

SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-K
March 08, 2010

UNITED STATES OF AMERICA
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

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)

22824
(Zip Code)

(540) 984-4141
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock (No Par Value)
(Title of Class)

NASDAQ Global Select Market
(Name of Exchange on which Registered)

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

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

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. "

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 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

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant at June 30, 2009 based on the closing price of such stock on the Nasdaq Global Select Market on such date, was approximately \$453,000,000.

The number of shares of the registrant's common stock outstanding on February 22, 2010 was 23,686,819.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this Form 10-K as indicated herein:

| Document | Part of Form 10-K into which incorporated |
|--|---|
| Proxy Statement relating to Registrant's 2010 Annual Meeting of Shareholders | Part III |

SHENANDOAH TELECOMMUNICATIONS COMPANY

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report 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. The words “may,” “will,” “anticipate,” “estimate,” “expect,” “intend,” “p,” “continue” and similar expressions as they relate to us or our management are intended to identify these forward-looking statements. All statements by us regarding our expected financial position, revenues, cash flow and other operating results, business strategy, financing plans, forecasted trends related to the markets in which we operate and similar matters are forward-looking statements. Our expectations expressed or implied in these forward-looking statements may not turn out to be correct. Our results could be materially different from our expectations because of various risks, including the risks discussed in this report under “Business-Recent Developments” and “Risk Factors.”

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PART I

Some of the information contained in this report concerning the markets and industry in which we operate is derived from publicly available information and from industry sources. Although we believe that this publicly available information and the information provided by these industry sources are reliable, we have not independently verified the accuracy of any of this information.

Unless we indicate otherwise, references in this report to “we,” “us,” “our” and “the Company” means Shenandoah Telecommunications Company and its subsidiaries.

ITEM 1. BUSINESS

Overview

Shenandoah Telecommunications Company is a diversified telecommunications holding company that, through its operating subsidiaries, provides both regulated and unregulated telecommunications services to end-user customers and other communications providers in the southeastern United States. The Company offers a comprehensive suite of voice, video and data communications services based on the products and services provided by the Company’s operating subsidiaries.

The Company’s primary market area historically has been the northern Shenandoah Valley of Virginia and surrounding areas. This market area includes parts of Virginia ranging from Harrisonburg in the south to Winchester in the north. Following the acquisition of certain cable assets and customers from Rapid Communications, LLC, effective December 1, 2008, the Company also provides cable television services to portions of West Virginia and in Alleghany County, Virginia. In November 2009, the Company acquired telephone assets and access lines from the North River Telephone Cooperative serving a portion of northwestern Augusta County, Virginia.

Pursuant to a management agreement with Sprint Nextel Communications, Inc., and its related parties, (which we refer to collectively as “Sprint Nextel”) the Company is the exclusive personal communications service (“PCS”) Affiliate of Sprint Nextel providing mobility communications network products and services in the 1900 megahertz spectrum range in the four-state area extending from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company operates its PCS network under the Sprint Nextel radio spectrum license and Sprint brand.

The Company offers many of its services over its own fiber optic network of approximately 1,558 total miles as of December 31, 2009. The main lines of the network follow the Interstate 81 corridor from the Harrisonburg, Virginia, area to the Pennsylvania state line, and the Interstate 66 corridor in the northwestern part of Virginia, which loops back to the main line at Winchester, Virginia, after passing through Ashburn, Virginia, where it connects to the World Wide Web and other telecommunications service providers. Secondary routes provide alternative routing in the event of an outage. The Company’s fiber network now extends south and west from Harrisonburg, Virginia, through Covington, Virginia, then westward to Charleston, West Virginia, and then generally north and currently terminating near Weston, West Virginia. This extension of the fiber network was largely acquired in conjunction with and to support the Company’s acquisition of cable assets and customers as described above. In addition to its own fiber network, the Company through its telephone subsidiary has a 20 percent ownership in Valley Network Partnership (“ValleyNet”). ValleyNet offers fiber network facility capacity in western, central, and northern Virginia, as well as the Interstate 81 corridor from Johnson City, Tennessee to Carlisle, Pennsylvania.

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The Company's subsidiaries are certified to offer competitive local exchange services throughout West Virginia and North Carolina, and in Virginia outside of its regulated telephone service area.

Following its acquisition of NTC Communications LLC ("NTC") in November 2004, the Company provides high speed Internet, video and local and long distance voice services to multi-dwelling unit ("MDU") communities (primarily off-campus student housing) in Virginia, Maryland, North Carolina, South Carolina, Georgia, Florida, Tennessee, Mississippi and Delaware. NTC was merged into Shentel Converged Services Company ("Converged Services") as of January 1, 2007, although the Company continues to use the NTC brand at properties that cater to students. In September 2008, the Company announced its intention to sell Converged Services, and reclassified its assets and liabilities as held for sale, and its operating results as discontinued operations. The Company continues to pursue its plan to sell Converged Services.

Recent Developments

Acquisition and Disposition of Business Units

In September 2008, the Company announced its intention to dispose of Converged Services, classified its assets and liabilities as held for sale, and reclassified its operating results as discontinued operations for all periods. Since then, management has been actively pursuing its plan to sell the assets.

Effective December 1, 2008, the Company completed its acquisition of certain cable system assets and customers from Rapid Communications, LLC. The Company acquired 53 franchises throughout West Virginia and in Alleghany County, Virginia, for approximately \$10 million plus transaction costs. In December 2009, the Company sold cable system assets serving approximately 1,700 customers previously acquired from Rapid Communications, LLC, for \$1.5 million. The Company expects to invest approximately \$22 million to upgrade the network in the remaining areas in order to upgrade existing cable services and to provide expanded offerings including additional video services, high-speed internet access and voice services. Through December 31, 2009, the Company has spent \$12 million and is able to offer high-speed internet access and premium video services to approximately 64% of homes passed in these service areas. The Company expects to be substantially complete with the upgrade process by the end of the second quarter of 2010.

Effective November 1, 2009, the Company completed its acquisition of the assets and subscribers of the North River Telephone Cooperative, servicing approximately 1,000 access lines in northern Augusta County, Virginia, for \$0.6 million. The Company has committed to invest approximately \$1.8 million to upgrade the network and begin offering DSL broadband internet access to the subscribers in this service area. As of December 31, 2009, the Company was able to offer DSL service to approximately 50% of the access lines.

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Operating Segments

The Company provides integrated voice, video and data communications services to end-user customers and other communications providers. 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: (1) Wireless, (2) Wireline, and (3) Cable TV; and a fourth segment, Other, which primarily consists of parent company activities.

Wireless Segment

The business of the Wireless segment is conducted principally by the Company's Shenandoah Personal Communications Company ("PCS") subsidiary. As a PCS Affiliate of Sprint Nextel, this subsidiary 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 the Company's Shenandoah Mobile Company subsidiary, the Wireless segment provides tower rental space to affiliates and non-affiliates in the Company's PCS markets. This subsidiary owns towers and leases tower space in the PCS service territory in Virginia, West Virginia, Maryland and Pennsylvania to PCS and other wireless communications providers.

PCS has offered personal communications services through a digital wireless telephone and data network since 1995. In 1999, this subsidiary executed a management agreement with Sprint Nextel. The network, which utilizes code division multiple access, or CDMA, currently covers 269 miles of Interstates 81 and 83, and a 177 mile section of the Pennsylvania Turnpike between Pittsburgh and Philadelphia, as well as many of the communities near these routes. This territory includes approximately 2.3 million residents, and our network currently covers more than 87% of them. Under its agreements with Sprint Nextel, the Company is the exclusive PCS Affiliate of Sprint Nextel in the Company's territory, providing wireless mobility communications network products and services in the 1900 megahertz spectrum range. The Company had 222,818 retail PCS customers at December 31, 2009, an increase of 5.4% compared to December 31, 2008. Of the Company's total operating revenues, 63.6% in 2009, 69.3% in 2008 and 67.0% in 2007 were generated by or through Sprint Nextel and its customers using the Company's portion of Sprint Nextel's nationwide PCS network. No other customer relationship generated more than 2.5% of the Company's total operating revenues in 2009, 2008 or 2007.

Under the Sprint Nextel agreements, Sprint Nextel provides the Company significant support services, such as customer service, billing, collections, long distance, national network operations support, inventory logistics support, use of the Sprint Nextel brand names, national advertising, national distribution and product development.

The Company records its PCS revenues, with the exception of certain roaming and equipment sales revenues, based on the net PCS revenues billed by Sprint Nextel, net of the 8% Management Fee and 8.8% Net Service Fee retained by Sprint Nextel. Net PCS revenues billed by Sprint Nextel consist of gross monthly recurring charges for service, net of both recurring and non-recurring customer credits, account write offs and other billing adjustments. In the computation of advance billing deferred revenue, neither the Management Fee nor the Net Service Fee are deferred.

The Sprint Nextel agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all material respects with these requirements as of December 31, 2009.

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Wireline Segment

The business of the Company's Wireline segment is conducted primarily by its Shenandoah Telephone Company subsidiary. This subsidiary provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the Northern Shenandoah Valley.

This subsidiary provides both regulated and non-regulated telephone services to approximately 24,358 customers as of December 31, 2009, primarily in Shenandoah County and small service areas in Rockingham, Frederick, and Warren counties in Virginia, and effective November 1, 2009, this subsidiary's service area expanded to include approximately 1,000 access lines in northwestern Augusta County, Virginia, due to the acquisition of the North River Telephone Cooperative. This subsidiary provides access for interexchange carriers to the local exchange network. This subsidiary has a 20 percent ownership interest in ValleyNet, which offers fiber network facility capacity to business customers and other communications providers in western, central, and northern Virginia, as well as the Interstate 81 corridor from Johnson City, Tennessee to Carlisle, Pennsylvania.

The Wireline segment also includes the following entities:

ShenTel Service Company sells and services telecommunications equipment and provides information services and Internet access to customers in the northern Shenandoah Valley and surrounding areas. The Internet service has approximately 3,359 dial-up customers and 10,985 digital subscriber line, or DSL, customers at December 31, 2009. Since 2005, DSL has been available to all customers in the Company's regulated telephone service area. Many of the Company's dial-up customers are located outside the Company's regulated telephone service area where the Company does not provide DSL service. Since the acquisition of North River, the Company has begun building out DSL capability to this service area, and expects to be able to offer DSL service to all North River area customers in 2010.

Shenandoah Network Company owns and operates the Maryland and West Virginia portions of a fiber optic network along the Interstate 81 corridor. In conjunction with the telephone subsidiary, Shenandoah Network Company is associated with the ValleyNet fiber optic network. Shenandoah Network Company's fiber network also extends south from Harrisonburg, Virginia, through Covington, Virginia, then westward to Charleston, West Virginia, and then north. It currently terminates near Weston, West Virginia. This extension of the fiber network was acquired to support the Company's cable business, and the provision of facility leases of fiber optic capacity to end users, in these areas.

Shenandoah Long Distance Company offers resale of long distance service for calls placed to locations outside the regulated telephone service area by telephone customers. This operation purchases billing and collection services from the telephone company subsidiary similar to other long distance providers. In addition, this subsidiary markets facility leases of fiber optic capacity, owned by Shenandoah Network Company and Shenandoah Telephone Company, in surrounding counties and into Herndon, Virginia. This subsidiary had approximately 10,851 long distance customers at December 31, 2009.

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Cable Television Segment

The business of the Company's Cable Television segment has historically been conducted by its Shenandoah Cable Television Company ("Shenandoah Cable") subsidiary. This subsidiary provides coaxial cable-based television service throughout portions of Shenandoah County, Virginia, under franchise agreements with the County and the incorporated municipalities within the County. Effective December 1, 2008, the Company acquired certain cable assets and customers from Rapid Communications, LLC, through the Company's wholly-owned subsidiary Shentel Cable Company ("Shentel Cable"). Shentel Cable provides coaxial cable-based television service to various communities throughout West Virginia and in Alleghany County, Virginia, under a variety of franchise agreements. Many of these markets are connected by a fiber network of 721 miles.

The Company intends to complete the upgrade and integration of the networks acquired by Shentel Cable by the third quarter of 2010, and expects to spend approximately \$22 million overall on these upgrades, plus an additional \$3 million on upgrades in the Shenandoah Cable market area. Through December 31, 2009, the Company has spent approximately \$14 million on upgrading the cable networks of both entities, with 74% of total homes passed upgraded as of December 31, 2009. The Company expects to spend a further \$9 million to upgrade the remaining Shentel Cable networks in 2010, as well as \$2 million to upgrade the Shenandoah Cable market for data and voice services.

