SHENANDOAH TELECOMMUNICATIONS CO/VA/
Form 10-K
March 16, 2007

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K

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

For the fiscal year ended December 31, 2006

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

For the transition period from__________ to __________
Commission File No.: 000-09881

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

VIRGINIA (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 National 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 o No x

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 o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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. x

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

Large accelerated filer o	Accelerated filer x	Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The aggregate market value of the registrant s voting stock held by non-affiliates of the registrant at June 30, 2006, based on the closing price of such stock on the Nasdaq National Market on such date, was approximately $340,984,000.

The number of shares of the registrant s common stock outstanding on February 28, 2007 was 7,772,333.

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 2007 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, plan, continue and similar expressions a 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.

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.

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 also holds paging radio telecommunications licenses.

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 and Mississippi. At December 31, 2006, NTC served 102 MDU housing complexes.

The Company offers many of its services over its own fiber optic network of approximately 625 miles at December 31, 2006. The main lines of the network follow the Interstate 81 corridor to the Pennsylvania state line and the Interstate 66 corridor in the northwestern part of Virginia. Secondary routes provide alternative routing in the event of an outage. In addition to its own fiber network, the Company through its telephone subsidiary has a 20 percent ownership in Valley Network Partnership (ValleyNet), which is a partnership offering fiber network facility capacity in western, central, and northern Virginia, as well as the Interstate 81 corridor from Johnson City, Tennessee to Carlisle, Pennsylvania.

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

In February 2003, the Company sold its 66% general partner interest in the Virginia 10 RSA Limited Partnership, which was engaged in cellular operations, to Verizon Wireless for $37.0 million. The total proceeds received were $38.7 million, of which $5.0 million were held in escrow for the payment of potential specified contingencies and indemnification obligations during the two-year post-closing period. In February 2005, the full escrowed deposit of $5.0 million, included as an escrow receivable at December 31, 2004, was released to the Company. The Company s net after-tax gain on the transaction was approximately $22.4 million. The operating results of the partnership are reflected in discontinued operations for the applicable periods presented in the Company s consolidated financial statements appearing elsewhere in this report.

Recent Developments

Changes to the Affiliate s Agreements with Sprint Nextel

The Company s PCS subsidiary is one of four companies referred to as the Sprint PCS Affiliates, which had entered into substantially similar management and affiliation agreements with Sprint Communications Company L.P.

On March 13, 2007, the Company s PCS Subsidiary and Sprint Nextel entered into a series of agreements, the effects of which were to:

- Amend, as of January 1, 2007, the existing management and services agreements with Sprint Nextel to further simplify the methods used to settle revenue and expenses between the Company and Sprint Nextel;
- Upon receipt of any required landlord consents, transfer all Sprint Nextel operated Nextel store locations within the Company s PCS service area to the Company s PCS Subsidiary. The Company will sell Sprint Nextel iDEN (Integrated Digital Enhanced Network) phones and provide local customer service support for Sprint Nextel iDEN customers in the Company s service area;
- Provide the Company and Sprint Nextel with the right under certain circumstances and subject to agreement on appropriate terms to participate in future wireless service offerings within the Company s PCS service area; and
- Settle all outstanding claims arising out of the merger of Sprint Corporation and Nextel Communications, Inc. and the subsequent acquisition by Sprint Nextel of Nextel Partners, Inc.

As a result of the amendments to the existing management and affiliation agreements with Sprint Nextel (the 2007 Amendments), the basis upon which the Company and Sprint Nextel settle revenue and expenses, including travel and roaming, and upon which the Company compensates Sprint Nextel for 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, has been simplified. As a result of the amendments, the Company and Sprint Nextel will no longer settle such amounts; nor will the Company pay Sprint Nextel a fee per subscriber or a fee for each new subscriber added.

In 2006, the Company paid Sprint Nextel approximately $12.5 million in such fees, received approximately $34.0 million in travel, wholesale and roaming revenue, and paid approximately $29.2 million in travel and related expenses, resulting in a net

charge to operating income of approximately $7.7 million. In lieu of such fees and the settling of revenues and expenses for use on each other s networks, the Company will pay Sprint Nextel a Net Service Fee equal to 8.8% of billed revenue (net of customer credits, account write offs and other billing adjustments). Had this Net Service Fee been applied to 2006 billed revenue, the charge would have been approximately $7.0 million. This 8.8% Net Service Fee is in addition to the 8% of billed revenue (net of customer credits, account write offs and other billing adjustments) currently retained by Sprint Nextel under the existing management agreement. The Net Service Fee is designed to approximate the current settlements adjusted to reflect new pricing for travel and CCPU (cash cost per user) and CPGA (cost per gross activation). The Net Service Fee is also net of the expected annual cost to provide local customer service support to Sprint Nextel iDEN customers in our local service area.

The 8.8% rate for the Net Service Fee can only be changed under certain circumstances. Until June 30, 2010, the Net Service Fee can only be changed if changes in travel patterns and wholesale usage, or the amounts necessary for Sprint Nextel to recover costs for providing services to Manager, results in the Net Service Fee (calculated using the same methods employed in setting the original rate) moving by more than two full percentage points higher to 10.8% or more, or lower to 6.8% or less. After June 30, 2010, on an annual basis either party can request a change only if such change results in the Net Service Fee moving by more than one full percentage point higher or lower than the Net Service Fee then in effect. The Net Service fee is capped at 12.0%, unless the Company s use of services under the Services Agreement is disproportionately greater than the use of the services in similar Sprint PCS markets, in which case the parties will negotiate an alternative arrangement.

Operating Segments

The Company provides integrated voice, video and data communications services to end-user customers and other communications providers. The Company operates in the following six business segments through its subsidiaries.

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The Company has six reportable segments, which the Company operates and manages as strategic business units organized geographically and by lines of business: (1) PCS, (2) Telephone, (3) Converged Services, (4) Mobile, (5) Holding and (6) Other.

The PCS segment, as a PCS Affiliate of Sprint Nextel Corporation (Sprint Nextel), provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia.

The Telephone segment provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the Northern Shenandoah Valley.

The Converged Services segment provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to MDU communities (primarily off-campus college student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. Converged Services includes NTC Communications LLC (NTC), purchased by the Company on November 30, 2004.

The Mobile segment provides tower rental space to affiliates and non-affiliates in the Company s PCS markets.

The Holding segment invests in both affiliated and non-affiliated companies.

The Other segment includes the following entities: ShenTel Service Company, Shenandoah Cable Television, Shenandoah Network Company, Shenandoah Long Distance Company, ShenTel Communications Company, Shentel Wireless Company and Converged Services of West Virginia.

PCS Segment

Shenandoah Personal Communications Company

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. 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 approximately 153,503 retail PCS customers and 49,378 wholesale PCS customers at December 31, 2006, increases of 24.8% and 27.5%, respectively, compared to December 31, 2005. Of the Company s total operating revenues, 68.2% in 2006, 64.5% in 2005 and 66.2% in 2004 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 2006, 2005 or 2004.

