To record additional depreciation expense on acquired tangible assets which are adjusted to fair value at the acquisition date.

2. Eliminate Shoreham Telephone historical interest expense; decrease pro forma interest income due to Otelco's reduction of cash for Shoreham acquisition.

3. Increase amortization expense related to customer relationships intangible asset with assigned life of 10 years.

4. Increase in amortization expenses related to trade name asset with assigned life of 15 years.

5. Increase in amortization expense of $25,000 related to covenant not to compete that has been assigned a two year life.

6. Adjustments to reflect the income tax effect of the pro forma adjustments at an effective tax rate of 39.0%. Adjust historical Shoreham results to use effective tax rate of 39.0%.

7. Basic income per common share is computed by dividing net income by the weighted-average number of shares outstanding for the period. Diluted income per common share reflects the potential dilution that would occur had all of the issued and outstanding shares of Class B common stock been exchanged for IDSs at the beginning of the period. On June 8, 2010, all of the Company's issued and outstanding shares of Class B common stock were exchanged for IDSs on a one-for-one basis. Each of the IDSs issued in the exchange includes a Class A common share. A reconciliation of the common shares for the Company's basic and diluted income per common share calculation is as follows:

		For the Year Ended December 31, 2010
Weighted average of common shares-basic		12,985,629
Effect of dilutive securities		235,775
Weighted average common shares and potential common shares-diluted		13,221,404
Net income available to common shareholders	$	446,324
Net income per basic share	$	0.03
Net income available to common stockholders	$	446,324
Change in fair value of Class B derivative		-
Net income available for diluted shares	$	446,324
Net income per diluted share	$	0.03

OTELCO INC.

Pro Forma Consolidated Statements of Income

For the Nine Months Ended September 30, 2011
(unaudited)

	Historical				
	Otelco Inc.	Shoreham Telephone	Pro Forma Adjustments		Pro Forma Consolidated
Telecommunications revenue	$ 76,195,809	$ 1,887,218	-		$ 78,083,027
Operating expenses					
Cost of services and products	32,762,538	619,567			33,382,105
Selling, general and administrative expenses	9,485,763	571,517	(105,128)	5	9,952,152
Depreciation and amortization	15,176,030	333,032	139,876	1	16,032,517
			18,750	6	
			363,668	3	
			1,161	4	
Total operating expenses	57,424,331	1,524,116	418,327		59,366,774
Income from operations	18,771,478	363,102	(418,327)		18,716,253
Other income (expense)					
Interest expense	(18,591,790)	(9,061)	7,137	2	(18,593,714)
Change in fair value of derivatives	1,641,032	-			1,641,032
Other income	388,686	(332,197)	(8,737)	2	47,752
Total other expense	(16,562,072)	(341,258)	(1,600)		(16,904,930)
Income before income tax (expense) benefit	2,209,406	21,844	(419,927)		1,811,323
			(8,519)	7	
Income tax (expense) benefit	(36,013)	-	163,772	7	119,239
Net income available to common stockholders	$ 2,173,393	$ 21,844	$ (264,675)		$ 1,930,562
Weighted average shares outstanding:					
Basic	13,221,404	-			13,221,404
Net income per share					
Basic	$ 0.16	$ -	$ -	8	$ 0.15
Dividends declared per share	$ 0.53	$ -	$ -		$ 0.53

See accompanying notes to the unaudited pro forma consolidated financial statements.

OTELCO INC.

Notes to the Unaudited Pro Forma Consolidated Statements of Income

For the Nine Months Ended September 30, 2011

1. Record additional depreciation expense on acquired tangible assets which are adjusted to fair value at the acquisition date.

2. Eliminate Shoreham Telephone historical interest expense; decrease pro forma interest income due to Otelco's reduction of cash for Shoreham acquisition.

3. Increase amortization expense related to customer relationships intangible asset with assigned life of 10 years.

4. Increase amortization expense related to intangible trade name asset with assigned life of 15 years.

5. Eliminate Shoreham's expense related to sale of the Company.

6. Increase in amortization expense related to covenant not to compete that has been assigned a two year life.

7. Adjustments for income tax effect of the pro forma adjustments at an effective tax rate of 39.0%. Adjust historical Shoreham results to use effective tax rate of 39.0%.

8. Basic income per common share is computed by dividing net income by the shares outstanding for the period. There were no dilutive shares outstanding during the period and the Company does not have any outstanding stock arrangements that might be potentially dilutive. No shares were issued as part of the acquisition of Shoreham. The Company's basic income per common share is calculated as follows:

	Nine Months Ended September 30, 2011
Common shares outstanding	13,221,404
Net income available to common stockholders	$ 1,930,562
Net income per share	$ 0.15