There were 24,856 cable revenue generating units at December 31, 2009. A revenue generating unit consists of each separate service (video, voice and internet) subscribed to by a customer.

Other Segment

The Other segment includes Shenandoah Telecommunications Company, which provides investing and management services to its subsidiaries. This segment also includes certain corporate and general overhead costs historically charged to Converged Services, which cannot be allocated to a discontinued operation.

Additional information concerning the Company's operating segments is set forth in Note 16 of the Company's consolidated financial statements appearing elsewhere in this report.

Competition

The communications industry is highly competitive. We compete primarily on the basis of the price, availability, reliability, variety and quality of our offerings and on the quality of our customer service. Our ability to compete effectively depends on our ability to maintain high-quality services at prices competitive with those charged by our competitors. In particular, price competition in the integrated communications services markets generally has been intense and is expected to increase. Our competitors include, among others, larger providers such as AT&T Corp., Verizon, and various competitive service providers. The larger providers have substantially greater infrastructure, financial, personnel, technical, marketing and other resources, larger numbers of established customers and more prominent name recognition than the Company.

In some markets, we compete in the provision of local services against the incumbent local telephone company. Incumbent carriers enjoy substantial competitive advantages arising from their historical monopoly position in the local telephone market, including pre-existing customer relationships with virtually all end-users. Wireless communications providers and cable operators also are competing with wireline local telephone service providers, which further increases competition.

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Competition is intense in the wireless communications industry. Competition has caused, and we anticipate that competition will continue to cause, the market prices for two-way wireless products and services to decline. Many wireless providers have upgraded, or are in the process of upgrading, their wireless services to better accommodate real-time and downloadable audio and video content as well as Internet browsing capabilities and other services. Some local governments are deploying broadband or high-speed wireless communications networks within their jurisdictional boundaries to support wireless Internet access at a fixed monthly cost, or in some cases no charge, to consumers. In addition, the FCC has been conducting spectrum auctions which may allow new service providers to enter the market and/or allow existing service providers the ability to upgrade or expand their product offerings. Our ability to compete effectively will depend, in part, on our ability to anticipate and respond to various competitive factors affecting the wireless industry.

One particular competitive factor affecting the wireless industry is handset exclusivity. For example, AT&T has been the sole wireless provider able to offer the very popular iPhone. Industry observers have stated that this exclusive product has been a primary factor in AT&T's ability to increase its market share. If a competitor is able to maintain its exclusive position or if the Company is not able to offer comparable phones, our ability to add new wireless customers may be adversely impacted.

The emergence of service providers that use Voice Over Internet Protocol ("VOIP") applications also could present a competitive threat. Because the regulatory classification of VOIP applications remains unsettled, providers of such applications may be able to avoid costly regulatory requirements, including the payment of intercarrier compensation. This could impede our ability to compete with these providers on the basis of price. More generally, the emergence of new service providers will increase competition, which could adversely affect our ability to succeed in the marketplace for communications services.

Competition also is intense and growing in the market for video services. Incumbent cable television companies, which have historically provided video service, face competition from direct broadcast satellite providers, on-line video services and more recently from large wireline providers of telecommunications services (such as Verizon and AT&T) which have begun to upgrade their networks to provide video services in addition to voice and high-speed Internet access services. These entities are large and have substantially greater infrastructure, financial, personnel, technical, marketing and other resources, larger numbers of established customers and more prominent name recognition than the Company. Our ability to compete effectively will depend, in part, on the extent to which our service offerings overlap with these entities, and on our ability to anticipate and respond to the competitive forces affecting the market for video and other services.

A continuing trend toward consolidation, mergers, acquisitions and strategic alliances in the communications industry also could increase the level of competition we face by further strengthening our competitors.

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Regulation

Our operations are subject to regulation by the Federal Communications Commission (“FCC”), the Virginia State Corporation Commission (“VSCC”), the West Virginia Public Service Commission, other state public utility and service commissions and other federal, state, and local governmental agencies. The laws governing these agencies, and the regulations and policies that they administer, are subject to constant review and revision, and some of these changes might have material impacts on our revenues and expenses.

The discussion below focuses on the regulation of our wireless subsidiary, Shenandoah Personal Communications Company, our incumbent local exchange carrier (“ILEC”) subsidiary, Shenandoah Telephone Company, and our cable business, conducted by Shenandoah Cable Company and Shentel Cable Company.

Regulation of Wireless PCS Operations

We operate our PCS business using radio spectrum licensed to Sprint Nextel under the Sprint Nextel management agreements. Nonetheless, we are directly or indirectly subject to, or affected by, a number of regulations and requirements of the FCC and other governmental authorities.

Interconnection. The FCC has the authority to order interconnection between commercial mobile radio service (“CMRS”) providers (which includes us) and any other common carrier. The FCC has ordered local exchange carriers and CMRS providers to provide reciprocal compensation for the termination of traffic to one another. Interconnection agreements typically are negotiated on a statewide basis and are subject to state approval. If an agreement cannot be reached, parties to interconnection negotiations can submit outstanding disputes to federal or state regulators for arbitration. The Company does not presently have any interconnection disputes.

The FCC has underway a rulemaking proceeding in which the agency is considering making major changes to the intercarrier compensation rules that govern the telecommunications industry. In addition, the FCC is considering a number of petitions for declaratory ruling and other proceedings regarding disputes among carriers relating to interconnection payment obligations. Resolution of these petitions could set precedents that would affect us in the future. Interconnection costs represent a significant expense item for us and any significant changes in the intercarrier compensation scheme may have a material impact on our business. We are unable to determine at this time whether any such changes would be beneficial to or detrimental to our wireless operations.

Universal Service Contribution Requirements. Sprint Nextel is required to contribute to the federal universal service fund (the “USF”) based in part on the revenues it receives in connection with our wireless operations. The purpose of this fund is to subsidize telecommunications services in rural areas, for low-income consumers, and for schools, libraries, and rural healthcare facilities. Sprint Nextel is permitted to, and does, pass through these mandated payments as surcharges paid by customers.

Sprint Nextel also receives disbursements from the USF with respect to certain service areas served by its business. USF disbursements relating to our service area are passed through to us. In November 2008, as a condition for the FCC’s approval of Sprint Nextel’s acquisition of a controlling interest in Clearwire Corp., the FCC imposed requirements that Sprint Nextel’s disbursement be reduced by 20% during calendar year 2009, and by an additional 20% per year for each subsequent calendar year, until such funding reaches zero in 2013. This reduction in Sprint Nextel’s universal service disbursements also applies to the amounts of funding passed through to us. The condition would cease to apply if Sprint Nextel were to supply an actual cost analysis that would justify greater amounts of funding, or if the FCC were to adopt an alternative set of rules affecting the industry as a whole.

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Congress and the FCC from time to time consider major changes to the universal service rules that could affect us. For example, the FCC has sought comment on proposals to impose further caps or reductions on the amount of funding available to ILECs and wireless carriers, and to require all carriers receiving such funds to upgrade their networks to provide high-speed broadband services throughout their service areas. Other developments may cause the share of payments from wireless companies to increase or decrease, and the overall size of the fund to increase, resulting in greater payment obligations for all carriers, including wireless carriers. These proposals are likely to evolve over time. As a result, the Company cannot predict the outcome of the FCC's consideration of these issues.

Transfers, Assignments and Changes of Control of PCS Licenses. The FCC must give prior approval to the assignment of ownership or control of a PCS license, as well as transfers involving substantial changes in such ownership or control. The FCC also requires licensees to maintain effective working control over their licenses. Our agreements with Sprint Nextel reflect an alliance that the parties believe meets the FCC requirements for licensee control of licensed spectrum. If the FCC were to determine that the Sprint Nextel PCS agreements need to be modified to increase the level of licensee control, we have agreed with Sprint Nextel under the terms of our Sprint Nextel PCS agreements to use our best efforts to modify the agreements as necessary to cause the agreements to comply with applicable law and to preserve to the extent possible the economic arrangements set forth in the agreements. If the agreements cannot be modified, the agreements may be terminated pursuant to their terms. The FCC could also impose sanctions on the Company for failure to meet these restrictions.

PCS licenses are granted for ten-year terms. The PCS licenses for our service area are scheduled to expire on various dates between December 1, 2014 and June 30, 2015. Licensees have an expectation of license renewal if they have provided "substantial" performance of license terms, and have complied with FCC rules and policies, and with the Communications Act of 1934. All of the PCS licenses used in the wireless business have been successfully renewed since their initial grant.

Construction and Operation of Wireless Facilities. Wireless systems must comply with certain FCC and Federal Aviation Administration regulations regarding the registration, siting, marking, lighting and construction of transmitter towers and antennas. The FCC also requires that aggregate radio wave emissions from every site location meet certain standards. These regulations also affect site selection for new network build-outs and may increase the costs of improving our network. The increased costs and delays from these regulations may have a material adverse affect on our operations.

The FCC's decision to license a proposed tower may be subject to environmental review pursuant to the National Environmental Policy Act of 1969 ("NEPA"), which requires federal agencies to evaluate the environmental impacts of their decisions under some circumstances. FCC regulations implementing NEPA place responsibility on each applicant to investigate any potential environmental effects of a proposed operation, including health effects relating to radio frequency emissions, and impacts on endangered species such as certain migratory birds, and to disclose any significant effects on the environment to the agency prior to commencing construction. In the event that the FCC determines that a proposed tower would have a significant environmental impact, the FCC would require preparation of an environmental impact statement. In addition, tower construction is subject to regulations implementing the National Historic Preservation Act. Compliance with environmental or historic preservation requirements could significantly delay or prevent the registration or construction of a particular tower, or make tower construction more costly. In some jurisdictions, local laws or regulations may impose similar requirements.

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Wireless Facilities Siting. States and localities are authorized to engage in forms of regulation, including zoning and land-use regulations, that affect our ability to select and modify sites for wireless facilities. States and localities may not engage in forms of regulation that effectively prohibit the provision of wireless services, discriminate among providers of such services, or use radio frequency health effects as a basis to regulate the placement, construction or operation of wireless facilities. Courts and the FCC routinely are asked to review whether state and local zoning and land-use actions should be preempted by federal law, and the FCC also is routinely asked to consider other issues affecting wireless facilities siting in other proceedings. We cannot predict the outcome of these proceedings or the effect they may have on us.

Communications Assistance for Law Enforcement Act. The Communications Assistance for Law Enforcement Act (“CALEA”), was enacted in 1994 to preserve electronic surveillance capabilities by law enforcement officials in the face of rapidly changing telecommunications technology. CALEA requires telecommunications carriers, including us, to modify their equipment, facilities, and services to allow for authorized electronic surveillance based on either industry or FCC standards. Following adoption of interim standards and a lengthy rulemaking proceeding, including an appeal and remand proceeding, all carriers were required to be in compliance with the CALEA requirements as of June 30, 2002. We are currently in compliance with the CALEA requirements.

Local Number Portability. All covered CMRS providers, including us, are required to allow wireless customers to retain their existing telephone numbers when switching from one telecommunications carrier to another. These rules are generally referred to as wireless local number portability (“WLNP”). The future volume of any porting requests, and the processing costs related thereto, may increase our operating costs in the future.

Number Pooling. The FCC regulates the assignment and use of telephone numbers by wireless and other telecommunications carriers to preserve numbering resources. CMRS providers in the top 100 markets are required to be capable of sharing blocks of 10,000 numbers among themselves in subsets of 1,000 numbers (“1000s-block number pooling”); the FCC considers state requests to implement 1000s-block number pooling in smaller markets on a case-by-case basis, and has granted such requests in the past. In addition, all CMRS carriers, including those operating outside the top 100 markets, must be able to support roaming calls on their network placed by users with pooled numbers. Wireless carriers must also maintain detailed records of the numbers they have used, subject to audit. The pooling requirements may impose additional costs and increase operating expenses on us and limit our access to numbering resources.

Telecommunications Relay Services (“TRS”). Federal law requires wireless service providers to take steps to enable the hearing impaired and other disabled persons to have reasonable access to wireless services. The FCC has adopted rules and regulations implementing this requirement to which we are subject, and requires that we pay a regulatory assessment to support such telecommunications relay services for the disabled. The Company is in compliance with these requirements.

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Consumer Privacy. The Company is subject to various federal and state laws intended to protect the privacy of end-users who subscribe to the Company's services. For example, the FCC has regulations that place restrictions on the permissible uses that the Company can make of customer-specific information, known as Customer Proprietary Network Information ("CPNI"), received from subscribers, and that govern procedures for release of such information to customers in order to prevent identity theft schemes. Other recently enacted laws impose criminal and other penalties for the violation of certain CPNI requirements and related privacy protections. In addition, restrictions exist, and new restrictions are considered from time to time by Congress, federal agencies and states, on the extent to which wireless data customers may be subjected to receiving unsolicited text messages, junk e-mail or spam. Congress, federal agencies and certain states also are considering and may in the future consider imposing additional requirements on entities that possess consumer information to protect the privacy of consumers. Complying with these requirements may impose costs on us or compel us to alter the way we provide or promote our services.