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. Prior to January 1, 2007, the Company also derived substantial travel revenue and incurred substantial travel expenses when subscribers of Sprint Nextel and Sprint Nextel s PCS Affiliate partners incurred minutes of use in the Company s territory and when the Company s subscribers incur minutes of use in territories of Sprint Nextel and Sprint Nextel s PCS Affiliate partners. The rate paid on inter-market travel was set to $0.058 per minute as of January 1, 2003. This rate was in effect through December 31, 2006 and was scheduled to decrease to $0.04 per minute as of January 1, 2007. However, as a result of the 2007 Amendments, all such settlements were eliminated as of January 1, 2007.

Sprint Nextel provides back-office and other services, including travel clearing-house functions, to the Company. Prior to January 1, 2007, the Company paid monthly fees to Sprint Nextel for these services for each current subscriber and for each added subscriber. As a result of the 2007 Amendments, these fees have been eliminated. Instead, the Company now pays Sprint Nextel a Net Service Fee of 8.8% of billed revenue (net of customer credits, account write-offs and other billing adjustments). The Net Service Fee may be adjusted under certain circumstances arising from changes in (i) travel ratios and wholesale usage and (ii) Sprint s cost of providing services under the Sprint Nextel Agreements.

The Company records its PCS revenues, with the exception of certain roaming and equipment sales revenues, based on the PCS revenues billed, rather than revenues collected, by Sprint Nextel, net of the 8% fee retained by Sprint Nextel. The cash settlements received from Sprint Nextel are net of the 8% fee, customer credits, account write offs and other billing adjustments.

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, 2006.

Additional information regarding the Company s agreements with Sprint Nextel is set forth in Note 7 of the Company s consolidated financial statements and related notes thereto appearing elsewhere in this report.

Telephone Segment

Shenandoah Telephone Company

Shenandoah Telephone Company provides both regulated and non-regulated telephone services to approximately 24,830 customers as of December 31, 2006, primarily in Shenandoah County and small service areas in Rockingham, Frederick, and Warren counties in Virginia. The subsidiary provides access for inter-exchange carriers to the local exchange network. This subsidiary has a 20 percent ownership interest in ValleyNet, which offers fiber network facility capacity to other communications providers in western, central, and northern Virginia, as well as the Interstate 81 corridor from Johnson City, Tennessee to Carlisle, Pennsylvania.

Converged Services Segment

Shentel Converged Services, Inc. and NTC Communications, LLC.

These subsidiaries provide bundles of high speed Internet, video and local and long distance voice services under the NTC brand to MDU residential communities throughout the southeastern United States outside of Shenandoah County. Effective January 1, 2007, NTC Communications, LLC, was merged into Shentel Converged Services. Services to MDU residential communities which cater to students will continue to be provided under the NTC brand, while the Shentel brand will be used for non-student MDU properties.

On March 14, 2007, the Company entered into a 20 year agreement to provide voice, video and internet service to a new 550 unit planned community of single family homes, townhomes and apartments known as Preston Lake and located in Rockingham County, Virginia. While the new community will be built over several years, the first homes are expected to be completed in the third quarter of 2007.

Mobile Segment

Shenandoah Mobile Company

Shenandoah Mobile Company owns and leases tower space in the PCS service territory in Virginia, West Virginia, Maryland and Pennsylvania to Shenandoah Personal Communications Company and other wireless communications providers. This subsidiary provides paging service throughout the Virginia portion of the northern Shenandoah Valley.

Holding Segment

The operations of the registrant including its investing and management activities.

Other Segment including:

Shenandoah Cable Television Company

Shenandoah Cable Television Company provides coaxial cable-based television service to approximately 8,440 customers in Shenandoah County at December 31, 2006. The system is a one-way 750 megahertz hybrid fiber coaxial network. Shenandoah Cable currently offers 73 channels of analog and 147 channels of digital programming along with 8 pay per view channels. Beginning in January 2007, Shenandoah Cable initiated high definition television (HD-TV) service with an offering of 16 HD-TV channels.

ShenTel Service Company

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 9,869 dial-up customers and 6,599 digital subscriber line, or DSL, customers at December 31, 2006. This subsidiary offers broadband Internet access via asymmetric digital subscriber line, or ADSL, technology in Shenandoah County, Virginia. Since 2005, DSL has been available to all customers in the Company s regulated telephone service area.

Shenandoah Long Distance Company

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 10,499 customers at December 31, 2006.

Shenandoah Network Company

This subsidiary 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.

ShenTel Communications Company

This subsidiary is certified as a CLEC in Virginia and currently provides DSL service in Front Royal, Virginia. As of December 31, 2006, there were minimal subscribers receiving service from this subsidiary.

Converged Services of West Virginia

On February 15, 2006, as previously reported, the Company announced a 20-year agreement to provide service to a planned community of single family houses, townhouses and MDUs in Ranson, West Virginia. The Company will offer a package of voice, cable television and high speed data services on an exclusive basis to all units. The Company will bill the Homeowner s Association monthly for the basic package of services. Premium services will be billed directly to the homeowner. Due to the recent downturn in the residential housing market, this project has been delayed, and no start date has been established.

On February 15, 2006, the Company filed a petition for a certificate of public convenience and necessity to operate as a CLEC with the West Virginia Public Service Commission and an application for a cable television franchise with the City of Ranson. Both were approved, in May and June of 2006, respectively.

The Company continues to pursue other projects of this type.

Shentel Wireless Company

Shentel Wireless Company was formerly known as Shenandoah Valley Leasing Company. Through this subsidiary, the Company acquired the assets and contracts of Broadband Metro on August 31, 2005. During 2006, the Company terminated all but one of the contracts acquired from Broadband Metro. That contract was transferred to NTC, and Shentel Wireless ceased operations effective November 30, 2006.

Additional information concerning the Company s operating segments is set forth in Note 15 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 generally equal to or below 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. (which recently completed its merger with BellSouth, giving AT&T Corp. full ownership of Cingular, which is being re-branded under the AT&T brand), Verizon, and various competitive carriers. 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. We also increasingly face competition from businesses offering long distance data and voice services over the Internet. These businesses could enjoy a significant cost advantage because currently they generally do not pay carrier access charges or universal service fees.

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 all or virtually all end-users. In addition, incumbent carriers are expected to compete in each other s markets in some cases, which will increase the competition we face. Wireless communications providers are competing with wireline local telephone service providers, which further increases competition.

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 in the future. Many wireless providers have upgraded, or are in the process of upgrading, their wireless services to accommodate real-time and downloadable audio and video content as well as Internet browsing capabilities and other services. Some local governments are deploying Wi-Fi networks within their jurisdictional boundaries to support wireless Internet access at a fixed monthly cost, or in some cases no charge, to consumers. Our ability to compete effectively will depend, in part, on our ability to anticipate and respond to various competitive factors affecting the wireless industry.

The emergence of service providers that use Voice Over Internet Protocol (VOIP) applications also could present a competitive threat. Because the regulatory status of VOIP applications is largely 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. Most video services today are provided by incumbent cable television companies and direct broadcast satellite providers. However, at least two of the largest Bell Operating Companies have begun to upgrade their networks to provide video services, in addition to voice and high-speed Internet access services, on those networks. All of 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.

Regulation

Our operations are subject to regulation by the Federal Communications Commission (FCC), the Virginia State Corporation Commission (VSCC), 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, and our incumbent local exchange carrier (ILEC) subsidiary, Shenandoah Telephone Company. Other lines of business such as our cable television operations, our MDU business, and our CLEC businesses are also subject to regulation, but these businesses are smaller relative to our core business of providing wireless and ILEC services. Shentel Converged Services, operating as both Shentel and as NTC Communications, provides voice, internet and video services solely to MDU communities, and as a result operates in a manner that generally does not subject it to direct regulation, except with respect to the voice services it provides in North Carolina.

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 to provide reciprocal compensation to CMRS providers for the termination of traffic. Under these rules, we benefit from interconnection agreements negotiated by us, or by Sprint Nextel (for our wireless network) on our behalf, with Verizon and Embarq and with several smaller independent local exchange carriers. Interconnection agreements are negotiated on a statewide basis. If an agreement cannot be reached, parties to interconnection negotiations can submit outstanding disputes to federal or state regulators for arbitration. Negotiated interconnection agreements are subject to state approval.

The FCC has underway a rulemaking proceeding in which the agency is considering making major changes to the inter-carrier 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; resolutions 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 inter-carrier 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 operations.

Universal Service Contribution Requirements. Sprint Nextel is required to contribute to the federal universal service fund 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 Federal Universal Service Fund with respect to the service area served by its business. These disbursements are passed through to us. Congress and the FCC are considering a number of major changes to the universal service rules that could affect us. For example, the FCC is considering possible changes to the current rules in which contribution obligations are assessed as a variable percentage of interstate end-user telecommunications revenues. The FCC could, instead, impose the contribution obligations based on the number of telephone numbers, the number of end-user connections, or on some other basis. In June 2006, the FCC took steps to increase the universal service fund contribution obligations of wireless carriers by adjusting the proportion of wireless traffic that is presumed to be interstate, and thus subject to the contribution mechanism, for carriers that do not report distinctions between the interstate and intrastate traffic on their networks. Although we do not expect to be affected directly by this particular change, 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. Separately, Congress is considering legislation that could affect the manner in which contribution obligations are assessed, as well as the scope of the programs that continue to receiving funding. It is not possible to predict whether and how these changes could affect the extent of our total federal universal service assessments, the amounts we receive with respect to our PCS operations or our ability to recover costs associated with the universal service fund.

Payments are also due based on revenues received in connection with our wireless (and wireline) operations to funds that support and maintain the Telecommunications Relay Fund and the North American Numbering Plan, as well as to the FCC itself in the form of regulatory fees. Under our agreement with Sprint Nextel, Sprint Nextel is responsible for making these payments with respect to our wireless operations, and is able to pass through the costs in surcharges paid by customers.

Transfers, Assignments and Changes of Control of PCS Licenses. The FCC must give prior approval to the assignment of, or transfers involving, substantial changes in ownership or control of a PCS license. 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.

PCS licenses are granted for ten-year periods. Licensees have an expectance of license renewal if they have provided substantial performance and complied with FCC rules, and policies and the Communications Act of 1934.

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, or 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, including health effects relating to radio frequency emissions, of a proposed operation 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.

Wireless Facilities Siting. States and localities are authorized to engage in forms of regulation, including zoning and land-use regulation, 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.

Enhanced 911. In order to enable wireless customers to dial 911 for emergency medical or police assistance, and ensure that emergency service providers will be able to locate the wireless user, the FCC has required all wireless providers to provide enhanced 911 (or E911) by the end of 2005. To date, we are in compliance with the provisions of these rules and conditional waivers.

Communications Assistance for Law Enforcement Act. The Communications Assistance for Law Enforcement Act or 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. Compliance requirements for providers of broadband and VOIP service that connect to the public switched telephone network went into effect more recently. 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). To date, the WLNP mandate has had a nominal impact on costs, subscriber turnover rates, and subscriber acquisition and

retention costs. 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.

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 or CPNI, received from subscribers. Laws imposing criminal and other penalties for the violation of certain CPNI requirements and related privacy protections also was recently enacted. 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. One such restriction, which became effective on October 18, 2004, prohibits sending commercial messages to any address referencing an Internet domain name associated with wireless subscriber messaging services and requires that all CMRS providers submit to the FCC a list of their Internet domain names that are associated with wireless subscriber messaging services. 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. Both the FCC and the state commissions are considering imposing additional consumer protection requirements upon wireless service providers, and a number of regulatory proceedings are pending. 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.

Regulation of Inter-carrier 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 possible 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 inter-carrier compensation, including interstate and intrastate access charges. These changes might include substantial reductions in the access charges paid by long distance 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 is also considering implementing incentive-type regulation for rate of return carriers, including us. The FCC is also considering additional 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. These changes could increase our expenses, but at this time we cannot estimate the amount of such additional expenses.

In connection with a petition filed in January 2007 by Verizon Virginia Inc. regarding the intrastate access charges charged by CLEC s, the VSCC has raised the issue of whether it should open a generic proceeding to consider the appropriate level(s) of intrastate access charges for all local exchange carriers. We cannot predict whether the VSCC will decide to initiate such a proceeding or the outcome of any such proceeding if it is initiated.

Interstate and intrastate access charges are an important source of revenues for Shenandoah Telephone s operations. Unless these revenues can be recovered as they are at present, or through a new universal service mechanism, or be reflected in higher rates to the local end user, or unless other methods of cost recovery can be created, 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 inter-carrier 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 federal universal service fund (USF). As discussed above (with respect to wireless regulation), the FCC is considering major changes to the rules regarding mandated payments from carriers into the USF. 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 the FCC and Congress have expressed concerns that the cost of such funding will soon reach unacceptable levels. Changes to the inter-carrier compensation rules that reduce levels of access charges could be accompanied by increases in the universal service fund. Changes that reduce the size of the USF and payments to Shenandoah Telephone (or to our PCS operations) could have an adverse impact on the Company s financial position, results of operations, and cash flows.

All forms of federal USF support available to incumbent local exchange carriers are now available to any local competitor that qualifies for support as an eligible telecommunications carrier. At least three wireless carriers Sprint Nextel, U.S. Cellular and Alltel have received designation as eligible telecommunications carriers in Shenandoah Telephone s service area. The FCC recently adopted changes that make it somewhat more difficult for wireless carriers and other prospective entrants to obtain designation as eligible telecommunications carriers. The FCC and the Federal-State Joint Board are also currently considering whether to change the rules governing the amount of support to be disbursed to competitive eligible telecommunications carriers, which could make it more or less attractive for wireless carriers and other prospective entrants to enter our Shenandoah Telephone service areas.