Consumer Protection. Many members of the wireless industry, including us, have voluntarily committed to comply with the CTIA Consumer Code for Wireless, which includes consumer protection provisions regarding the content and format of bills; advance disclosures regarding rates, terms of service, contract provisions, and network coverage; and the right to terminate service after a trial period or after changes to contract provisions are implemented. The FCC and some state commissions are considering imposing additional consumer protection requirements upon wireless service providers, including the adoption of standards for responses to customers and limits on early termination fees. Adoption of those consumer protection requirements could increase the expenses or decrease the revenue of our wireless business. Courts also have had, and in the future may continue to have, an effect on the extent to which matters pertaining to the content and format of wireless bills can be regulated at the state level. Any further changes to these and similar requirements could increase our costs of doing business and our costs of acquiring and retaining customers.

Radio Frequency Emissions. Some studies (and media reports) have suggested that radio frequency emissions from handsets, wireless data devices and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Most of the expert reviews conducted to date have concluded that the evidence does not support a finding of adverse health effects but that further research is appropriate. Courts have dismissed a number of lawsuits filed against other wireless service operators and manufacturers, asserting claims relating to radio frequency transmissions to and from handsets and wireless data devices. However, there can be no assurance that the outcome of other lawsuits, or general public concerns over these issues, will not have a material adverse effect on the wireless industry, including us.

Regulation of Incumbent Local Exchange Carrier Operations

As an ILEC, Shenandoah Telephone Company's operations are regulated by federal and state regulatory agencies.

State Regulation. Shenandoah Telephone's rates for local exchange service, intrastate toll service, and intrastate access charges are subject to the approval of the VSCC. The VSCC also establishes and oversees implementation of the provisions of the federal and state telecommunications laws, including interconnection requirements, promotion of competition, and the deployment of advanced services. The VSCC also regulates rates, service areas, service standards, accounting methods, affiliated charge transactions and certain other financial transactions.

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Regulation of Intercarrier Compensation. Shenandoah Telephone participates in the access revenue pools administered by the FCC-supervised National Exchange Carrier Association (“NECA”), which collects and distributes the revenues from interstate access charges that long-distance carriers pay us for originating and terminating interstate calls over our network. Shenandoah Telephone also participates in some NECA tariffs that govern the rates, terms, and conditions of our interstate access offerings. Some of those tariffs are under review by the FCC, and we may be obligated to refund affected access charges collected in the past or in the future if the FCC ultimately finds that the tariffed rates were unreasonable. We cannot predict whether, when, and to what extent such refunds may be due.

The FCC is considering a number of broad changes to the rules governing the interstate access rates charged by small-to-mid-sized ILECs such as Shenandoah Telephone. For example, the FCC is considering proposals to overhaul the rules regarding intercarrier compensation, including interstate and intrastate access charges. These changes might include substantial reductions in the access charges paid by long distance carriers and other interconnecting carriers, possibly to zero, under a so-called “bill and keep” regime, accompanied by increases to the subscriber line charges paid by business and residential end users.

The FCC also is considering implementing incentive regulation for rate of return carriers, including us. In addition, the FCC is considering questions regarding what compensation carriers, including but not limited to wireless carriers, competitive local exchange carriers, VOIP providers and providers of other Internet-enabled services, should pay (and receive) for their traffic interconnected with ILEC networks. Changes to such compensation regulations could increase our expenses or reduce our revenues, but at this time we cannot estimate the amount of such additional expense or revenue changes.

The VSCC has jurisdiction over local telephone companies’ intrastate access charges, and has indicated that in the future it may open a generic proceeding on the rates charged for intrastate access. In a June 2008 decision involving another mid-size ILEC, the VSCC stated that as a general matter it does not accept the premise that reductions in intrastate switched access rates should necessarily be coupled with dollar-for-dollar rate increases for local telephone service. Recently, a bill was introduced in the Virginia General Assembly that, if adopted as proposed, would significantly diminish the amount of intrastate access charges received by the Company. It is too early to tell whether or in what form the bill would be enacted.

Interstate and intrastate access charges are an important source of revenues for Shenandoah Telephone’s operations. Unless these revenues can either be recovered as they are at present, or through a new universal service mechanism, or unless they can be reflected in higher rates to the local end user, or recovered through other newly created methods of cost recovery, the loss of revenues to us could be significant. There can be no assurance that access charges in their present form will be continued or that sufficient substitutes for the lost revenues will be provided. If access charges are reduced without sufficient substitutes for the lost revenues, this could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, changes to the intercarrier compensation rules and policies could have a material impact on our competitive position vis-à-vis other service providers, particularly in our ability to proactively make improvements in our networks and systems.

Universal Service Fund. Shenandoah Telephone receives revenues from the USF. The FCC has sought comment on changes to its universal service rules, such as assessing contribution obligations based on the number of lines or connections served, rather than as a variable percentage of interstate end-user telecommunications revenues. In addition, the FCC is considering potential changes to the rules governing disbursements from the USF to rural ILECs such as Shenandoah Telephone, and to other providers. Despite interim adjustments to make the funding of the USF more sustainable, the FCC has indicated that additional changes are necessary to stabilize the USF. Total funding of universal service has increased considerably in recent years, and some members of Congress have expressed concerns that the cost of such funding will soon reach unsustainable levels. Changes that reduce the size of the USF and payments to Shenandoah Telephone could have an adverse impact on the Company’s financial position, results of

operations, and cash flows. The company is not able to predict whether or when changes will be made to the USF, or whether and how these changes would affect the extent of our total federal universal service assessments, the amounts we receive, or our ability to recover costs associated with the USF.

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If the Universal Service Administrative Company (“USAC”) were required to account for the USF program in accordance with generally accepted accounting principles for federal agencies under the Anti-Deficiency Act (the “ADA”), it could cause delays in USF payments to fund recipients and significantly increase the amount of USF contribution payments charged to wireline and wireless consumers. Each year since 2004, Congress has adopted short-term exemptions for the USAC from the ADA. Congress has from time to time considered adopting a longer term exemption for the USAC from the ADA, but we cannot predict whether any such exemption will be adopted or the effect it may have on the Company.

The FCC, USAC and other authorities have conducted, and in the future are expected to continue to conduct, more extensive audits of USF support recipients, as well as other heightened oversight activities. The impact of these activities on the Company, if any, is uncertain.

Other Regulatory Obligations. Shenandoah Telephone is subject to requirements relating to CPNI, CALEA implementation, interconnection, access to rights of way, number portability, number pooling, accessibility of telecommunications for those with disabilities, protection for consumer privacy, and other obligations similar to those discussed above for our PCS operations.

Broadband Services. The FCC and other authorities continue to consider policies to encourage nationwide advanced broadband infrastructure development. For example, the FCC has largely eliminated unbundling obligations relating to broadband facilities, and has largely deregulated DSL and other broadband services offered by ILECs. Such changes benefit our ILEC, but could make it more difficult for us (or for NECA) to tariff and pool DSL costs. Broadband networks and services are subject to CALEA rules, requirements relating to consumer privacy, and other regulatory mandates. The FCC will submit a comprehensive National Broadband Plan to Congress in 2010 which will include policy recommendations to foster universal adoption of broadband.

Net Neutrality. There has been legislative and regulatory interest in adopting so-called “net neutrality” requirements for broadband Internet access providers, including DSL providers. The FCC in 2005 adopted a policy statement containing four principles expressing the view that consumers are entitled to access lawful Internet content and to run applications and use services of their choice, subject to the needs of law enforcement and reasonable network management techniques. In an August 2008 decision, the FCC characterized these net neutrality principles as binding and enforceable and stated that network operators have the burden of proving that their network management techniques are reasonable. In that order, the FCC imposed sanctions on a broadband Internet access provider (Comcast) for managing its network by blocking or degrading certain Internet transmissions and applications in a way that the FCC found was unreasonably discriminatory. This FCC decision is on appeal and the outcome cannot be predicted. In October 2009, the FCC proposed to codify the four principles, slightly modified, and to codify two additional principles requiring nondiscrimination by ISPs and disclosure of management techniques. It is not possible to determine what broadband network management techniques or related business arrangements may be deemed reasonable or unreasonable in the future. We cannot predict how any future legislative or regulatory decision relating to net neutrality might affect or ability to manage our broadband network or develop new products or services.

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Long-Distance Services. We offer long distance service to our customers through our subsidiary, Shenandoah Long Distance Company. Our long distance rates are not subject to FCC regulation, but we are required to offer long-distance service through a subsidiary other than Shenandoah Telephone, to disclose our long distance rates on a website, to maintain geographically averaged rates, to pay contributions to the USF and other mandatory payments based on our long-distance revenues, and to comply with other filing and regulatory requirements. We are in compliance with these requirements.

CLEC Operations. We are authorized to operate as a CLEC in Virginia, West Virginia and North Carolina. CLECs generally are subject to federal and state regulations that are similar to, but not as stringent as, those that apply to our ILEC operations. Both the FCC and the VSCC require that, in most circumstances, CLEC access charges be no higher than the access charges of the ILECs in areas where they operate.

Regulation of Cable Television and Other Video Service Operations

Through Shenandoah Cable Company, we hold franchises to provide cable service in communities and unincorporated areas of Shenandoah County, Virginia. Through Shentel Converged Services of West Virginia, we have a franchise to provide cable service in a portion of the City of Ranson, West Virginia. Through Shentel Cable Company, we hold franchises to provide cable service to a number of jurisdictions throughout West Virginia and in Alleghany County, Virginia.

The provision of cable service generally is subject to regulation by the FCC and cable operators typically also must comply with the terms of the franchise agreement between the cable operator and the local franchising authority. Some states, including Virginia and West Virginia, have enacted regulations and franchise provisions that also can affect certain aspects of a cable operator's operations.

Pricing and Packaging. Congress and the FCC from time to time consider imposing new pricing restrictions on cable operators. We cannot predict whether or when such new pricing restrictions may be imposed on us or what effect they would have on our ability to provide cable service. Congress and the FCC also from time to time consider imposing new regulations on the packaging of cable programming, including a la carte requirements. We cannot predict whether or when such packaging regulations may be imposed on us or what effect such regulations would have on our ability to provide cable service.

Must-Carry/Retransmission Consent. Cable operators are required by law to carry on their cable systems most commercial and non-commercial television stations broadcasting in a cable system's local market. Alternatively, local television stations may require that a cable operator obtain "retransmission consent" for carriage of the station's signal, which can enable a popular local television station to obtain concessions from the cable operator for the right to carry the station's signal. When stations choose retransmission consent over must-carry, both the station and the cable operator have a duty to negotiate in good faith for such consent. Many local television stations today are carried by cable operators under the must-carry obligation, but broadcast network affiliates typically are carried pursuant to retransmission consent agreements. When local television stations are able to obtain concessions from cable operators for the right to carry station signals (which concessions may include the payment of cash), the cost of providing cable service for all cable operators, including us, can increase.

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Programming Costs. Satellite-delivered cable programming, such as ESPN, HBO and the Discovery Channel, is not subject to must-carry/retransmission consent regulations. Rather, cable operators negotiate directly with satellite-delivered cable programmers for the right to carry their programming. The cost of acquiring the right to carry satellite-delivered cable programming can increase as the popularity of such programming increases. We cannot predict the extent to which such programming costs may increase in the future or the effect such cost increases may have on our ability to provide cable service.

Franchise Matters. Cable operators generally must apply for and obtain non-exclusive franchises from local or state franchising authorities before providing cable service. The terms and conditions of franchises vary among jurisdictions, but franchises generally last for a fixed term subject to renewal, require the cable operator to pay a franchise fee of as much as 5% of the cable operator's gross revenue from video services, and contain certain service quality and customer service obligations. A small number of states today have processes in place for obtaining state-wide franchises, and legislation has been introduced from time to time in Congress and in various states, including those in which we provide some form of video service, that would require the implementation of state-wide franchising processes. Although we cannot predict whether state-wide franchising will become ubiquitous, it would, if implemented, likely lower barriers to entry and increase competition in the marketplace for video services. In 2006, the FCC adopted new rules to govern the terms and conditions under which franchising authorities can award franchises to entities that compete against incumbent cable service operators. These rules generally limit the ability of franchising authorities to impose certain requirements on and extract certain concessions from new entrants. Also in 2006, Virginia adopted new franchising statutes. These statutes largely leave franchising responsibility in the hands of local municipalities and counties, but they govern the local government entities' award of such franchises and their conduct of franchise negotiations. We cannot predict the extent to which these rules and other developments will accelerate the pace of new entry into the video market or the effect, if any, they may have on our cable operations.