The FCC mandated that, effective on October 1, 2004, the Universal Service Administrative Company (USAC) must begin accounting for the USF program in accordance with generally accepted accounting principles for federal agencies, rather than the accounting rules that USAC formerly used. This accounting method change subjected USAC to the Anti-Deficiency Act (the ADA), the effect of which could have caused delays in USF payments to USF program recipients and significantly

increase the amount of USF regulatory fees charged to wireline and wireless consumers. Since 2004, Congress has adopted short term exemptions for the USAC from the ADA to allow for a more thorough review of the impact the ADA would have on the universal service program. 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, like our PCS operations, 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, and other obligations. Further, like our PCS operations, Shenandoah Telephone in the future may be subject to federal and state requirements being considered to protect consumer privacy. If adopted, these and other such requirements could increase our costs or limit the way we provide or promote our services. In 2005, the FCC ruled that providers of interconnected broadband or VOIP services are subject to the requirements of CALEA; and it is possible that additional regulatory obligations will be applied to these types of service in the future. We cannot predict whether or when these additional obligations may be applied or the effect they may have on the Company and our competitors.

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.

Net Neutrality. Although the broadband Internet services industry has largely remained unregulated, there has been legislative and regulatory interest in adopting so-called net neutrality principles that could, among other things, prohibit service providers from slowing or blocking access to certain content, applications, or services available on the Internet and otherwise limit their ability to manage their networks efficiently and develop new products and services. The FCC in 2005 adopted a non-binding policy statement expressing its 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. In addition, in connection with its approval of the AT&T-SBC, AT&T-Bell South, and Verizon-MCI mergers, the FCC required the post-merger entities to comply with certain net neutrality requirements for a defined period of time. If some form of net neutrality legislation or regulations are adopted, it could impair the Company s ability to effectively manage its broadband network and explore enhanced service options for customers.

Long-Distance Services. We provide 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 universal service fund 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.

Regulation of Cable Television and Other Video Service Operations

Through Shenandoah Cable Company, we hold franchises to provide cable service in the following jurisdictions within Virginia: Mount Jackson; New Market and the unincorporated areas of Shenandoah County; Strasburg; Toms Brook and Woodstock. 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.

The provision of cable service generally is subject to regulation by the FCC and also must comply with the terms of the franchise agreement between the provider and the local franchising authority. Some states have enacted regulations that also can affect certain aspects of a cable service provider s operations.

Pricing and Packaging. Congress and the FCC from time to time consider imposing new pricing restrictions on cable service providers. 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 service providers are required by law to carry on their cable systems most commercial and non-commercial local television programming; this is known as must-carry. Alternatively, local television stations may insist that a cable service provider negotiate for retransmission consent, which can enable a popular local television station to obtain concessions from the cable service provider for the right to carry the station s signal. As a general matter, most local television stations today are carried by cable service providers under the must-carry obligation. If local television stations are able to obtain concessions in the future from cable service providers for the right to carry station signals, the cost of providing cable service for all providers, including us, could increase. As part of the transition to digital television, the FCC has considered whether cable service providers should be required to carry multiple programming streams that each broadcaster may include within its digital transmission. Although the FCC has thus far ruled against such expanded must-carry obligations, we cannot predict whether such a requirement may result from further FCC proceedings, judicial action, or legislation.

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 service providers 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.

Program Access. The Communications Act and the FCC s program access rules generally limit the ability of cable service providers to enter into exclusive programming arrangements with affiliated satellite-delivered cable programmers. This restriction is scheduled to expire in October 2007. We cannot predict whether this restriction indeed will expire as scheduled or, if it does not, whether exclusive programming agreements between cable service providers and their programming affiliates will limit the number and type of programming we will be able to carry on our cable systems.

Franchise Matters. Cable service providers 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, require the cable service provider to pay a franchise fee, 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. 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 service providers 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 its capacity for commercial leased access by third parties that would compete with programming offered by the cable service provider. 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.

Preferred Access and Inside Wiring. Through our subsidiary, Shentel Converged Services, we are a party to agreements that enable us to serve as the preferred or exclusive provider of cable and other services in certain buildings and developments. Certain states have enacted laws and regulations that discourage or prevent such agreements; other states in which we operate are considering enacting such laws and regulations while others are not. Our ability to preserve our existing agreements and enter into new agreements will depend in part on the extent to which applicable federal and state laws and regulations continue to permit this activity. Changes to federal and state regulations governing the ownership and control over inside wiring in a subscriber s premises also may affect our ability to enter into preferred or exclusive agreements.

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. We cannot predict the nature and pace of these and other developments or the effect they may have on our operations.

Private Cable Service. One of our operating subsidiaries, Shentel Converged Services, Inc. provides a combination of voice, video and data services to residents of MDU s such as apartment buildings. This operating subsidiary has limited regulatory obligations in connection with the video portion of its service offering because it does not use any public rights-of-way to deliver its service. If, however, the regulatory environment affecting this operating subsidiary or its video service changes, it may be subject to additional regulatory obligations which could increase its cost of operating, and in turn its ability to compete.

Access to Property. Within our converged Services business, many of our contracts contain exclusive provisions which have been negotiated with the owner of the MDU or with a property owner s association. In some jurisdictions, franchised cable operators and incumbent local exchange carriers have been able to use state or local access laws to gain access to property over the owner s objection and in derogation of any competing provider s exclusive contractual right to serve the property. These mandatory access statutes typically empower only franchised cable operators and/or carriers of last resort to force access to an MDU or community and provide residential service regardless of the owner s objections. Thus, in jurisdictions where such a mandatory access provision has been enacted, a franchised cable operator or a carrier of last resort may be able to access an MDU or a fiber-to-the-home community and provide service in competition with us, regardless of whether we have an exclusive service agreement with the property owner.

Employees

At December 31, 2006, we had approximately 387 employees, of whom approximately 356 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.

In December 2006, the Company offered early retirement to 58 employees. As of the expiration of the offer period on January 24, 2007, 32 employees had accepted the early retirement offer, and set retirement dates through April 30, 2007. In recent months, through a combination of normal attrition, a hiring freeze, the early retirement and a reduction in force, the Company eliminated 47 net positions, terminating ten employees, including three hired on a temporary basis.

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	49	April 1988
Earle A. MacKenzie	Executive Vice President, Chief Operating Officer, Chief Financial Officer and Treasurer	54	June 2003
David E. Ferguson	Vice President of Customer Services	61	November 1982
David K. MacDonald	Vice President of Operations	53	May 1998
Laurence F. Paxton	Vice President of Information Systems	54	June 2003
William L. Pirtle	Vice President of Sales	47	April 2004
Jonathan R. Spencer	Vice President, General Counsel and Secretary	45	July 2004

Mr. French has served as President and Chief Executive Officer of the Company and its subsidiaries since 1988 and a director of the Company since 1996. Mr. French also serves on the Board of Directors of First National Corporation.

Before joining the Company, Mr. MacKenzie served from May 1999 to November 2002 as President of Broadslate Networks, Inc., a start-up data services provider.

Before becoming Vice President of Information Systems, Mr. Paxton served as the Company s Vice President of Finance since June 1991. Mr. Paxton elected to accept the Company s early retirement offer in January 2007, and is expected to retire effective March 30, 2007.

Prior to becoming Vice President of Sales, Mr. Pirtle had served as the Company s Vice President of Personal Communications Services since November 1996.

Mr. Spencer has been Company Secretary since May 2005 and General Counsel since July 2004. Mr. Spencer briefly left the Company during the summer of 2006 before returning to his positions in October 2006. Before joining the Company as General Counsel, Mr. Spencer was an attorney in private practice in Washington, D.C., where he specialized in telecommunications, corporate and securities law. From May 2000 until June 2003, Mr. Spencer was Vice President and Associate General Counsel of Cable & Wireless Global, a global telecommunications provider. During his service with Cable & Wireless, Mr. Spencer also served as a director of a number of that company s European subsidiaries.

In addition to the above officers serving as of December 31, 2006, Nancy Stadler served as Vice President of Marketing, David Lasier served as Vice President of Wireless Services, and Mr. Jeffrey Pompeo served as Vice President, Technology, during 2006. Ms. Stadler resigned effective June 8, 2006, Mr. Lasier resigned effective September 30, 2006, and Mr. Pompeo resigned effective December 31, 2006.

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.

We also make available on our website, and in print to any shareholder who requests them, copies of the charters of each standing committee of our board of directors and our code of business conduct and ethics. Requests for copies of these documents may be directed to our Company Secretary at Shenandoah Telecommunications Company, P.O. Box 459, 500 Shentel Way, Edinburg, Virginia 22824. To the extent required by SEC rules, we intend to disclose any amendments to our code of conduct and ethics, and any waiver of a provision of the code with respect to the Company s directors, principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website referred to above within five business days following any such amendment or waiver, or within any other period that may be required under SEC rules from time to time.

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 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 Sprint Nextel s business.

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 Sprint Nextel s business could adversely affect our results of operations, liquidity and financial condition.

Our business may suffer as a result of competitive pressures.

Our revenue growth is primarily dependent on the growth of the subscriber base, average monthly revenues per user, travel and roaming revenue. Competitive pressures may adversely affect our ability to increase our future revenues at anticipated levels. 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 at lower prices that may compete with the Sprint Nextel wireless calling plans we sell. Increased price competition may lead to lower average monthly revenues per user than we anticipate.

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, 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.

The wireless personal communications services industry in general, including the operations of Sprint Nextel and its PCS Affiliates, has experienced a rate of churn higher than industry average rates. We experienced a relatively consistent churn rate in 2005 and 2006. Our 2007 business plan assumes that our churn rate will remain fairly stable under existing operating conditions. Because of significant competition in the industry and general economic conditions, among other factors, this 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;
- 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 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.

The allowance for doubtful accounts is an estimate and may not be sufficient to cover uncollectible accounts.

On an ongoing basis, we estimate the amount of subscriber receivables that will not be collectible based on historical results and actual write-offs reported by Sprint Nextel. The allowance for doubtful accounts may underestimate actual unpaid receivables for various reasons, including the following:

- the churn rate may exceed estimates;
- bad debt as a percentage of service revenues may increase rather than remain consistent with historical trends;
- general economic conditions may worsen; or
- there may be unanticipated changes in Sprint Nextel s wireless products and services.

If the allowance for doubtful accounts is insufficient to cover losses on receivables, our liquidity and financial condition could be impaired.

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, 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 additional tower sites or leases to install equipment to expand the wireless coverage, 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 areas of our service area without service and increase customer turnover.

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, 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 U.S. states 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, so that they can keep generating revenue from their 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 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.

There has been a trend for incumbent local exchange carriers to see 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. Although the Company has not seen a material reduction in its number of access lines to date, and reported a slight increase during 2006, the dominating nationwide trend has been a decline in the number of access lines. There is a significant risk that a downward trend could have a material adverse effect on the Company s 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 and industry changes 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.

A recession in the United States or 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. An economic downturn on a national scale or in our market could depress consumer spending and harm our operating performance.

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 Federal Communications Commission, 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.

Although the broadband Internet services industry has largely remained unregulated, there has been legislative and regulatory interest in adopting so-called net neutrality principles that could, among other things, prohibit service providers from slowing or blocking access to certain content, applications, or services available on the Internet and otherwise limit their ability to manage their networks efficiently and develop new products and services. In 2005, the FCC adopted a non-binding policy statement expressing its 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. If some form of net neutrality legislation or regulations were adopted, it could impair the Company s ability to effectively manage its broadband network and explore enhanced service options for customers.

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 Federal Communications Commission is currently reviewing the issue of access charges as well as an overhaul of intercarrier compensation. An unfavorable change may have an adverse effect on the Company s telephone operations.

Risks Related to Our Cable and Converged Services Businesses

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

Video services historically have been provided by incumbent cable companies and direct broadcast satellite providers. Recently, however, some of the largest providers of wireline telecommunications services such as Verizon and AT&T 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. 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 broad decline in the price and profitability of video and other services.

Our inability to retain preferred or exclusive access to buildings and developments would negatively affect our ability to serve some of our customers.

We currently have an advantage in our ability to provide video and other services in some areas because we have entered into preferred or exclusive agreements with property owners to serve those areas. As competition continues to develop in the market for these services, our ability to retain and expand these access agreements may be threatened. If we cannot maintain such access, or if regulations are enacted that proscribe such activity, particularly in areas that we currently serve, our market share in those affected areas may decline and our ability to profit from operating efficiencies may diminish.

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

Congress, the Federal Communications Commission and various states are considering changes to some key regulatory issues that affect the cost and manner in which we provide cable and other services. These regulatory issues include the manner in which franchises to provide cable service are issued, the jurisdiction of franchising authorities over cable service, and the control and ownership over inside wiring in a subscriber s location. Changes to the laws and regulations governing these and other matters could prevent us from competing effectively and may improve the ability of our competitors to compete.

The Company operates the cable television system in Shenandoah County, Virginia. The Company has seen increased 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, the State of 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 or competing with a local franchise; however, these new rules are subject to challenge. Any such change, while making it easier for the Company to expand its Converged Services video service and cable television business, may also result in increased competition for such businesses.

Within our Converged Services business, many of our contracts contain exclusive provisions which have been negotiated with the owner of the MDU or with a property owner s association. In some jurisdictions, franchised cable operators and incumbent local exchange carriers have been able to use state or local access laws to gain access to property over the owner s objection and in derogation of any competing provider s exclusive contractual right to serve the property. These mandatory access statutes typically empower only franchise cable operators and/or carriers of last resort to force access to an MDU or community and provide residential service regardless of the owner s objections. Thus, in jurisdictions where such a mandatory access provision has been enacted, a franchised cable operator or a carrier of last resort may be able to access an MDU or fiber-to-the-home community and provide service in competition with us, regardless of whether we have an exclusive service agreement with the owner.