Leased Access/PEG. The Communications Act permits franchising authorities to require cable operators to set aside the use of channels for public, education and governmental access ("PEG") programming. The Communications Act also requires certain cable systems to make available a portion of their capacity for commercial leased access by third parties that would compete with programming offered on other channels of the cable system. Increases in the amount of required leased access or PEG programming could reduce the number of channels available to us to provide other types of programming to subscribers.

Other Issues. Our ability to provide cable service may be affected by a wide range of additional regulatory and related issues, including those pertaining to set-top boxes, equipment connectivity, content regulation, pole attachments, privacy, copyright, technical standards, and municipal entry into video. For example, currently pending or recently concluded proceedings before the FCC have examined the rates that cable operators must pay to use utility poles and conduits, and other terms and conditions of pole attachment agreements. The FCC also is conducting proceedings on making cable service work with channel navigation devices purchased at retail by consumers, rather than set-top boxes provided by the cable operator. In addition, the FCC is considering cable operator obligations to make set-top boxes and systems compatible with new "two-way" services from some programmers or consumer electronics manufacturers and whether such boxes must also allow consumers to access content from the Internet through these devices. We cannot predict the nature and pace of these and other developments or the effect they may have on our operations.

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Employees

At December 31, 2009, we had approximately 461 employees, of whom approximately 451 were full-time employees. None of our employees is represented by a union or covered by a collective bargaining agreement. We believe that our relationship with our employees is good.

Executive Officers

The following table presents information about our executive officers who, other than Christopher E. French, are not members of our board of directors.

| Name | Title | Age | Date in Position |
|-----------------------|---|-----|------------------|
| Christopher E. French | President and Chief Executive Officer | 52 | April 1988 |
| Earle A. MacKenzie | Executive Vice President and Chief Operating Officer | 57 | June 2003 |
| Adele M. Skolits | Vice President – Finance, Chief Financial Officer and Treasurer | 51 | September 2007 |
| David E. Ferguson | Vice President of Customer Services | 64 | November 1982 |
| William L. Pirtle | Vice President of Sales | 50 | April 2004 |
| Ann E. Flowers | General Counsel, Vice President-Legal and Secretary | 53 | November 2008 |

Mr. French is President and Chief Executive Officer of the Company, where he is responsible for the overall leadership and strategic direction of the Company. He has served as president since 1988, and has been a member and Chairman of the Board of Directors since 1996. Prior to appointment as President, Mr. French held a variety of positions with the Company, including Vice President Network Service and Executive Vice President. Mr. French holds a BS in electrical engineering and an MBA, both from the University of Virginia. He has held board and officer positions in both state and national telecommunications associations, including service as a director of the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO) and was president and director of the Virginia Telecommunications Industry Association.

Mr. MacKenzie is Executive Vice President and Chief Operating Officer (COO) of the Company. He joined the Company in 2003. With 35 years of telecom experience, Mr. MacKenzie is responsible for Shentel's daily operations of its many subsidiaries. Mr. MacKenzie was the co-founder and President of Broadslate Networks and Essex Communications. He served as COO of Digital Television Services and as Vice President of Contel Cellular. Mr. MacKenzie is a graduate of The College of William and Mary and holds a BBA in accounting and holds a C.P.A. certificate from the Virginia State Board of Accountancy.

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Ms. Skolits serves as Chief Financial Officer and Vice President of Finance at Shentel. She joined the Company in 2007 and is responsible for Shentel's daily financial decisions. Ms. Skolits brings with her 25 years of experience, including 3 years with Revol Wireless where she served as Chief Financial Officer. Ms. Skolits' telecommunications experience also includes serving as Controller for Comcast Metrophone, Director of Financial Operations for Comcast Cellular Communications and Chief Financial Officer of City Signal Communications. Ms. Skolits earned a BS degree in Commerce with a concentration in Accounting from the University of Virginia and she holds a C.P.A. certificate from the Virginia State Board of Accountancy.

Mr. Ferguson is Vice President of Customer Services for Shentel. He has 39 years of experience in the telecommunications industry. Mr. Ferguson has held many positions within Shentel since joining the Company in 1967. He currently oversees the business office functions for the delivery and maintenance of customer services for all of Shentel's subsidiaries. Mr. Ferguson is past president and currently a director of the Virginia Telecommunications Industry Association.

Mr. Pirtle is Vice President of Sales for Shentel. He joined the Company in 1992 as Vice President of Network Services responsible for Shentel's technology decisions, and maintenance and operation of its networks – telephone, cable, cellular, paging and fiber optics. He helped launch Shentel's Internet business in 1994, and led its participation in its wireless PCS business beginning in 1995. He is a graduate of the University of Virginia. Mr. Pirtle is a co-founder of the Shenandoah Valley Technology Council.

Prior to joining the Company in November 2008, Ms. Flowers was Of Counsel in the Washington, DC office of Davis Wright Tremaine LLP since 2007, and from 1994 to 2006 was Of Counsel in the Washington, DC office of Cole, Raywid & Braverman, LLP. Ms. Flowers has extensive legal experience representing telecommunications, media and technology companies. Ms. Flowers earned a B.A. with honors in Political Science from the University of North Carolina at Chapel Hill, and earned a J.D. cum laude from Georgetown University Law Center.

Our employees, officers and members of our Board of Directors are expected to conduct business legally and ethically and insist that our vendors and business associates do the same. The Company has adopted a Code of Business Conduct and Ethics applicable to all employees, officers and directors and which is available on the Company's website www.shentel.com.

Websites and Additional Information

The Company maintains a corporate website at www.shentel.com. We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC. The contents of our website are not a part of this report. In addition, the SEC maintains a website at www.sec.gov that contains reports, proxy and information statements, and other information regarding the Company.

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ITEM 1A. RISK FACTORS

Our business and operations are subject to a number of risks and uncertainties, including those set forth under “Business-Recent Developments” and the following:

Risks Related to the Telecommunications Industry

Intensifying competition in all segments of our business may limit our ability to sustain profitable operations.

As new technologies are developed and deployed by competitors in our service area, some of our subscribers may select other providers’ offerings based on price, capabilities and personal preferences. Most of our competitors possess greater resources, have more extensive coverage areas, and offer more services than we do. If significant numbers of our subscribers elect to move to other competing providers, or if market saturation limits the rate of new subscriber additions, we may not be able to sustain profitable operations.

Nationwide, incumbent local exchange carriers have experienced a decrease in access lines due to the effect of wireless and wireline competition and the elimination of second lines dedicated to dial-up Internet as customers migrate to broadband connections. We have experienced modest reductions in the number of access lines to date, but based on industry experience we anticipate that the long-term trend toward declining telephone subscriber counts will continue for the foreseeable future. There is a significant risk that this downward trend could have a material adverse effect on the Company’s landline telephone operations in the future.

The Company’s revenue from fiber leases may be adversely impacted by price competition for these facilities. The Company monitors each of its fiber lease customers to minimize the risk related to this business.

Alternative technologies, changes in the regulatory environment and current uncertainties in the marketplace may reduce future demand for existing telecommunication services.

The telecommunications industry is experiencing significant technological change, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products and enhancements and changes in end-user requirements and preferences. Technological advances, industry changes, and the availability of additional blocks of spectrum could cause the technology we use to become obsolete. We and our vendors may not be able to respond to such changes and implement new technology on a timely basis, or at an acceptable cost.

The recession in the United States or continued adverse economic conditions in our market area involving significantly reduced consumer spending could have a negative impact on our results of operations.

Our customers are individual consumers and businesses that provide goods and services to others, and are located in a relatively concentrated geographic area. The national economic downturn, restricted credit markets, and increased unemployment rates could continue to depress consumer spending and harm our operating performance. In addition, any adverse economic conditions that affect our geographic markets in particular could have further negative impacts on our results.

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Regulation by government and taxing agencies may increase our costs of providing service or require changes in services, either of which could impair our financial performance.

Our operations are subject to varying degrees of regulation by the FCC, the Federal Trade Commission, the Federal Aviation Administration, the Environmental Protection Agency, and the Occupational Safety and Health Administration, as well as by state and local regulatory agencies. Action by these regulatory bodies could negatively affect our operations and our costs of doing business. For example, changes in tax laws or the interpretation of existing tax laws by state and local authorities could increase income, sales, property or other tax costs.

Our access revenue may be adversely impacted by legislative or regulatory actions, or technology developments, that decrease access rates or exempt certain traffic from paying for access to our regulated telephone network.

The VSCC and the FCC are currently reviewing the rules affecting access charges, intercarrier compensation, the universal service fund and related matters. Any unfavorable changes may have an adverse effect on the Company's operations.

Risks Related to the Wireless Industry

Customer concerns over radio frequency emissions may discourage use of wireless handsets or expose us to potential litigation.

Media reports have suggested that certain radio frequency emissions from wireless handsets may be linked to various health problems, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Any decrease in demand for wireless services, increases in the costs of litigation, or damage awards resulting from customer concern regarding such emissions could impair our ability to sustain profitable operations.

Regulation by government or potential litigation relating to the use of wireless phones while driving could adversely affect results of our wireless operations.

Some studies have indicated that some aspects of using wireless phones while driving may impair drivers' attention in certain circumstances, making accidents more likely. These concerns could lead to litigation relating to accidents, deaths or serious bodily injuries, or to new restrictions or regulations on wireless phone use. A number of state and local governments are considering or have enacted legislation that would restrict or prohibit the use of a wireless handset while driving a vehicle or, alternatively, require the use of a hands-free telephone. Legislation of this nature, if enacted, may require wireless service providers to supply to their subscribers hands-free enhanced services, such as voice activated dialing and hands-free speaker phones and headsets, in order to continue generating revenue from subscribers, who make many of their calls while on the road. If we are unable to provide hands-free services and products to subscribers in a timely and adequate fashion, the volume of wireless phone usage would likely decrease, and the ability of our wireless operations to generate revenues would suffer.

Risks Related to our PCS Business

The performance of Shenandoah Personal Communications Company, our largest operating subsidiary in terms of revenues and assets, may be adversely affected by any interruption in, or other adverse change to, Sprint Nextel's business.

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We rely on Sprint Nextel's ongoing operations to continue to offer our PCS subscribers the seamless national services that we currently provide. Any interruption in, or other adverse change to, Sprint Nextel's business could adversely affect our results of operations, liquidity and financial condition. Our business could also be adversely affected if competing national or regional wireless carriers are able to introduce new products and services or otherwise satisfy customers' service demands more rapidly or more effectively than Sprint Nextel.

Our business may suffer as a result of competitive pressures.

Our revenue growth is primarily dependent on the growth of the subscriber base and average monthly revenues per user. Competitive pressures may adversely affect our ability to increase our future revenues. A continuation of competitive pressures in the wireless telecommunications market has caused some major carriers to offer plans with increasingly larger bundles of minutes of use and data services at lower prices that may compete with the Sprint Nextel wireless plans we sell. Increased price competition may lead to lower average monthly revenues per user.

We may not be able to implement our business plan if our operating costs are higher than we anticipate.

Increased competition may lead to higher promotional costs, losses on sales of handsets and other costs to acquire subscribers. If these costs are more than we anticipate, the actual amount of funds available to implement our operating strategy and business plan may fall short of our estimates.

The dynamic nature of the wireless market may limit management's ability to correctly identify causes of volatility in key operating performance measures.

Our business plan and estimated future operating results are based on estimates of key operating performance measures, including subscriber growth, subscriber turnover (commonly known as churn), average monthly revenue per subscriber, losses on sales of handsets and other subscriber acquisition costs and other operating costs. The dynamic nature of the wireless market, economic conditions, increased competition in the wireless telecommunications industry, the entry of new competitors due to recent or future FCC spectrum auctions, new service offerings by Sprint Nextel or competitors of increasingly larger bundles of minutes of use at lower prices, and other issues facing the wireless telecommunications industry in general have created a level of uncertainty that may adversely affect our ability to predict these key measures.

We may experience a high rate of subscriber turnover, which could adversely affect our future financial performance.

Subscriber turnover, or churn, has been relatively stable in recent years while increasing slightly over time. We experienced a higher churn rate in 2007, which improved in 2008, increased slightly in 2009 and is again expected to increase slightly in 2010. Because of significant competition in the industry in general, changes to Sprint Nextel's competitive position in particular and the overall economic downturn, among other factors, this relative stability may not occur and the future rate of subscriber turnover may be higher than rates in recent periods. Factors that may contribute to higher churn include the following:

- inability or unwillingness of subscribers to pay, which would result in involuntary deactivations;
- subscriber mix and credit class, particularly an increase in sub-prime credit subscribers;

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- competition of products, services and pricing of other providers;
- inadequate network performance and coverage relative to that provided by competitors in our service area;
 - inadequate customer service;
 - increased prices; and,
- any future changes by Sprint Nextel or the Company in the products and services offered.

A high rate of subscriber turnover could increase the sales and marketing costs we incur in obtaining new subscribers, especially because, consistent with industry practice, we subsidize some of the costs related to the purchases of handsets by subscribers.

We may incur significantly higher wireless handset subsidy costs than we anticipate for existing subscribers who upgrade to a new handset.

As our subscriber base matures, and technological innovations occur, we anticipate that existing subscribers will continue to upgrade to new wireless handsets. To discourage customer defections to competitors, we subsidize a portion of the price of wireless handsets and in some cases incur sales commissions for handset upgrades. If more subscribers upgrade to new wireless handsets than we project, or if the cost of such handsets increases or the amount of handset subsidies offered in the competitive marketplace increases more than we project, our results of operations would be adversely affected. If we do not continue to subsidize the cost of the handsets for handset upgrades, subscribers could choose to deactivate the service and move to other carriers.

If we are unable to secure and retain tower sites, the level of service we provide could be adversely affected.

Many of our cell sites are co-located on leased tower facilities shared with one or more wireless providers. A large portion of these leased tower sites are owned by a limited number of companies. If economic conditions affect the leasing company, our lease may be affected and the ability to remain on the tower at reasonable rates could be jeopardized, which could leave portions of our service area without service and increase customer turnover.

Most of the towers that we own are located on leased real property. If such leases were not renewed, we could be forced to relocate our cell site, which would create significant additional expenses, or leave portions of our service area without service, increasing the likelihood of customer turnover.

Risks Related to Our Relationship with Sprint Nextel

Adverse changes to Sprint Nextel's financial and competitive performance could have a negative impact on our subscriber counts and revenues, and could harm our business.

Sprint Nextel's recent SEC filings indicate that the declines in its subscriber base and revenues from its post-pay wireless customers have resulted in a decline in Sprint Nextel's service revenue. To the extent that Sprint Nextel's subscriber losses, revenue declines and other business difficulties continue, our subscriber counts and our ability to generate revenues at current rates could be adversely affected.

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Sprint Nextel may make business decisions that are not in our best interests, which may adversely affect our relationships with subscribers in our territory, increase our expenses and decrease our revenues.

Under its agreements with us, Sprint Nextel has a substantial amount of control over the conduct of our PCS business. Accordingly, Sprint Nextel may make decisions that could adversely affect our PCS business, such as the following:

- Sprint Nextel could price its national plans based on its own objectives and could set price levels or other terms that may not be economically advantageous for us;
- Sprint Nextel could develop products and services, or establish credit policies, that could adversely affect our results of operations;
- if Sprint Nextel's costs to perform certain services exceed the costs we expect, subject to limitations under our agreements, Sprint Nextel could seek to increase amounts charged;
- Sprint Nextel could make decisions that could adversely affect the Sprint Nextel brand names, products or services.

Our dependence on Sprint Nextel for services may limit our ability to forecast operating results.

Our dependence on Sprint Nextel injects a degree of uncertainty into our business and financial planning. We may, at times, disagree with Sprint Nextel concerning the applicability, calculation approach, or accuracy of Sprint Nextel-supplied revenue data. It is our policy to reflect the information supplied by Sprint Nextel in our financial statements for the applicable periods and to make corrections, if any, no earlier than the period in which Sprint Nextel and we agree to the corrections.

Inaccuracies in data provided by Sprint Nextel could overstate or understate our expenses or revenues and result in out-of-period adjustments that may adversely affect our financial results.

Because Sprint Nextel provides billing and collection services for us, Sprint Nextel remits a significant portion of our total revenues. We rely on Sprint Nextel to provide accurate, timely and sufficient data and information to enable us to record properly revenues and accounts receivable which underlie a substantial portion of our financial statements and other financial disclosures. We and Sprint Nextel have previously discovered billing and other errors or inaccuracies, which, while not material to Sprint Nextel, could be material to us. If we are required in the future to make additional adjustments or incur charges as a result of errors or inaccuracies in data provided by Sprint Nextel, such adjustments or charges could materially affect our financial results for the period with respect to which the adjustments are made or charges are incurred. Such adjustments or charges could require restatement of our financial statements.

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We are subject to risks relating to Sprint Nextel's provision of back office services, and changes in products, services, plans and programs.

Any failure by Sprint Nextel to provide high-quality back office services could lead to subscriber dissatisfaction, increased churn or otherwise increased costs. We rely on Sprint Nextel's internal support systems, including customer care, billing and back office support. Our operations could be disrupted if Sprint Nextel is unable to provide and expand its internal support systems while maintaining acceptable service levels, or to efficiently outsource those services and systems through third-party vendors.

The competitiveness of Sprint Nextel's PCS products and services is a key factor in our ability to attract and retain subscribers. Changes in Sprint Nextel's PCS products and services may reduce subscriber additions, increase subscriber turnover and decrease subscriber credit quality.

Sprint Nextel's roaming arrangements to provide service outside of the Sprint Nextel National Network may not be competitive with other wireless service providers, which may restrict our ability to attract and retain subscribers and may increase our costs of doing business.

We rely on Sprint Nextel's roaming arrangements with other wireless service providers for coverage in some areas where Sprint PCS service is not available. If customers are not able to roam quickly or efficiently onto other wireless networks, we may lose current subscribers and Sprint PCS wireless services may be less attractive to new subscribers.

The risks related to our roaming arrangements include the following:

- the quality of the service provided by another provider during a roaming call may not approximate the quality of the service provided by the Sprint Nextel PCS network;
- the price of a roaming call off network may not be competitive with prices of other wireless companies for roaming calls;
- customers may not be able to use Sprint Nextel's advanced features, such as voicemail notification, while roaming; and
- Sprint Nextel or the carriers providing the service may not be able to provide accurate billing information on a timely basis.

Some provisions of the Sprint Nextel agreements may diminish the value of our common stock and restrict or diminish the value of our business.

Under limited circumstances involving non-renewal of our agreement or a breach by the Company, Sprint Nextel may purchase the operating assets of our PCS operations at a discount of 20% in the event of non-renewal, or 28% in the event of a breach, by the Company. These discounts would be applied to the "entire business value" as that term is defined in our agreement with Sprint Nextel. In addition, Sprint Nextel must approve any assignment of the Sprint Nextel agreements by us. Sprint Nextel also has a right of first refusal to purchase our PCS operating assets if we decide to sell those assets to a third party. These restrictions and other restrictions contained in the Sprint Nextel agreements could adversely affect the value of our common stock, may limit our ability to sell the foregoing assets on advantageous terms, may reduce the value a buyer would be willing to pay, and may reduce the "entire business value," as described in the Sprint Nextel agreements.

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We may have difficulty in obtaining an adequate supply of handsets from Sprint Nextel.

We depend on our relationship with Sprint Nextel to obtain handsets. Sprint Nextel orders handsets from various manufacturers. We could have difficulty obtaining specific types of handsets in a timely manner if:

- Sprint Nextel does not adequately project the need for handsets, or enter into arrangements for new types of handsets or other customer equipment, for itself, its PCS Affiliates and its other third-party distribution channels, particularly in connection with the transition to new technologies;
- Sprint Nextel gives preference to other distribution channels;
- we do not adequately project our need for handsets;
- Sprint Nextel modifies its handset logistics and delivery plan in a manner that restricts or delays access to handsets; or
- there is an adverse development in the relationship between Sprint Nextel and its suppliers or vendors.

The occurrence of any of the foregoing could disrupt subscribers' service or result in a decrease in our subscribers.

If Sprint Nextel does not continue to enhance its nationwide digital wireless network, we may not be able to attract and retain subscribers.

Our PCS operations are dependent on Sprint Nextel's national network. Sprint Nextel's digital wireless network may not provide nationwide coverage to the same extent as the networks of its competitors, which could adversely affect our ability to attract and retain subscribers. Sprint Nextel currently covers a significant portion of the population of the United States, Puerto Rico and the U.S. Virgin Islands. Sprint Nextel offers PCS services, either on its own network or through its roaming agreements, in every part of the United States.

Sprint Nextel completed a transaction in which it transferred mobile broadband licenses and business operations to Clearwire Corp. and obtained a majority equity ownership interest in Clearwire, with major cable operators, Google, Intel, Cisco and other investors contributing investment capital and obtaining equity in Clearwire. This transaction was entered with an expectation that Clearwire will expand its broadband networks in large metropolitan areas across the United States and that Sprint Nextel will offer high-speed broadband services ("4G") in conjunction with Clearwire.

Sprint Nextel's arrangements with Clearwire and the risks associated with the Clearwire venture might adversely affect our business. The introduction of 4G services in our service area by other operators, independent of arrangements with us, might adversely affect our PCS business.

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If Sprint Nextel's PCS licenses are not renewed or are revoked, our PCS business would be harmed.

Non-renewal or revocation by the FCC of Sprint Nextel's PCS licenses would significantly harm us. Wireless spectrum licenses are subject to renewal and revocation by the FCC. There may be opposition to renewal of Sprint Nextel's PCS licenses upon their expiration, and Sprint Nextel's PCS licenses may not be renewed. The FCC has adopted specific standards to apply to PCS license renewals. Any failure by Sprint Nextel to comply with these standards could cause revocation or forfeiture of Sprint Nextel's PCS licenses.

If Sprint Nextel does not maintain control over its licensed spectrum, our Sprint Nextel agreements may be terminated, which would render us unable to continue providing service to our subscribers.

Risks Related to Our Cable Businesses

We face risks from increasing competition for the provision of cable and related video services.

Incumbent cable companies, which have historically provided video service, face competition from direct broadcast satellite providers, and more recently from large providers of wireline telecommunications services (such as Verizon and AT&T), which have begun to upgrade their networks to provide video services in addition to voice and broadband services. Wireless providers also are entering the market for video services by making such services available on handsets. Moreover, consumers are increasingly accessing video content from alternative sources, such as internet-based websites and applications. The influx of competitors in this area, together with the development of new technologies to support them, are resulting in significant changes in the business models and regulatory provisions that have applied to the provision of video and other services. These developments may lead to a decline in the price and profitability of video and other services.

Changes to key regulatory requirements can affect our ability to compete.

The Company operates cable television systems in largely rural areas of Virginia and West Virginia. The Company has experienced competition from satellite providers that are larger and have cost advantages over the Company in the procurement of programming. The continued success of the satellite television providers may have an adverse impact on the Company's cable television results.

In 2006, Virginia adopted legislation to make it easier for companies to obtain local franchises to provide cable television service. Also in 2006, the FCC adopted new rules which substantially reduce the cost of obtaining a local franchise. These rules may make it easier for the Company to expand its cable television business, but also may result in increased competition for such business.

As part of its National Broadband Plan Inquiry, the FCC raised several policy issues concerning cable set-top boxes, including whether such boxes should accommodate two-way content from sources other than the cable operator such as Internet web sites. In addition, current FCC rules require that cable operators allow customers to attach set-top box devices purchased at retail instead of leasing a box from the cable operator. These devices can access programming from sources that compete with the program offerings of the Company. These devices, and any rule changes that impose access obligations on the Company's leased boxes, could reduce demand for the Company's video products.

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Risks Related To Broadband Services

Our broadband services may be adversely impacted by legislative or regulatory changes that affect our ability to develop and offer services or that could expose us to liability from customers or others.

The Company provides broadband services to its cable and telephone customers through cable modems and digital subscriber lines (DSL), respectively. The FCC is currently considering codifying a set of six “open internet” rules, also referred to as “net neutrality,” that could affect the Company’s provision of broadband services. For example, the rules under consideration include a broad nondiscrimination principle that could prohibit the Company from charging websites for enhanced delivery of content. Congress may also consider increasing regulatory authority over broadband providers, although specific proposals are not currently pending.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

The Company owns its corporate headquarters, which occupies a 60,000-square foot building in Edinburg, Virginia. The Company also owns a 26,500-square foot building in Edinburg that houses the Company's main switching center and technical staff and a 10,700-square foot building in Edinburg used for customer services and retail sales.

The Company owns nine telephone exchange buildings that are located in the major towns and some of the rural communities that are served by the regulated telecommunications operations. These buildings contain switching and fiber optic equipment and associated local exchange telecommunications equipment. The Company has fiber optic hubs or points of presence in Hagerstown, Maryland; Ashburn, Berryville, Edinburg, Front Royal, Harrisonburg, Herndon, Leesburg, Stephens City, Warrenton and Winchester, Virginia; and Franklin, Petersburg, Shepherdstown and Martinsburg, West Virginia.

The Company leases land, buildings and tower space in support of its PCS operations. As of December 31, 2009, the Company had 476 sites, including sites on property owned by the Company, and 16 leased retail locations.

The Company owns or leases other warehouse, office and retail space in various locations to support its operations. The leases for the foregoing land, buildings and tower space expire on various dates between 2009 and 2050. For information about these leases, see Note 14 to the consolidated financial statements appearing elsewhere in this report.

The Company plans to lease additional land, equipment space, and retail space in support of the ongoing PCS expansion, but at a slower pace than in recent years.

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ITEM 3. LEGAL PROCEEDINGS

None

ITEM 4. RESERVED

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PART II

ITEM MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. ISSUER PURCHASES OF EQUITY SECURITIES

The Company's stock is traded on the Nasdaq Global Select Market under the symbol "SHEN." The following table shows the closing high and low sales prices per share of common stock as reported by the Nasdaq Global Select Market for each quarter during the last two years:

| 2009 | High | Low |
|----------------|----------|----------|
| Fourth Quarter | \$ 20.94 | \$ 16.25 |
| Third Quarter | 21.03 | 16.82 |
| Second Quarter | 24.23 | 17.08 |
| First Quarter | 28.32 | 17.09 |
| 2008 | High | Low |
| Fourth Quarter | \$ 28.05 | \$ 14.50 |
| Third Quarter | 24.20 | 12.72 |
| Second Quarter | 17.76 | 13.02 |
| First Quarter | 23.98 | 13.51 |

As of February 22, 2010, there were approximately 4,249 holders of record of the Company's common stock.

Shenandoah Telecommunications Company historically has paid annual cash dividends on or about December 1 of each year. The regular cash dividend was \$0.32 per share in 2009 and \$0.30 per share in 2008. Dividends are paid to Shenandoah Telecommunications Company shareholders from accumulated dividends paid to it by its operating subsidiaries.

The following graph and table show the cumulative total shareholder return on the Company's common stock compared to the Nasdaq U.S. Index and the Nasdaq Telecommunications Index for the period between December 31, 2004 and December 31, 2009. The Nasdaq Telecommunications Index includes 164 companies that represent a wide mix of telecommunications service and equipment providers, and also includes other Sprint PCS affiliates and smaller carriers that offer similar products and serve similar markets. The graph assumes \$100 was invested on December 31, 2004 in (1) the Company's common stock, (2) the Nasdaq U.S. Index and (3) the Nasdaq Telecommunications Index, and that all dividends were reinvested and market capitalization weighting as of December 31, 2005, 2006, 2007, 2008 and 2009.

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| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---------------------------------------|------|------|------|------|------|------|
| Shenandoah Telecommunications Company | 100 | 134 | 161 | 250 | 296 | 219 |
| Nasdaq U.S. Index | 100 | 102 | 112 | 122 | 59 | 84 |
| Nasdaq Telecommunications Index | 100 | 95 | 125 | 111 | 64 | 96 |

The Company maintains a dividend reinvestment plan (the “DRIP”) for the benefit of its shareholders. When shareholders remove shares from the DRIP, the Company issues a certificate for whole shares, pays out cash for any fractional shares, and cancels the fractional shares purchased. In addition, in conjunction with the award of shares or exercises of stock options, the Company periodically repurchases shares from certain recipients to cover the minimum statutory tax withholding requirements associated with the transaction. The following table provides information about the Company’s repurchases of shares during the three months ended December 31, 2009:

| | Number of Shares Purchased | Average Price Paid per Share |
|---------------------------|----------------------------------|------------------------------------|
| October 1 to October 31 | 1 | \$ 17.45 |
| November 1 to November 30 | 3,643 | \$ 16.97 |
| December 1 to December 31 | 2 | \$ 17.76 |
| Total | 3,646 | \$ 16.97 |

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ITEM 6.

SELECTED FINANCIAL DATA

The following table presents selected financial data as of December 31, 2009, 2008, 2007, 2006 and 2005 and for each of the years in the five-year period ended December 31, 2009.

The selected financial data as of December 31, 2009 and 2008 and for each of the years in the three-year period ended December 31, 2009 are derived from the Company's audited consolidated financial statements appearing elsewhere in this report. The selected financial data as of December 31, 2007, 2006 and 2005 and for the years ended December 31, 2006 and 2005 are derived from the Company's financial statements. Certain numbers in 2008 and prior periods have been adjusted to correct for an understatement of asset retirement obligations.

The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto appearing elsewhere in this report.

(in thousands, except share and per share data.)

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|------------|------------|------------|------------|------------|
| Operating revenues | \$160,616 | \$144,424 | \$130,365 | \$158,894 | \$136,766 |
| Operating expenses | 117,789 | 99,213 | 94,091 | 133,565 | 117,549 |
| Operating income | 42,827 | 45,211 | 36,274 | 25,329 | 19,217 |
| Interest expense | 1,361 | 1,009 | 1,873 | 2,362 | 3,076 |
| Income taxes | 17,465 | 17,494 | 14,942 | 14,026 | 6,556 |
| Net income from continuing operations (a) | \$25,084 | \$26,069 | \$21,921 | \$20,492 | \$10,699 |
| Discontinued operations, net of tax (b) | (9,992) | (1,924) | (3,361) | (2,729) | (166) |
| Cumulative effect of a change in accounting, net of tax | - | - | - | (77) | - |
| Net income | \$15,092 | \$24,145 | \$18,560 | \$17,686 | \$10,533 |
| Total assets | 271,725 | 266,837 | 222,512 | 208,864 | 205,968 |
| Total debt – including current maturities | 32,960 | 41,359 | 21,907 | 26,016 | 35,918 |
| Shareholder Information: | | | | | |
| Shares outstanding | 23,680,843 | 23,605,467 | 23,508,525 | 23,284,284 | 23,061,135 |
| Income per share from continuing operations-diluted | \$1.06 | \$1.11 | \$0.93 | \$0.88 | \$0.46 |
| Loss per share from discontinued operations-diluted | (0.42) | (0.08) | (0.14) | (0.12) | (0.01) |
| Loss per share from cumulative effect of a change in accounting (c) | - | - | - | - | - |
| Net income per share-diluted | 0.64 | 1.03 | 0.79 | 0.76 | 0.45 |
| Cash dividends per share | \$0.32 | \$0.30 | \$0.27 | \$0.25 | \$0.15 |

All share and per share figures reflect the three for one stock split effected August 2, 2007.

(a)The 2006 balance shown includes a gain of \$6.4 million, net of tax, relating to the disposition of the RTB stock.

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- (b) Discontinued operations include the operating results of Converged Services. The Company announced its intention to dispose of Converged Services in September, 2008, and reclassified its operating results as discontinued for all periods presented. In 2009, the Company recognized an impairment loss of \$17.5 million, or \$10.7 million net of tax, to write-down the net assets of Converged Services to their estimated fair value.
- (c) The cumulative effect adjustment shown above for 2006 represents approximately (\$0.003) per share.
- (d) The decrease in operating revenues and expenses between 2006 and 2007 is due to changes in the settlement of travel and roaming revenues and expenses resulting from the 2007 Amendments to the Company's management and affiliation agreements with Sprint Nextel.

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

This annual report contains 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, including statements regarding our expectations, hopes, intentions, or strategies regarding the future. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include those discussed in this report under "Business-Recent Developments" and "Risk Factors." The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by law.

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) and local exchange telephone services, as well as cable television, video, Internet and data services, long distance, sale of telecommunications equipment, fiber optics facilities, and leased tower facilities. During 2009, the Company restructured its business segments to reflect changes in the Company's corporate direction and strategy in response to changes in the economic environment and other factors. The Company has three reportable segments, which the Company operates and manages as strategic business units organized by lines of business: (1) Wireless, (2) Wireline, and (3) Cable TV. 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. Prior period comparative information has been restated to conform to the current structure.

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

The Wireline segment provides regulated and unregulated voice services, dial-up and DSL internet access, and long distance access services throughout Shenandoah County 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.

The Cable TV segment provides cable television services in Shenandoah County, Virginia, and beginning December 1, 2008, in various franchise areas in West Virginia and Alleghany County, Virginia.

The Company is the exclusive provider of wireless mobility communications network products and services on the 1900 MHz band under the Sprint brand from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company's primary service area for the wireline and cable television businesses was historically Shenandoah County, Virginia. The county is a rural area in northwestern Virginia, with an estimated population of approximately 41,000 inhabitants, which has increased by approximately 6,000 since 2000. The Company believes that the potential for significant numbers of additional wireline customers in the Shenandoah County operating area is limited. With the acquisition in December 2008 of cable system assets and customers from Rapid Communications, LLC, through the Company's Shentel Cable Company subsidiary, the Company has expanded its cable television services to portions of West Virginia and Alleghany County, Virginia. In November 2009, the Company acquired approximately 1,000 telephone access lines in northwestern Augusta County, Virginia, by acquiring the assets of the North River Telephone Cooperative.

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As a result of the November 30, 2004 acquisition of the 83.9% of NTC Communications, L.L.C. (“NTC”) that the Company did not already own, the Company, through its subsidiary Shentel Converged Services, provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to MDU communities, consisting primarily of off-campus college student housing throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee, Mississippi and Delaware. As of December 31, 2009 and 2008, Converged Services has been classified as a discontinued operation and its assets and liabilities reclassified as held for sale in the consolidated financial statements. The Company continues to pursue its plan to sell these assets.

The Company sells and leases equipment, mainly related to the services it provides. The Company participates in emerging services and technologies by investment in technology venture funds and direct investment in non-affiliated companies.

Additional Information About the Company’s Business

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

| | Dec. 31, 2009 | Dec. 31, 2008 | Dec. 31, 2007 |
|---|------------------|------------------|------------------|
| Retail PCS Subscribers | 222,818 | 211,462 | 187,303 |
| PCS Market POPS (000) (1) | 2,327 | 2,310 | 2,297 |
| PCS Covered POPS (000) (1) | 2,033 | 1,931 | 1,814 |
| PCS Average Monthly Retail Churn % (2) | 1.99 % | 1.87 % | 2.32 % |
| CDMA Base Stations (sites) | 476 | 411 | 346 |
| EVDO-enabled sites | 334 | 211 | 52 |
| EVDO Covered POPS (000) | 1,940 | 1,663 | 624 |
| Towers | 140 | 118 | 115 |
| Telephone Access Lines (3) | 24,358 | 24,042 | 24,536 |
| Total Switched Access Minutes (000) | 81,260 | 90,460 | 92,331 |
| Originating Switched Access Minutes (000) | 22,572 | 25,425 | 26,128 |
| Long Distance Subscribers | 10,851 | 10,842 | 10,689 |
| Long Distance Calls (000) (4) | 7,200 | 7,981 | 7,944 |
| Total Fiber Miles (5) | 58,705 | 50,593 | 35,872 |
| Fiber Route Miles (5) | 1,558 | 1,109 | 647 |
| DSL Subscribers (3) | 10,985 | 9,918 | 8,136 |
| Dial-up Internet Subscribers | 3,359 | 4,866 | 7,547 |
| Cable Segment RGUs(5) | 24,856 | 26,061 | 8,303 |
| Employees (full time equivalents) | 456 | 445 | 411 |

- 1)POPS refers to the estimated population of a given geographic area and is based on information purchased from third party sources. Market POPS are those within a market area which the Company is authorized to serve under its Sprint Nextel agreements, and Covered POPS are those covered by the network’s service area.
- 2)PCS Average Monthly Churn is the average of the three monthly subscriber turnover, or churn calculations for the period.
- 3)Includes 935 telephone access lines as of December 31, 2009, acquired from North River Telephone Cooperative, and 59 DSL subscribers.

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- 4) Originated by customers of the Company's Telephone subsidiary.
- 5) The increase in RGUs at December 31, 2008 is primarily a result of the acquisition of cable and internet RGUs from Rapid Communications, LLC, effective December 1, 2008, and the decrease at December 31, 2009, reflects the sale of approximately 1,754 cable and internet RGUs in December 2009. RGU stands for Revenue Generating Unit, and generally means the sum of services to which customers subscribe. The fiber amounts shown for 2008 have been updated to include the approximate amounts acquired in December 2008.

Significant Transactions

The 2009, 2008 and 2007 financial results of the Company reflected several significant transactions. These transactions should be noted in understanding the financial results of the Company for 2009, 2008 and 2007.

In September 2008, the Company announced its intention to sell its Converged Services segment. The operating results of this segment were reclassified to discontinued operations, and the assets and liabilities were reclassified as assets and liabilities held for sale. Certain costs previously charged or allocated to the Converged Services segment are not appropriately chargeable to discontinued operations, and these costs have been reclassified to the "Other" segment within continuing operations for all periods presented. In March 2009, based upon an assessment of fair value based upon bids received in the auction process, the Company recognized an impairment charge totaling \$17.5 million (\$10.7 million, net of taxes), on the assets held for sale. The impairment charge was included in discontinued operations.

In December 2008, the Company closed on the acquisition of certain cable assets serving approximately 17,000 customers in Virginia and West Virginia. The 2008 consolidated income statement includes one month of operations for the Company's new Shentel Cable subsidiary, which is included as part of the Company's Cable Segment. In December 2009, the Company sold cable assets serving approximately 10% of these customers for \$1.5 million, recognizing a gain of approximately \$0.4 million.

In December 2007, the Board of Directors approved an award of shares of common stock to 26 management level employees with more than one year of service. The Company issued 97,730 shares of common stock to the recipients; half were unrestricted shares and the other half carry a two year restriction on disposition of the stock. The Company recorded a \$2.1 million charge for the aggregate fair value of the shares distributed.

On November 30, 2006, the Company announced that it would freeze benefit accruals for all participants in the Company's defined benefit pension plans as of January 31, 2007, and that it would replace the frozen benefits by increasing the Company's contributions to the existing 401(k) Supplemental Retirement Plan. The Company also announced that it intended to terminate and settle the defined benefit pension plan. The Company also announced a voluntary early retirement incentive plan for 58 eligible participants. During January 2007, 25 employees elected to accept the early retirement offer. The Company recorded approximately \$2.0 million in costs associated with the early retirements during the first quarter of 2007, and during the fourth quarter of 2007, recognized \$0.7 million in pension expense related to the settlement of pension liabilities for employees who took lump sum pension payments following their early retirement. The Company has received a favorable determination letter from the Internal Revenue Service in late February, 2010, and the Company expects to complete the settlement of the defined benefit pension plan in the second quarter of 2010. At that time, the Company will record approximately \$3.4 million in pension expense as settlements occur.

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Critical Accounting Policies

The Company relies on the use of estimates and makes assumptions that affect its financial condition and operating results. These estimates and assumptions are based on historical results and trends as well as the Company's forecasts as to how these might change in the future. The most critical accounting policies that materially affect the Company's results of operations include the following:

Allowance for Doubtful Accounts

Estimates are used in determining the allowance for doubtful accounts and are based on historical collection and write-off experience, current trends, credit policies, and the analysis of the accounts receivable by aging category. In determining these estimates, the Company compares historical write-offs in relation to the estimated period in which the subscriber was originally billed. The Company also looks at the historical average length of time that elapses between the original billing date and the date of write-off and the financial position of its larger customers in determining the adequacy of the allowance for doubtful accounts. From this information, the Company assigns specific amounts to the aging categories. The Company provides an allowance for substantially all receivables over 90 days old. The Company does not carry an allowance for receivables related to PCS customers.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered or products have been delivered, the price to the buyer is fixed and determinable and collectability is reasonably assured. Revenues are recognized by the Company based on the various types of transactions generating the revenue. For services, revenue is recognized as the services are performed. For equipment sales, revenue is recognized when the sales transaction is complete. For transactions with customers in our wireless segment that involve multiple elements, such as the sale of service combined with the sale of a handset, the consideration received at the time of sale is measured and allocated to the separate units based upon their relative fair values. Generally, this method results in all cash received at the time of the initial sale being allocated to and recognized as equipment revenue.

Under the Sprint Nextel Management Agreement, wireless service revenues are reported net of the 8% Management Fee and, since its imposition effective January 1, 2007, the 8.8% Net Service Fee retained by Sprint Nextel.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the recoverability of deferred tax assets generated on a state-by-state basis from net operating losses apportioned to that state. Management uses a more likely than not threshold to make the determination if a valuation allowance is warranted for tax assets in each state. Management will evaluate the effective rate of taxes based on apportionment factors, the Company's operating results, and the various state income tax rates. Currently, management anticipates that the future effective income tax rate will be approximately 40%.

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Leases

The Company recognizes rent expense on a straight-line basis over the initial lease term and renewal periods that are reasonably assured at the inception of the lease. In light of the Company's investment in each leased site, including acquisition costs and leasehold improvements, the Company includes the exercise of certain renewal options in the recording of operating leases. Where the Company is the lessor, the Company recognizes revenue on a straight line basis over the non-cancelable term of the lease.

Long-lived Assets

The Company views the determination of the carrying value of long-lived assets as a critical accounting estimate since the Company must determine an estimated economic useful life in order to properly amortize or depreciate long-lived assets and because the Company must consider if the value of any long-lived assets have been impaired, requiring adjustment to the carrying value.

Economic useful life is the duration of time the asset is expected to be productively employed by us, which may be less than its physical life. The Company's assumptions on obsolescence, technological advances, and other factors affect the determination of estimated economic useful life. The estimated economic useful life of an asset is monitored to determine if it continues to be appropriate in light of changes in business circumstances. For example, technological advances may result in a shorter estimated useful life than originally anticipated. In such a case, the Company would depreciate the remaining net book value of the asset over the new estimated remaining life, increasing depreciation expense on a prospective basis.

Fair Value of Converged Services

The Company's assessment of the fair value of the Converged Services assets as of December 31, 2009, is based upon the most recent sales proposals currently under consideration. Based upon this assessment, the Company has concluded that the fair value (less costs required to sell) is greater than the current carrying value of these assets. The ultimate selling price will depend on the dynamics of the market and the sale process, and the financial circumstances of the telecommunications industry and the buyers at the time of the sale. It is not possible at this time to anticipate how all of these factors might influence the final sales price or whether the eventual sale will result in a future gain or loss.

Other

The Company does not have any unrecorded off-balance sheet transactions or arrangements; however, the Company has significant commitments under operating leases and is subject to up to \$0.3 million in capital calls under its investments.

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Results of Continuing Operations

2009 Compared to 2008

Consolidated Results

The Company's consolidated results from continuing operations for the years ended December 31, 2009 and 2008 are summarized as follows:

| (in thousands) | Years Ended December 31, | | Change | |
|--|-----------------------------|------------|-----------|--------|
| | 2009 | 2008 | \$ | % |
| Operating revenues | \$ 160,616 | \$ 144,424 | \$ 16,192 | 11.2 |
| Operating expenses | 117,789 | 99,213 | 18,576 | 18.7 |
| Operating income | 42,827 | 45,211 | (2,384) | (5.3) |
| Other income (expense) | (278) | (1,648) | 1,370 | 83.1 |
| Income tax expense | 17,465 | 17,494 | (29) | (0.2) |
| Net income from continuing operations | \$ 25,084 | \$ 26,069 | \$ (985) | (3.8) |

Operating revenues

Operating revenues increased \$16.2 million, or 11.2%, in 2009 over 2008, primarily due to an increase of \$10.0 million in service revenue in the Wireless segment and the additional \$9.6 million of revenue from the Shentel Cable acquisition in late 2008. All other Company revenues decreased by \$3.4 million in 2009 from 2008, principally due to lower Wireless segment equipment and other revenues which declined \$1.9 million.

Operating expenses

Operating expenses increased \$18.6 million, or 18.7%, compared to the 2008 period. The incremental costs of the Shentel Cable operations accounted for \$14.2 million of the year over year increase. Capital improvements to the Company's fiber optic network and to provide expanded wireless coverage and additional services, specifically EVDO high speed wireless internet data access availability, added \$3.4 million of depreciation to operating expenses in the Wireline and Wireless segments, while other costs in the Wireless segment increased \$1.7 million. All other operating expenses decreased \$0.7 million during 2009.

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Other income (expense)

The change in other income (expense) resulted from improved results from the Company's investments, which in the aggregate reported losses of \$1.4 million in 2008 and gains of \$0.1 million in 2009. The investments held by the Company in its rabbi trust related to its Supplemental Executive Retirement Plan generated approximately \$1.1 million of this improvement.

Income tax expense

The Company's effective tax rate on income from continuing operations increased from 40.2% in 2008 to 41.0% in 2009 principally due to changes in the allocation of taxable income to states with higher tax rates.

Net income from continuing operations

Net income from continuing operations decreased \$1.0 million in 2009 from 2008, primarily as a result of the Shentel Cable acquisition, which generated a loss of \$2.4 million in 2009, offset by the improvements in investment results during 2009.

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Wireless

The Company's Wireless segment provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia, through Shenandoah PCS Company ("PCS"), a Sprint PCS Affiliate of Sprint Nextel. This segment also leases land on which it builds Company-owned cell towers, which it leases to affiliated and non-affiliated wireless service providers, throughout the same four-state area described above, through Shenandoah Mobile Company ("Mobile").

PCS receives revenues from Sprint Nextel for subscribers that obtain service in PCS's network coverage area. PCS relies on Sprint Nextel to provide timely, accurate and complete information to record the appropriate revenue for each financial period. Revenues received from Sprint Nextel are recorded net of fees totaling 16.8% of net billed revenue, as defined, retained by Sprint Nextel.

PCS had 476 PCS base stations in service at December 31, 2009, compared to 411 base stations in service at December 31, 2008. As of December 31, 2009, PCS had 334 EVDO-enabled sites, up from 211 EVDO-enabled sites operating as of December 31, 2008, covering 95% of our currently covered population.

The Company's average PCS retail customer turnover, or churn rate, was 1.99% in the fourth quarter of 2009, compared to 1.87% in the fourth quarter of 2008. As of December 31, 2009, the Company had 222,818 retail PCS subscribers compared to 211,462 subscribers at December 31, 2008.

Mobile owned 138 towers at December 31, 2009, up from 116 at December 31, 2008. At December 31, 2009, Mobile had 196 leases for non-affiliate cell sites, and 133 affiliate leases, compared to 183 non-affiliate and 114 affiliate leases as of December 31, 2008.

| (in thousands) | Years Ended December 31, | | Change | |
|--|-----------------------------|------------------|-----------------|-------------|
| | 2009 | 2008 | \$ | % |
| Segment operating revenues | | | | |
| Wireless service revenue | \$ 102,196 | \$ 92,149 | \$ 10,047 | 10.9 |
| Tower lease revenue | 7,144 | 6,480 | 664 | 10.2 |
| Equipment revenue | 4,522 | 5,214 | (692) | (13.3) |
| Other revenue | 1,833 | 3,042 | (1,209) | (39.7) |
| Total segment operating revenues | 115,695 | 106,885 | 8,810 | 8.2 |
| Segment operating expenses | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 38,129 | 35,935 | 2,194 | 6.1 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 17,098 | 17,623 | (525) | (3.0) |
| Depreciation and amortization | 20,293 | 17,450 | 2,843 | 16.3 |
| Total segment operating expenses | 75,520 | 71,008 | 4,512 | 6.4 |
| Segment operating income | \$ 40,175 | \$ 35,877 | \$ 4,298 | 12.0 |

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Operating revenues

Wireless service revenue increased \$10.0 million, or 10.9%, for 2009 over 2008. Average subscribers for 2009 increased 8.2% compared to 2008. Wireless service revenues are shown net of Sprint fees, billing credits and adjustments, and write-offs. Total credits against gross billed revenue were essentially unchanged from 2008 (down \$0.3 million), while allocated write-offs were down \$1.3 million.

The increase in tower lease revenue resulted from additional cell site leases and higher rates on existing leases.

The decrease in equipment revenue consists of \$0.4 million in lower handset revenue due to fewer handsets sold, and \$0.3 million less commission revenue due to fewer sales of phones that operate on the iDEN network, for which the Company is paid a commission for each phone sold.

Other revenue in 2008 included a favorable adjustment of \$1.0 million for USF fees from 2005 through 2007 passed through from Sprint Nextel.

Cost of goods and services

Cost of goods and services increased \$2.2 million, or 6.1%, in 2009 from 2008. Costs of the expanded network coverage and roll-out of EVDO coverage resulted in a \$3.6 million increase in network costs including rent of \$1.7 million for additional tower and co-location sites, additional power costs of \$0.2 million and \$1.7 million in additional backhaul line costs.

Network costs are expected to continue to increase in 2010, primarily as a result of recognizing the full annual costs associated with the EVDO sites, towers and base stations added in 2009 to expand our network coverage and capacity.

Costs of handsets and other devices declined by \$1.8 million in 2009 from 2008, reflecting fewer handsets sold.

Selling, general and administrative

Selling, general and administrative expenses decreased \$0.5 million in 2009 from 2008 due to a \$1.4 million decrease in commissions, partially offset by \$0.9 million of additional spending on advertising.

Depreciation and amortization

Depreciation and amortization increased \$2.8 million in 2009 over 2008, due to capital projects for EVDO capability and new cell sites placed in service beginning in 2008 and continuing throughout 2009. Depreciation is expected to continue to increase in 2010, primarily due to the full year impact of depreciation on projects placed in service in 2009.

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Wireline

The Wireline segment is composed of several subsidiaries providing telecommunications services. Through these subsidiaries, this 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.

| (in thousands) | Years Ended December 31, | | Change | |
|--|-----------------------------|-----------|-------------|---------|
| | 2009 | 2008 | \$ | % |
| Segment operating revenues | | | | |
| Service revenue | \$ 14,193 | \$ 13,715 | \$ 478 | 3.5 |
| Access revenue | 11,225 | 12,308 | (1,083) | (8.8) |
| Facilities lease revenue | 14,215 | 13,424 | 791 | 5.9 |
| Equipment revenue | 148 | 625 | (477) | (76.3) |
| Other revenue | 5,282 | 5,282 | - | - |
| Total segment operating revenues | 45,063 | 45,354 | (291) | (0.6) |
| Segment operating expenses | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 16,773 | 15,585 | 1,188 | 7.6 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 7,397 | 7,354 | 43 | 0.6 |
| Depreciation and amortization | 8,317 | 7,666 | 651 | 8.5 |
| Total segment operating expenses | 32,487 | 30,605 | 1,882 | 6.1 |
| Segment operating income | \$ 12,576 | \$ 14,749 | \$ (2,173) | (14.7) |

Operating revenues

Operating revenues decreased slightly in 2009 from 2008. The increase in service revenues resulted primarily from a rate increase in early 2009; equipment revenues decreased principally due to a one-time sale of equipment recorded in 2008; access revenue declined due to declining minutes of use, while facilities lease revenue increased due to new and revised contracts with third parties.

Cost of goods and services

Cost of goods and services increased \$1.2 million, due to additional network costs of \$1.0 million associated with facilities lease revenues, including line and access expenses; and greater losses on disposed equipment of \$0.2 million.

Depreciation and amortization

The increase in depreciation and amortization resulted from capital projects placed in service relating to fiber upgrades and expansion.

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Cable Television

The Cable TV segment provides analog, digital and high-definition television signals under franchise agreements within Shenandoah County, Virginia, and since the acquisition of cable systems and subscribers from Rapid Communications, Inc., on December 1, 2008, in various locales in West Virginia and in Alleghany County, Virginia. As of December 31, 2009, it served 24,856 RGUs, down from 26,061 RGUs served as of December 31, 2008. The Cable TV segment sold systems covering 1,752 RGUs and 7,722 homes passed during December, 2009. Since the Rapid acquisition, the Company has been working to upgrade a number of the acquired systems, and through December 31, 2009, approximately 64% of acquired homes passed have been updated. The Company has introduced expanded service offerings in the upgraded markets, and plans to upgrade additional markets in 2010 and introduce expanded service offerings as upgrades are completed. The Company expects to spend approximately \$22 million on these upgrades through 2010; spending through December 31, 2009 totaled approximately \$12 million. The Company spent approximately \$1.6 million to upgrade the Shenandoah County, Virginia, cable TV network, during 2009, as well as \$2.7 million on other cable segment projects in both areas.

| (in thousands) | Years Ended | | \$ | Change | |
|--|-------------|----------------------|-------------|--------|-------|
| | 2009 | December 31, 2008 | | | % |
| Segment operating revenues | | | | | |
| Service revenue | \$ 14,257 | \$ 5,592 | \$ 8,665 | | 155.0 |
| Equipment and other revenue | 1,306 | 541 | 765 | | 141.4 |
| Total segment operating revenues | 15,563 | 6,133 | 9,430 | | 153.8 |
| Segment operating expenses | | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 12,550 | 4,205 | 8,345 | | 198.5 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 5,383 | 1,594 | 3,789 | | 237.7 |
| Depreciation and amortization | 3,700 | 1,250 | 2,450 | | 196.0 |
| Total segment operating expenses | 21,633 | 7,049 | 14,584 | | 206.9 |
| Segment operating loss | \$ (6,070) | \$ (916) | \$ (5,154) | | n/m |

Operating revenues and expenses

The newly acquired cable operations generated \$4.7 million of the increase in segment operating loss shown above while the Company has been rebuilding the networks in order to launch new services. The legacy cable operation generated \$0.1 million less operating revenue, and incurred \$0.3 million in additional operating expenses, compared to 2008. The increase in operating costs included \$0.1 million in additional programming costs and \$0.2 million in additional maintenance costs.

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2008 Compared to 2007

Consolidated Results

The Company's consolidated results from continuing operations for the years ended December 31, 2008 and 2007, respectively, are summarized as follows:

| (in thousands) | Years Ended | | Change | |
|---------------------------------------|-------------|------------|-----------|----------|
| | 2008 | 2007 | \$ | % |
| Operating revenues | \$ 144,424 | \$ 130,365 | \$ 14,059 | 10.8 |
| Operating expenses | 99,213 | 94,091 | 5,122 | 5.4 |
| Operating income | 45,211 | 36,274 | 8,937 | 24.6 |
| Other income (expense) | (1,648) | 589 | (2,237) | (379.8) |
| Income tax expense | 17,494 | 14,942 | 2,552 | 17.1 |
| Net income from continuing operations | \$ 26,069 | \$ 21,921 | \$ 4,148 | 18.9 |

Operating revenues

Operating revenue increased \$14.1 million, or 10.8%, in 2008 over 2007, primarily due to increased service revenue in the Wireless segment of \$12.0 million. Wireline segment operating revenues increased \$1.2 million, while the incremental Shentel Cable revenues in the Cable TV segment totaled \$0.9 million for the year ended December 31, 2008.

Operating expenses

For the year ended December 31, 2008, operating expenses increased \$5.1 million, or 5.4%, compared to the 2007 period. Significant cost increases over 2007 included additional depreciation expense of \$3.0 million on improvements to the Company's fiber optic network and to support expanded wireless coverage and additional services, specifically EVDO high speed wireless internet data access availability; the associated additional \$3.2 million of operating costs for rent and power; and an increase of \$2.4 million for wireless handset costs. Partially offsetting these increases were the one-time costs in 2007 of the stock award of \$2.1 million and the early retirement offer and related costs of \$2.7 million. All other operating expenses increased \$1.3 million, including \$0.7 million associated with the Shentel Cable acquisition in December 2008.

Other income (expense)

The change in other income (expense) resulted from losses recognized on investments during late 2008 versus income from such investments during 2007, partially offset by a decrease in interest expense of \$0.9 million, principally due to additional interest capitalized to plant under construction during 2008.

Income tax expense

The Company's effective tax rate on income from continuing operations decreased slightly from 40.5% in 2007 to 40.2% in 2008.

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Net income from continuing operations

Net income from continuing operations increased \$4.1 million, due primarily to increased wireless service revenue offset by net higher expenses for network improvements, expanded wireless coverage and additional services, and losses recognized on investments.

Wireless

| (in thousands) | Years Ended | | \$ | Change % |
|--|-------------|----------------------|----------|-------------|
| | 2008 | December 31, 2007 | | |
| Segment operating revenues | | | | |
| Wireless service revenue | \$92,149 | \$80,099 | \$12,050 | 15.0 |
| Tower lease revenue | 6,480 | 5,917 | 563 | 9.5 |
| Equipment revenue | 5,214 | 5,015 | 199 | 4.0 |
| Other revenue | 3,042 | 2,439 | 603 | 24.7 |
| Total segment operating revenues | 106,885 | 93,470 | 13,415 | 14.4 |
| Segment operating expenses | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 35,935 | 30,205 | 5,730 | 19.0 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 17,623 | 15,987 | 1,636 | 10.2 |
| Depreciation and amortization | 17,450 | 16,254 | 1,196 | 7.4 |
| Total segment operating expenses | 71,008 | 62,446 | 8,562 | 13.7 |
| Segment operating income | \$35,877 | \$31,024 | \$4,853 | 15.6 |

Operating revenues

Wireless service revenue increased \$12.1 million, or 15.0%, for the year ended December 31, 2008, compared to 2007. Average subscribers increased 16.7% during 2008 from 2007.

The increase in tower lease revenue resulted from additional cell site leases to non-affiliates.

The increase in other revenue reflects a one-time pass through of approximately \$1.0 million of Universal Service Fund fees from Sprint Nextel in the second quarter of 2008, offset by a \$0.4 million decline in activation fee revenue from new subscribers.

Cost of goods and services

Cost of goods and services increased \$5.7 million in 2008 period compared to 2007. Costs of the expanded network coverage and roll-out of EVDO coverage resulted in a \$3.3 million increase in network costs. Network costs include rent for additional tower and co-location sites, and power and backhaul line costs. Customer retention costs (including the costs of handsets used for upgrades and warranty and insurance replacements) increased \$2.4 million from 2007, principally due to higher costs of phones with new and expanded features. The Company added 65 base stations and added high-speed data transmission capability to 159 cell sites during 2008. Cost of goods and services in 2007 also included approximately \$0.6 million in accrual reversals related to implementing the 2007 Amendment to the Sprint Nextel agreements.

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Selling, general and administrative expenses

The \$1.6 million increase in selling, general and administrative expenses in 2008 compared to 2007 resulted primarily from the full year cost of the 13 retail locations acquired in May 2007 from Sprint Nextel, as well as \$0.4 million in additional third party commissions paid in 2008. The 2007 period also included a reversal of the \$0.5 million allowance for bad debts relating to Sprint Nextel customers as of December 31, 2006, due to changes in procedures resulting from the 2007 Amendment to the Sprint Nextel agreements.

Depreciation and amortization

Depreciation and amortization increased approximately \$1.2 million in 2008 over 2007, due to capital projects for EVDO capability and new cell sites placed in service since 2007.

Wireline

| (in thousands) | Years Ended December 31, | | Change | |
|--|-----------------------------|-----------|----------|---------|
| | 2008 | 2007 | \$ | % |
| Segment operating revenues | | | | |
| Service revenue | \$ 13,715 | \$ 13,744 | \$ (29) | (0.2) |
| Access revenue | 12,308 | 12,476 | (168) | (1.3) |
| Facilities lease revenue | 13,424 | 12,263 | 1,161 | 9.5 |
| Equipment revenue | 625 | 341 | 284 | 83.3 |
| Other revenue | 5,282 | 5,297 | (15) | (0.3) |
| Total segment operating revenues | 45,354 | 44,121 | 1,233 | 2.8 |
| Segment operating expenses | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 15,585 | 16,262 | (677) | (4.2) |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 7,354 | 9,293 | (1,939) | (20.9) |
| Depreciation and amortization | 7,666 | 6,138 | 1,528 | 24.9 |
| Total segment operating expenses | 30,605 | 31,693 | (1,088) | (3.4) |
| Segment operating income | \$ 14,749 | \$ 12,428 | \$ 2,321 | 18.7 |

Operating revenues

Facilities lease revenue increased \$1.2 million, or 9.5%, in 2008 over 2007 due to additional fiber circuits to support expanded PCS sites and capacity and third party circuits principally for data and internet access. For 2008, equipment revenue included one large non-recurring sale of equipment.

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Operating expenses

Cost of goods and services and selling, general and administrative expenses in 2007 included the one-time costs of the early retirement and pension settlement, plus the cost of the share award issued in late 2007, which were not repeated in 2008.

Depreciation and amortization expense increased \$1.5 million from 2007, due to capital projects placed in service in 2008 relating to fiber related upgrades and redundancy projects, and \$0.9 million in additional, accelerated depreciation in 2008 over 2007 related to certain older equipment that was scheduled for replacement in late 2008 and early 2009.

Cable Television

| (in thousands) | Years Ended December 31, | | Change | |
|----------------------------------|-----------------------------|----------|----------|------|
| | 2008 | 2007 | \$ | % |
| Segment operating revenues | | | | |
| Service revenue | \$ 5,592 | \$ 4,573 | \$ 1,019 | 22.3 |
| Equipment and other revenue | 541 | 485 | 56 | 11.5 |
| Total segment operating revenues | 6,133 | 5,058 | 1,075 | 21.3 |
| Segment operating expenses | #16 | | | |