Risks Related to Our Relationship with Sprint Nextel

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;

subject to limitations under our agreements, Sprint Nextel could raise the costs to perform certain services or maintain the costs above those we expect, reduce levels of services, or otherwise seek to increase expenses and other amounts charged;

subject to limitations under our agreements, Sprint Nextel could alter its network and technical requirements or request us to build out additional areas within our territories, which could result in increased equipment and build-out costs; or

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 revenues and expenses. 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, expenses 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.

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 yet 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 a breach by the Company, Sprint Nextel may purchase the operating assets of our PCS operations at a discount. 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.

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 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 and on the networks of other Sprint PCS Affiliates. 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 intends to cover a significant portion of the population of the United States, Puerto Rico and the U.S. Virgin Islands by creating a nationwide network through its own construction efforts and those of its PCS Affiliates. Sprint Nextel is still constructing its nationwide network and does not offer PCS services, either on its own network or through its roaming agreements, in every part of the United States. Sprint Nextel has entered into management agreements similar to its agreement with us with companies in other markets under its nationwide digital wireless build-out strategy.

If other PCS Affiliates of Sprint Nextel have financial difficulties or cease operating, or if Sprint Nextel s PCS licenses are not renewed or are revoked, our PCS business would be harmed.

Sprint Nextel s national digital wireless network involves a combination of networks. The networks serving large metropolitan areas are owned and operated by Sprint Nextel, while those serving connecting areas may be owned and operated by Sprint PCS Affiliates or other network providers, all of which are independent companies. Although the total number of Sprint PCS Affiliates has been declining in the aggregate due to acquisitions by Sprint Nextel, Sprint Nextel s CDMA wireless network could be disrupted if any of the remaining Sprint PCS Affiliates experiences financial difficulties. Although Sprint Nextel may have the right to operate the network in the affected territory, there can be no assurance that the transition from the applicable Sprint PCS Affiliate would occur in a timely and effective manner.

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.

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, a 10,700-square foot building in Edinburg used for customer services and retail sales, a 5,700-square foot service building outside of the town limits of Edinburg and a 10,100-square foot building in Winchester, Virginia used for both the Company s retail sales and office space and rental space to a non-affiliated tenant.

The Company owns eight 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 Martinsburg, West Virginia.

The Company leases a warehouse, office space and an operations area in Pennsylvania to support the network and sales efforts in the central Pennsylvania market. The Company also leases office space in Harrisonburg and Blacksburg, Virginia, and retail space in Harrisonburg and Front Royal, Virginia, Hagerstown, Maryland, Martinsburg, West Virginia and Mechanicsburg and York, Pennsylvania. The Company leases land, buildings and tower space in support of its PCS operations. As of December 31, 2006, the Company had 332 sites, including sites on property owned by the Company. The leases for the foregoing land, buildings and tower space expire on various dates between 2007 and 2046. For information about these leases, see Note 13 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, NTC and Converged Services expansion.

ITEM 3. **LEGAL PROCEEDINGS**

None

ITEM 4. **SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the three months ended December 31, 2006.

PART II

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

The Company s stock is traded on the Nasdaq National 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 National Market for each quarter during the last two years:

2006	**High**	**Low**
Fourth Quarter	$ 49.98	$ 42.54
Third Quarter	47.00	40.65
Second Quarter	47.00	40.25
First Quarter	47.94	39.84
2005	**High**	**Low**
Fourth Quarter	$ 46.60	$ 37.02
Third Quarter	52.66	36.65
Second Quarter	40.00	28.05
First Quarter	31.00	25.28

As of February 27, 2006, there were approximately 4,122 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 $0.48 per share in 2006 and $0.46 per share in 2005. In 2006, in conjunction with the payment of the annual cash dividend, the Company also paid a special cash dividend of $0.27 per share, representing a distribution of a portion of the gain on the liquidation of the RTB stock in the first quarter of 2006. Dividends are paid to Shenandoah Telecommunications Company shareholders from dividends paid to it by its operating subsidiaries.

The Company awards stock options to its employees meeting certain eligibility requirements under plans approved by its shareholders in 1995 and 2006. Outstanding options and the number of shares available for future issuance as of December 31, 2006 were as follows:

	Number of securities to be issued upon exercise of options	**Weighted average exercise price of outstanding options**	**Number of securities remaining available for future issuance**
1995 stock option plan	122,654	$ 25.09	
2006 stock option plan			480,000
Total	122,654	$ 25.09	480,000

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, 2001 and December 29, 2006, which was the last trading day in 2006. The Nasdaq Telecommunications Index includes over 240 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, 2001 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, 2002, 2003, 2004, 2005 and 2006.

	2001	2002	2003	2004	2005	2006
Shenandoah Telecommunications Company	100	126	135	159	214	257
Nasdaq U.S. Index	100	69	103	112	115	126
Nasdaq Telecommunications Index	100	46	77	82	78	102

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.
The following table provides information about the Company s repurchases of fractional shares during the three months ended December 31, 2006:

	Number of Shares Purchased	Average Price Paid per Share
October 1 to October 31	2	$ 43.67
November 1 to November 30	4	$ 46.01
December 1 to December 31	1	$ 47.41
Total	7	$ 45.52

ITEM 6. **SELECTED FINANCIAL DATA**

The following table presents selected financial data as of December 31, 2006, 2005, 2004, 2003 and 2002 and for each of the years in the five-year period ended December 31, 2006.

The selected financial data as of December 31, 2006, 2005 and 2004 and for each of the years in the three-year period ended December 31, 2006 are derived from the Company s audited consolidated financial statements appearing elsewhere in this report. The selected financial data as of December 31, 2003 and 2002 and for the years ended December 31, 2003 and 2002 are derived from the Company s financial statements.

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.)

	2006 (a)	2005 (a)	2004 (a)	2003	2002
Operating revenues	$ 169,195	$ 146,391	$ 120,994	$ 105,661	$ 92,764
Operating expenses	148,021	127,015	102,983	87,740	83,878
Interest expense	2,362	3,076	3,129	3,510	4,195
Income taxes (benefit)	12,370	6,716	5,921	5,166	(2,223)
Net income (loss) from continuing operations (b)	$ 17,999	$ 10,735	$ 10,038	$ 9,539	$ (3,150)
Discontinued operations, net of tax				22,389	7,412
Cumulative effect of a change in accounting, net of tax	(77)			(76)	
Net income	$ 17,922	$ 10,735	$ 10,038	$ 31,852	$ 4,262
Total assets	207,720	204,921	211,421	185,520	163,927
Total debt including current maturities	26,016	35,918	52,291	43,346	52,043
Shareholder Information					
Shares outstanding	7,761,428	7,687,045	7,629,810	7,592,768	7,551,818
Income (loss) per share from Continuing operations-diluted	$ 2.31	$ 1.39	$ 1.31	$ 1.25	$ (0.42)
Income per share from discontinued operations-diluted				2.94	0.98
Loss per share from cumulative effect of a change in accounting	(0.01)			(0.01)	
Net income per share-diluted	2.30	1.39	1.31	4.18	0.56
Cash dividends per share	$ 0.75	$ 0.46	$ 0.43	$ 0.39	$ 0.37

All share and per share figures reflect the 2-for-1 stock split effected February 23, 2004.

(a) These selected financial data have been derived from the Company s consolidated financial statements which appear elsewhere in this report.

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

ITEM 7. **MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF 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 local exchange telephone services and wireless personal communications services (as a Sprint PCS affiliate), as well as cable television, video, Internet and data services, long distance, sale of telecommunications equipment, fiber optics facilities, paging and leased tower facilities. The Company has the following six reporting segments, which it operates and manages as strategic business units organized geographically and by line of business:

wireless personal communications services, or PCS, as a Sprint PCS affiliate, through Shenandoah Personal Communications Company;

telephone, which involves the provision of regulated and non-regulated telephone services, through Shenandoah Telephone Company;

converged services, which involves the provision of data, video, voice and long-distance services, through Shentel Converged Services, Inc.;

mobile, which involves the provision of tower leases and paging services, through Shenandoah Mobile Company;

holding, which involves the provision of investments and management services to its subsidiaries, through Shenandoah Telecommunications Company; and

other, which involves the provision of Internet, cable television, network facility leasing, long-distance, CLEC, and wireless broadband services, through ShenTel Service Company, Shenandoah Cable Television, Shenandoah Network Company, Shenandoah Long Distance Company and ShenTel Communications Company.

During the third quarter of 2005, Shenandoah Valley Leasing Company changed its name to Shentel Wireless Company to record the activities associated with the Company s Wireless Broadband Group. During the fourth quarter of 2006, Shentel Wireless Company terminated all but one contract to provide wireless services, transferred that contract to Shentel Converged Services, Inc., and ceased operations.

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 telephone, cable television and long-distance business is Shenandoah County, Virginia. The county is a rural area in northwestern Virginia, with a population of approximately 39,000 inhabitants, which has increased by approximately 4,000 since 2000. While a number of new housing developments are being planned for Shenandoah County, the Company

believes that the potential for significant numbers of additional wireline customers in the Shenandoah County operating area is limited. In 2002, the Company established a competitive local exchange carrier in Virginia to provide services outside of its regulated telephone service area on a limited basis.

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 and Mississippi.

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.

Allocations. In connection with the adoption of a new affiliates agreement which was approved by the Virginia State Corporation Commission effective January 1, 2005, and pursuant to assignment and assumption agreements between Shentel Management Company and Shenandoah Telephone Company, and the Company s other subsidiaries, effective January 1, 2005, all employees and certain assets and liabilities of these subsidiaries were transferred to Shentel Management Company which is now the entity through which all shared services and shared assets are provided to all existing and future affiliates of the Company. The new affiliate s agreement had no impact on the consolidated financial statements, but it has affected the allocation of costs amongst the Company s subsidiaries. These costs are included in cost of goods and services and selling, general and administrative expenses in the Company s consolidated statements of income. Total allocated costs decreased $1.1 million from 2005 to 2006. The PCS segment benefited most from the changes in allocation, as its allocated costs declined by $2.4 million in 2006 from 2005. The Converged Services segment was allocated $1.0 million more in 2006 than 2005, due to additional labor hours charged to various projects (including the customer interface/billing system project, roll-out of new properties, and equipment upgrades and maintenance issues), as well as to additional management focus on this segment.

Additional Information About the Company s Business

The following table shows selected operating statistics of the Company for the most recent five quarters.

	Dec. 31, 2006	Sept. 30, 2006	June 30, 2006	Mar. 31, 2006	Dec. 31, 2005
Telephone Access Lines	24,830	24,849	24,935	24,988	24,740
Cable Television Subscribers	8,440	8,478	8,555	8,629	8,684
Dial-up Internet Subscribers	9,869	10,714	11,512	12,069	12,498
DSL Subscribers	6,599	5,967	5,373	5,089	4,748
Retail PCS Subscribers	153,503	141,594	134,559	129,124	122,975
Wholesale PCS Users (1)	49,378	42,264	40,013	39,798	38,726
Long Distance Subscribers	10,499	10,523	10,458	10,431	10,418
Fiber Route Miles	625	620	618	616	616
Total Fiber Miles	33,764	33,612	33,444	33,367	33,201
Long Distance Calls (000) (2)	7,235	7,045	7,003	6,745	6,686
Total Switched Access Minutes (000)	80,587	77,848	76,019	74,361	75,209
Originating Switched Access Minutes (000)	23,995	23,421	22,484	22,541	21,807
Employees (full time equivalents)	376	380	382	391	387
CDMA Base Stations (sites)	332	331	328	325	311
Towers (100 foot and over)	100	99	97	94	85
Towers (under 100 foot)	13	13	13	13	13
PCS Market POPS (000) (3)	2,268	2,268	2,242	2,236	2,236
PCS Covered POPS (000) (3)	1,752	1,750	1,728	1,704	1,704
PCS Average Monthly Retail Churn % (4)	1.9%	1.9%	1.9%	1.9%	1.9%
Converged Services (NTC) Properties Served (5)	102	108	106	108	109
Converged Services (NTC) Bulk Accounts (6)	43	45	41	40	41
Converged Services (NTC) Retail Accounts (7)(8)	15,326	15,337	8,477	9,937	10,009
Converged Services (NTC) Video Service Users (8)	8,989	8,539	7,374	8,415	8,461
Converged Services (NTC) Telephone Service Users (8)	4,492	5,741	8,797	9,766	9,914
Converged Services (NTC) Network/Internet Users (8)	21,943	22,881	18,719	22,783	22,901

Plant Facility Statistics (Excludes information for Converged Services)	December 31, 2006	
	Telephone	CATV
Route Miles	2,233	570
Miles of Distribution Wire	626	186
Utility Poles	7,599	38
Miles of Aerial Copper Cable	321	162
Miles of Buried Copper Cable	1,376	372
Miles of Underground Copper Cable	39	2
Fiber Optic Cable-Fiber Miles Regulated	280	
Fiber Miles Unregulated	249	
Fiber Miles Network	93	

1) Wholesale PCS Users are private label subscribers with numbers homed in the Company s wireless network service area.

2) Originated by customers of the Company s Telephone subsidiary.

3) POPS refers to the estimated population of a given geographic area and is based on information purchased by Sprint Nextel from Geographic Information Services. 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.

4) PCS Average Monthly Churn is the average of the three monthly subscriber turnover, or churn calculations for the period.

5) Indicates MDU complexes where NTC provides service.

6) Service is provided under a single contract with the property owner who typically provides service to tenants as part of their lease.

7) Service is provided under contract with individual subscribers.

8) Bulk and retail subscribers combined by service type. The variations in users between quarters largely reflects the impact of the cycles of the academic year.

Significant Transactions

The 2006 and 2005 financial results of the Company reflected several significant non-recurring items, which should be noted in understanding the financial results of the Company for 2006 and 2005.

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, as well as a new non-qualified defined contribution plan to be established for selected employees, going forward. The Company also announced that it intends to terminate and settle the defined benefit pension plans during 2007. Included in net pension costs for 2006 was a gain on the curtailment of the pension plans of $1.8 million, offset by $0.8 million of accelerated amortization of prior unrecognized pension costs.

The Company also announced a voluntary early retirement incentive plan for 58 eligible participants, as well as the intention to use the early retirement incentive, attrition, and if necessary, an involuntary reduction in force to eliminate up to 50 positions. Severance benefits on a sliding scale based on pay category and years of service will be payable under the reduction in force. As of December 31, 2006, seven employees had elected to accept the early retirement incentive. Included in the Company s consolidated statement of income for 2006 were $0.4 million in estimated costs of the early retirement incentives for these employees. During January 2007, 25 additional employees elected to accept the early retirement offer, and during February 2007, ten employees, including three hired on a temporary basis, separated from service under the reduction in force. The Company anticipates recording approximately $2.0 million in costs associated with the additional early retirements during the first quarter of fiscal year 2007, and approximately $3.0 million in additional costs related to the settlement of the pension plans (most of which will be recorded at the time the plans are officially settled, which is expected to be during the third quarter of fiscal 2007). A net total of 47 positions were eliminated by the combination of a hiring freeze in place since mid 2006, the early retirement offer, the reduction in force, and attrition. The change in salary and benefits from 2006 to 2007 is expected to be a reduction of about $1.6 million, reflecting dates of hire and separation for these positions.

On August 4, 2005, the board of directors of the Rural Telephone Bank (RTB) adopted resolutions for the purpose of dissolving RTB as of October 1, 2005. The Company held 10,821,770 shares of Class B and Class C RTB Common Stock ($1.00 par value) which was reflected on the Company s books at $796,000 under the cost method at December 31, 2005. In 2006, the Company received $11.3 million in proceeds, and recognized a gain of approximately $6.4 million, net of tax, related to the dissolution of the RTB and the redemption of the stock.

Pursuant to its purchase agreement for the acquisition of the remaining 83.9% interest in NTC, which was signed on November 30, 2004, $1.0 million of the purchase price was placed in escrow to satisfy any post-closing adjustments to the purchase price and any indemnification obligations for a period of six months after the November 30, 2004 closing date. The Company recorded a receivable for $0.9 million, to reflect the settlement of the post-closing adjustments by reducing goodwill by $0.5 million and by offsetting unrecorded liabilities incurred after the acquisition. On January 23, 2006, the Company received $0.9 million to settle the post-closing adjustments applicable to the escrow amount. NTC operating results for the entire year of 2005 are included in the operating results of the Company.

In September 2005, the Company settled a claim against Verizon, with respect to overcharges for completing local calls from Shenandoah PCS customers to Verizon customers, for $750,000, which was

received by the Company in September 2005. In connection with the settlement, the Company recorded a reduction in PCS network costs of $750,000 during the third quarter of 2005.

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 allowance for doubtful accounts balance as of December 31, 2006, 2005 and 2004 was $0.6 million, $0.6 million and $0.4 million, respectively. If the allowance for doubtful accounts is not adequate, it could have a material adverse effect on our liquidity, financial position and results of operations.

The Company also reviews current trends in the credit quality of the subscriber bases in its various businesses and periodically changes its credit policies. As of December 31, 2006, the Sprint PCS subscriber base in the Company s market area consisted of 17.4% sub-prime credit quality subscribers compared to 14.4% at December 31, 2005. Since the fourth quarter of 2004, the Company has, several times, adopted less restrictive credit criteria in order to evaluate the impact of such criteria on sales performance. These changes have generated additional activations and are closely monitored. Although the credit policy change could result in additional bad debt in the future, management believes that the added revenues attributable to the change exceed the bad debt risk.

The Company exercises exclusive control in setting credit policy parameters for receivables associated with services provided on a more localized basis. Historically, there have been limited losses generated from the non-PCS revenue streams. Prior to 2002, the Company had not faced significant write-offs of inter-carrier accounts, but due to the telecommunication industry down-turn in 2002, the Company experienced write-offs in this area of the business totaling $0.5 million in 2002, due to bankruptcy filings of several significant telecommunications companies. In 2004, the inter-carrier segment of the business improved and the Company recovered $113 thousand of bad debt from the sale of certain accounts that were previously written-off.

The following table shows bad debt write-offs, net of recoveries, for the three-year period ended December 31, 2006:

	Year Ended December 31,		
(in thousands)	**2006**	**2005**	**2004**
PCS subscribers	$ 3,208	$ 2,265	$ 1,560
Interexchange carriers	106	20	(71)
Other subscribers and entities	229	273	64
Net bad debt write-offs	$ 3,543	$ 2,558	$ 1,553

The 2005 increase in bad debt write-offs in Other subscribers and entities was primarily due to the NTC operations, which were purchased November 30, 2004.

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 collectibility 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.

Nonrefundable PCS activation fees and the portion of the activation costs deemed to be direct costs of acquiring new customers (primarily activation costs and credit analysis costs) are deferred and recognized ratably over the estimated life of the customer relationship in accordance with the Securities and Exchange Commission s Staff Accounting Bulletin (SAB) No. 104. Effective July 1, 2003, the Company adopted Emerging Issues Task Force (EITF) No. 00-21, Accounting for Revenue Arrangements with Multiple Element Deliverables. The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, are presumed to be a bundled transaction, and the consideration is measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 has required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition would need to be made in the future. The adoption of EITF 00-21 has resulted in substantially all of the activation fee revenue generated from Company-owned retail stores and associated direct costs being recognized at the time the related wireless handset is sold and is classified as equipment revenue and cost of goods and services, respectively. Upon adoption of EITF 00-21, previously deferred revenues and costs continue to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. Revenue and costs for activations at other retail locations continue to be deferred and amortized over their estimated lives as prescribed by SAB 104. The amounts of deferred revenue under SAB 104 at December 31, 2006, 2005 and 2004 were $0.4 million, $0.6 million and $0.8 million, respectively. The deferred costs at December 31, 2006, 2005 and 2004 were $0.1 million, $0.2 million and $0.3 million, respectively.

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. As a result of the evaluation of the deferred tax assets, the Company had established a valuation allowance against the deferred tax assets. The valuation allowance of $0.7 million was eliminated during 2005 due to the improved operating performance of the Company s PCS segment. 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%.

Leases

The Company accounts for operating leases following the guidance of SFAS No. 13, Accounting for Leases, and FASB Technical Bulletin No. 85-3, Accounting for Operating Leases with Scheduled Rent Increases. In light of the Company s investment in each site, including acquisition costs and leasehold improvements, the Company includes the exercise of certain renewal options in the recording of operating

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. Where the Company is the lessor, the Company recognizes revenue on a straight line basis over the non-cancelable term of the lease.

Other

The Company does not have any unrecorded off-balance sheet transactions or arrangements, however, the Company has commitments under operating leases and is subject to up to $0.5 million in capital calls under its investments.

Results of Continuing Operations

2006 Compared to 2005

Consolidated Results

The Company s consolidated results for the years ended December 31, 2006 and 2005 are summarized as follows: