SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: December 31, 2001
Commission File No.: 0-9881

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

| VIRGINIA | 54-1162807 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

124 South Main Street, Edinburg, VA 22824
(Address of principal executive office, including zip code)

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

Securities Registered Pursuant to Section 12(g) of the Act:
COMMON STOCK (NO PAR VALUE)
(Title of Class)

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 [ ]

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. [ ]

Aggregate market value of the voting stock held by non-affiliates of the registrant as of March 15, 2002. $123,027,700. (In determining this figure, the registrant has assumed that all of its officers and directors are affiliates. Such assumption shall not be deemed to be conclusive for any other purpose.) Prior to October 23, 2000 the Company's stock was not listed on any national exchange or NASDAQ, but was traded on the Over-the-Counter (OTC) Bulletin Board system under the symbol "SHET." On October 23, 2000 the Company's stock began trading on the NASDAQ National Market, with continued use of the symbol "SHET." The value of the Company's stock has been determined based upon the NASDAQ close price as of March 15, 2002. In April 2002, the Company's trading symbol will be changed to "SHEN".

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

| CLASS | OUTSTANDING AT MARCH 15, 2002 |
|---|---|
| Common Stock, No Par Value | 3,767,695 |

Documents Incorporated by Reference
2001 Annual Report to Security Holders Parts II, IV
Proxy Statement, Dated March 22, 2002 Parts III
EXHIBIT INDEX PAGE 10



SHENANDOAH TELECOMMUNICATIONS COMPANY


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PART IV


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PART I

ITEM 1. BUSINESS

Shenandoah Telecommunications Company is a diversified telecommunications holding company providing both regulated and unregulated telecommunications services through its nine wholly-owned subsidiaries. The Company's business strategy is to provide integrated, full service telecommunications products and services in the Northern Shenandoah Valley and surrounding areas. This geographic area includes the four-state region from Harrisonburg, Virginia to Harrisburg, Pennsylvania, and on a limited basis into Northern Virginia. Our fiber network, is a state-of-the-art electronic backbone utilized for many of our services with the main lines of this network following the Interstate-81 corridor and the Interstate-66 corridor in Western Virginia. Secondary routes supporting redundant coverage of the network are built over differing routes to provide alternate

routing in the event of an outage. The Company is certified to offer competitive local exchange services in portions of Virginia that are outside of the present telephone service area. The Company has approximately 250 employees and operates nine reporting segments based on the products and services provided by the holding company and the operating subsidiaries. There are minimal seasonal variations in the Company's operations.

As managing partner of the VA 10 RSA partnership, the Company controls a cellular license in the Northern Shenandoah Valley of Virginia. The Company provides personal communications service (PCS) and is licensed to use the Sprint brand name in the territory from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company operates its PCS network under the Sprint radio spectrum license. The Company also holds paging and other radio telecommunications licenses.

Shenandoah Telecommunications Company

The Holding Company invests in both affiliated and non-affiliated companies. The Company's largest investments in non-affiliated companies are VeriSign, Inc. , The Burton Partnership (QP), LP (Burton), Dolphin Communications Parallel Fund, LP (Dolphin), Dolphin Communications Fund II, LP (Dolphin II), South Atlantic Venture Fund III (SAVF III), South Atlantic Private Equity IV LP (SAPE IV), and NTC Communications, L.L.C., (NTC). VeriSign, Inc. is a publicly traded company offering digital trust services that enables Internet users to engage in commerce with privacy. The company has three core offerings, Web identity, authentication and payment services, powered by a global infrastructure that manages more than five billion network connections and transactions a day. Burton invests in a combination of small capitalization public companies and privately owned emerging growth companies. Dolphin, Dolphin II, SAVF III, and SAPE IV are venture capital funds that invest in startup companies, a large number of which are telecommunications firms. NTC is a limited liability company that provides bundled telecommunication services primarily to multi-unit housing properties near college and university campuses.

Shenandoah Telephone Company

This subsidiary provides both regulated and non-regulated telephone services to approximately 25,000 customers, primarily in Shenandoah County and small service areas in Rockingham, Frederick, and Warren counties in Virginia. This subsidiary provides access to the local exchange network by inter-exchange carriers. In addition, this subsidiary offers facility leases of fiber optic capacity in Frederick, Rockingham, and Shenandoah Counties, and into Herndon, Virginia. The telephone subsidiary has a 20 percent ownership in ValleyNet, which is a partnership offering network facilities in western, central, and northern Virginia, as well as the Interstate 81 corridor from Johnson City, Tennessee to Carlisle, Pennsylvania.

Shenandoah Cable Television Company

This subsidiary provides coaxial-based cable television service to approximately 9,000 customers in Shenandoah County. The

company rebuilt and expanded the system to a state-of-the art hybrid fiber coaxial network, which was completed in the first quarter of 2000. The upgrade to 750 megahertz provides better signal quality, expands the number of channels, and provides the infrastructure for future offerings of broadband services. The network up-grade, including new headend equipment installed in 2001 have contributed to better service to the cable customers. Digital program offerings along with pay per view options are value added options available to the network customers.

ShenTel Service Company (ShenTel)

ShenTel Service Company sells and services telecommunications equipment and provides Internet access to customers in the Northern Shenandoah Valley and surrounding areas. The Internet service has approximately 17,000 customers. This subsidiary offers broadband Internet access via ADSL technology.

Shenandoah Valley Leasing Company

This subsidiary finances purchases of telecommunications equipment to customers of the other subsidiaries, particularly ShenTel Service Company.

Shenandoah Mobile Company

Shenandoah Mobile Company provides paging service throughout the Virginia portion of the Northern Shenandoah Valley. Additionally, this subsidiary provides tower service in the PCS service territory mentioned below. The towers are typically located where multiple wireless services can be jointly offered. Shenandoah Mobile Company is the managing partner and 66% owner of the Virginia 10 RSA Limited Partnership, which provides cellular service in the Northern Shenandoah Valley of Virginia. The cellular service is marketed under the Shenandoah Cellular name through retail stores in Winchester and Front Royal, Virginia, and has approximately 9,000 customers.

Shenandoah Long Distance Company

This subsidiary principally offers long distance service for calls placed to locations outside the regulated telephone service area. This operation purchases switching and billing and collection services from the telephone subsidiary. This subsidiary has approximately 9,000 customers.

Shenandoah Network Company

This subsidiary operates the Maryland and West Virginia portions of our fiber optic network in the Interstate-81 corridor. In conjunction with the telephone subsidiary, Shenandoah Network Company is associated with the ValleyNet fiber network.

Shenandoah Personal Communications Company

This subsidiary began offering personal communications services (PCS) a digital wireless telephone and data service, in 1996. The service was originally offered from Chambersburg, Pennsylvania to Harrisonburg, Virginia under an agreement with American Personal Communications (APC), using the GSM air interface technology.

During the fourth quarter of 1999 our PCS subsidiary executed a management agreement with Sprint PCS, finished constructing and activating a CDMA network where our GSM network existed, and converted our PCS customer base from GSM to CDMA service. The agreement expanded our existing PCS territory from an area serving a population of 679,000 to one of 2,048,000. The additional areas are in the Altoona, Harrisburg and York-Hanover Basic Trading Areas of Pennsylvania. During 2000 we completed the initial network build-out of the Harrisburg/York market in Pennsylvania, placing 74 sites into service in February 2001. This portion of the network includes Harrisburg, York, Hanover, Gettysburg, and Carlisle, Pennsylvania. In December 2001, the Altoona, Pennsylvania market was activated bringing the total population served to approximately 1,395,000. Additionally, the network covers 233 miles of Interstates 81 and 83, and provides coverage on a 126 mile stretch of the Pennsylvania Turnpike between Pittsburgh and Philadelphia. There were approximately 49,000 PCS customers at year-end.

Additional detail on the operating segments is referenced in Note 14 of the Company's Consolidated Financial Statements in the 2001 Annual Report to security holders.

The registrant does not engage in operations in foreign countries.

Working capital practices and competitive conditions are discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company has no research and development expenses.

This Annual Report contains forward-looking statements. 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, but are not limited to changes in the interest rate environment; management's business strategy; national, regional, and local market conditions; and legislative and regulatory conditions. Readers should not place undue reliance on forward-looking statements which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

## ITEM 2. PROPERTIES

The Company owns a 24,000 square foot building in Edinburg, Virginia that houses the corporate headquarters and the Company's main switching center. A separate 10,000 square foot building in Edinburg, Virginia is used for customer services and retail sales. In late 1999, the Company purchased a 60,000 square foot building in Edinburg, Virginia which was initially used for storage and limited office space. Renovations are currently underway to convert a portion of the building into additional office space and meeting facilities. The Company also owns eight telephone exchange buildings that are located in the major towns and some of the rural communities, serving the regulated service area. These buildings contain switching and fiber optic equipment and associated local exchange telecommunications equipment.

The Company owns a 6,000 square foot service building outside of the town limits of Edinburg, Virginia. The Company owns a 10,000 square foot retail store in Winchester, Virginia. The Company has fiber optic hubs or points of presence in Hagerstown, Maryland; Harrisonburg, Herndon, Stephens City, and Winchester, Virginia; and Martinsburg, West Virginia. The buildings are a mixture of owned on leased land, leased space, and leasehold improvements. The majority of the identified properties are of masonry construction, are suitable to their existing use, and are in adequate condition to meet the foreseeable future needs of the organization. The Company also leases retail space in Harrisonburg and Front Royal, Virginia, Hagerstown, Maryland, and Harrisburg, Mechanicsburg, and York, Pennsylvania. The Company plans to lease additional land, equipment space, and retail space in support of the ongoing PCS 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 for the three months ended December 31, 2001.

ITEM 4A. EXECUTIVE OFFICERS

| Name | Title | Age | Date In Position |
|---|---|---|---|
| Christopher E. French | President | 44 | April 1988 |
| David E. Ferguson | Vice President of Customer Service | 55 | November 1982 |
| David K. MacDonald | Vice President of Engineering and Construction | 47 | December 1999 |
| Laurence F. Paxton | Vice President of Finance | 49 | June 1991 |
| William L. Pirtle | Vice President of Personal Communications Services | 42 | November 1992 |

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

(a) Common stock price ranges and other market information are incorporated by reference -

2001 Annual Report to Security Holders Market Information - Inside Front Cover

(b) Number of equity security holders are incorporated by reference -

2001 Annual Report to Security Holders Five-Year Summary of Selected Financial Data - Page 8

(c) Frequency and amount of cash dividends are incorporated by reference -

2001 Annual Report to Security Holders Market and Dividend Information - Page 3

Additionally, the terms of a mortgage agreement require the maintenance of defined amounts of the Telephone subsidiary's equity and working capital after payment of dividends. Accordingly, approximately $321,000 of retained earnings was available for payment of dividends at December 31, 2001.

For additional information, see Note 4 in the Consolidated Financial Statements in the 2001 Annual Report to Security Holders, which is incorporated as a part of this report.

ITEM 6. SELECTED FINANCIAL DATA

Five-Year Summary of Selected Financial Data is incorporated by reference -

2001 Annual Report to Security Holders Five-Year Summary of Selected Financial Data - Page 8

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

Results of operations, liquidity, and capital resources are incorporated by reference -

2001 Annual Report to Security Holders Management's Discussion and Analysis of Financial Condition and Results of Operations - Pages 36-44

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our market risks relate primarily to changes in interest rates, on instruments held for other than trading purposes. Our interest rate risk involves two components. The first component is outstanding debt with variable rates. At December 31, 2001, the balance of the Company's variable rate debt was $6.2 million, made up of a single traunch of the revolving note payable to CoBank, which matures on June 1, 2002. The rate of this note is based upon the lender's cost of funds. The Company also has a variable rate line of credit totaling $2.0 million that had no outstanding borrowings at December 31, 2001. The Company's remaining debt has fixed rates through its maturity. A 10% decline in interest rates would increase the fair value of the fixed rate debt by approximately $1.8 million, while the current

fair value of the fixed rate debt is approximately $57.1 million. At present, the Company has no plans to enter into hedging arrangements with respect to our borrowings.

The second component of market risk is temporary excess cash, primarily invested in overnight repurchase agreements and short- term certificates of deposit. As the Company continues to expand its operations, temporary excess cash is expected to be minimal. Available cash will be used to repay existing and anticipated new debt obligations, maintaining and upgrading capital equipment, ongoing operations expenses, investment opportunities in new and emerging technologies, and potential dividends to the Company's shareholders. Management does not view market risk as having a significant impact on the Company's results of operations, although adverse results could be generated if interest rates were to escalate markedly.

Due to the significant investment in VeriSign stock, the Company has an equity price risk related to the investment. As of December 31, 2001, the stock closing price was $38.04 per share, while the range of closing prices during the time the shares were held (December 12, 2001 through December 31, 2001) was a high of $42.75 per share and a low of $37.94 per share. Through February 15, 2002, the closing price varied from $38.06 per share to $23.93 per share. As a result of the significant swings in value of this security, the equity price risk to the Company is a risk that is notable, and may impact financial results when and if the stock is sold.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated financial statements included in the 2001 Annual Report to Security Holders are incorporated by reference as identified in Part IV, Item 14, on Pages 10-35

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information concerning directors and is incorporated by reference - Proxy Statement, Dated March 22, 2002 - Pages 2 - 7

Information concerning executive officers is included in Part I, Item 4A. of this Form 10-K

ITEM 11. EXECUTIVE COMPENSATION

Information concerning executive compensation is incorporated by reference -

Proxy Statement, Dated March 22, 2002 - Pages 4 - 7

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security ownership by certain beneficial owners is incorporated by reference -

Proxy Statement, Dated March 22, 2002 Stock Ownership - Page 3

(b) Security ownership by management is incorporated by reference -

Proxy Statement, Dated March 22, 2002 Stock Ownership - Page 3

(c) Contractual arrangements -

The Company knows of no contractual arrangements which may, at a subsequent date, result in change of control of the Company.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

There are no relationships or transactions to disclose other than services provided by Directors which are incorporated by reference -

Proxy Statement, Dated March 22, 2002 Directors - Page 4

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

A. Document List

The following documents are filed as part of this Form 10-K. Financial statements are incorporated by reference and are found on the pages noted.

| | Page Reference Annual Report |
|---|---|
| 1. Financial Statements | |
| The following consolidated financial statements of Shenandoah Telecommunications are included in Part II, Item 8 | |
| Auditor's Reports on 2001, 2000, and 1999 Financial Statements | 10-11 |
| Consolidated Balance Sheets at December 31, 2001, 2000, and 1999 | 12-13 |

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K (Continued)


| | |
|---|---|
| Consolidated Statements of Income for the Years Ended December 31, 2001, 2000, and 1999 | 14 |
| Consolidated Statement of Shareholders' Equity and Comprehensive Income(Loss) Years Ended December 31, 2001, 2000, and 1999 | 15 |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2001, 2000, and 1999 | 16-17 |
| Notes to Consolidated Financial Statements | 18-35 |


2. Financial Statement Schedules

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the accompanying financial statements or notes thereto.

3. Exhibits

Exhibit No.

13. Annual Report to Security Holders - Filed Herewith

20. Proxy Statement, prepared by Registrant for 2001 Annual Stockholders Meeting -

21. List of Subsidiaries - Filed Herewith

23. Independent Auditor's Consent; McGladrey & Pullen, LLP

23. Consent of Independent Auditors; KPMG, LLP

B. Reports on Form 8-K

There was one Form 8-K filed for the three months ended December 31, 2001. It was filed on October 26, 2001.

PART IV (Continued)

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHENANDOAH TELECOMMUNICATIONS COMPANY

March 28, 2002

By: /s/ CHRISTOPHER E. FRENCH
Christopher E. French, President

PART IV (Continued)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, this report signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| | |
|---|---|
| /s/CHRISTOPHER E. FRENCH<br>March 28, 2002<br>Christopher E. French | President & Chief Executive Officer |
| /s/NOEL M. BORDEN<br>March 22, 2002<br>Noel M. Borden | Vice President & Director |
| /s/LAURENCE F. PAXTON<br>March 22, 2002<br>Accounting Officer<br>Laurence F. Paxton | VP- Finance & Principal Financial |
| /s/HAROLD MORRISON, JR.<br>March 26, 2002<br>Harold Morrison, Jr. | Secretary & Director |
| /s/DICK D. BOWMAN<br>March 22, 2002<br>Dick D. Bowman | Treasurer & Director |
| /s/DOUGLAS C. ARTHUR<br>March 25, 2002<br>Douglas C. Arthur | Director |
| /s/KEN L BURCH<br>March 22, 2002<br>Ken L. Burch | Director |
| /s/GROVER M. HOLLER, JR.<br>March 25, 2002<br>Grover M. Holler, Jr. | Director |
| /s/JAMES E. ZERKEL II<br>March 26, 2002<br>James E. Zerkel II | Director |

EXHIBIT 13 SHENANDOAH TELECOMMUNICATIONS COMPANY 2001 ANNUAL REPORT

## Shareholder Information

### OUR BUSINESS

Shenandoah Telecommunications Company is a holding company which provides various telecommunications services through its operating subsidiaries. These services include: telephone service, primarily in Shenandoah County and small service areas in Rockingham, Frederick, and Warren counties, all in Virginia; cable television service in Shenandoah County; unregulated telecommunications equipment sales and services; Internet access provided to the multistate region surrounding the Northern Shenandoah Valley of Virginia; financing of purchases of telecommunications facilities and equipment; paging and cellular telephone services in the Northern Shenandoah Valley; resale of long distance services; operation and maintenance of an interstate fiber optic network; and a wireless personal communications service (PCS) and tower network in the four-state region from Harrisonburg, Virginia to the Altoona and Harrisburg, Pennsylvania markets.

### ANNUAL MEETING

The Board of Directors extends an invitation to all shareholders to attend the Annual Meeting of Shareholders. The meeting will be held Tuesday, April 16, 2002, at 11:00 a.m. in the Auditorium of the Company's offices at 500 Mill Road, Edinburg, Virginia. Notice of the Annual Meeting, Proxy Statement, and Proxy were mailed to each shareholder on or about March 22, 2002.

### FORM 10-K

The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders, without charge, upon request to Mr. Laurence F. Paxton, Vice President - Finance, Shenandoah Telecommunications Company, P. O. Box 459, Edinburg, VA 22824.

### MARKET INFORMATION

Prior to October 23, 2000 the Company's stock was not listed on any national exchange or NASDAQ, but was traded on the Over-the-Counter (OTC) Bulletin Board system under the symbol "SHET." On October 23, 2000 the Company's stock began trading on the NASDAQ National Market, with continued use of the symbol "SHET." In April 2002, the Company's trading symbol will be changed to "SHEN". Information on OTC and NASDAQ trading activity is available from any stockbroker, or from numerous internet websites.

CORPORATE HEADQUARTERS
Shenandoah Telecommunications Company
124 South Main Street
Edinburg, VA 22824

INDEPENDENT AUDITOR
KPMG LLP
1021 East Cary Street
Richmond, VA 23219

SHAREHOLDERS' QUESTIONS AND STOCK TRANSFERS
CALL (540) 984-5200
Transfer Agent - Common Stock
Shenandoah Telecommunications Company
P.O. Box 459
Edinburg, VA 22824

This Annual Report to Shareholders contains forward-looking statements. 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, but are not limited to: changes in the interest rate environment; management's business strategy; national, regional, and local market conditions; and legislative and regulatory conditions. Readers should not place undue reliance on forward-looking statements which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

## Letter To The Shareholders

March 22, 2002

Dear Shareholder:

Your Company had a good year in 2001, and relative to the telecommunications industry as a whole, the Company's performance was excellent. We achieved record financial results, improved many key operating performance measurements, invested in network expansion and service improvements, and profitably grew the overall size of our Company in terms of revenues, services, market areas and employees.

Financial highlights of the year were the record revenues and earnings, both in total and from ongoing operations. Total consolidated net income for 2001 was $16.4 million, an increase of 66 percent from $9.9 million in 2000. Results for 2001 included a non-cash, after-tax gain of $7.9 million on exchange of investment securities. Net income from ongoing operations (which excludes gains or losses on external investments and the 2000 sale of a limited

partnership interest in the Virginia RSA 6 cellular operation) was $8.3 million during the year, or $2.21 per share on a diluted basis, up from $6.3 million and $1.68 per share in 2000. Total revenues were $88.7 million, an increase of 47 percent.

The non-cash, after-tax gain of $7.9 million in 2001 was a result of the December 2001 merger between Illuminet Holdings, Inc. and VeriSign, Inc. Under generally accepted accounting principles, the Company was required to book this merger at its fair value, reflecting the market price of the VeriSign shares the Company received in the merger in exchange for its shares of Illuminet. Details of this investment, including our historical cash returns on the original investment, are provided in the following pages of this Annual Report.

The improvement in our operating results occurred while we were also continuing to make substantial investments in our various businesses, most significantly our portion of Sprint's nationwide PCS network. In total, the Company invested an additional $23.2 million in its facilities during 2001, bringing gross property, plant, and equipment to $175.3 million. Total debt increased $7.1 million from $55.5 million to $62.6 million by the end of the year.

During 2001, we expanded our Sprint PCS network coverage, commencing service in our Central Pennsylvania market in February, and then working to extend service to Altoona, PA and the surrounding area. By the end of the year, our network covered 1.4 million of the 2.1 million total population within our territory which reaches from Harrisonburg, VA to Altoona and Harrisburg, PA. Under our affiliation agreement with Sprint, we are licensed to use the Sprint brand name as the exclusive provider of their PCS products and services in this territory. During the year, we increased the total number of base stations to 184, and will be adding third generation (3G) service capabilities to increase capacity and improve data transmission speeds. Our Sprint PCS customer base more than doubled last year, increasing 111 percent to approximately 49,000 customers by the end of 2001. Having completed our initial build-out requirements, our future PCS efforts will be to improve coverage and service, and to improve the financial results of this high fixed-cost business.

Another important part of our operations, our extensive fiber optic network, was enhanced during 2001. This network, which is extensively used by other segments of our operation, generated a total of $6.6 million in lease revenue, an increase of $1.4 million from 2000. Efforts were undertaken during 2001 to add alternate routes to supplement existing routes between important nodes on our network. Our route between the Shenandoah Valley and Herndon, VA is being supplemented with a diverse route which will help protect our major link to Northern Virginia from accidental cuts and equipment failures, as well as making the facility more attractive for use by new customers. The diverse route originates in Strasburg, and passes through Front Royal, Warrenton, and Manassas, giving our Company a foundation which can be used to deliver future services to new markets.

Another area of investment and improvement during 2001 was in our CATV operation. In conjunction with an expanded program offering, the Company's CATV headend was upgraded during the year. The headend is the equipment location where all programming is received and processed for transmission out to subscriber homes. An increasing number of programming services are now transmitted to cable television systems in a digital format, and the Company has continued to add digital receivers to process these signals. The Company

expanded its channel offering during the year, adding five new channels to its basic package, and additional premium and pay-per-view packages. While continuing to enhance its service offerings, the Company incurred increased charges from programmers for the right to transmit their channels. During December, rates for the basic service package were increased; but, prices for both the economy and digital packages remained the same.

While we continue to manage your Company to best take advantage of its business opportunities, we are constantly reminded of the importance of our employees and their efforts to deliver the quality services our customers expect. During the year, we received numerous phone calls, notes, and emails praising our employees for their extraordinary efforts. Despite the changes in our business, these correspondences reinforce the fact that we remain a company where our employees' efforts ultimately determine the quality of the services we provide. Day in and day out, our employees are there, building and improving our networks, installing and repairing services, and interacting with our customers. Three recent retirees, all with over 25 years of service, are prime examples of the employees who assist in our mission of service. Shelby Hollar had 26 years of service when she retired in January, Carroll Lambert completed a 40 year career on his retirement in February, and Dot Baker retired this month with nearly 36 years of service. Employees with long-term careers at one company are rare in this day and age, and quality employees like these three are even rarer.

While we are primarily focusing on our existing businesses, we are also continuing to explore ways to provide new services to our customers and create new sources of revenues and earnings for our shareholders. One initiative was the development and launch of our electronic yellow pages, known as Shentel Pages. As use of the Internet continues to become more and more pervasive, we are positioning our Company to be the leading provider of current, readily available information for consumers. Traditionally, telephone companies fulfilled this role by providing their directories with customer listings and Yellow Pages advertising. The growth of the Internet challenges this traditional role, but also provides an opportunity for us to be the leading provider of information to Internet users interested in local and regional information.

Another new information service is 511 Virginia. An outgrowth of our Travel Shenandoah efforts launched in 1998, this traveler information service covers the entire 325-mile Interstate 81 corridor in Virginia. Real-time traffic incident reports and traveler information on hotels, restaurants, local attractions and seasonal events is available simply by dialing 511 or visiting the 511Virginia.org website. In partnership with the Virginia Department of Transportation and the Virginia Tech Transportation Institute, Shentel manages the telecommunications infrastructure, provides sales and marketing support, and collects and manages the tourism database of this advanced system.

By comparison to other telecommunications companies, our stock price performance was exceptional during 2001. Of course, we recognize that the comparison looks better because a lot of companies in our industry fell on hard times in 2001. We are also aware that one year's performance alone does not qualify a stock as a great investment. There is no doubt that the excesses of the late 1990's contributed to the magnitude of the value declines for many companies in our industry. While growth remains important, it should not replace the ultimate objective of earning profits in which our owners will share. Long-term growth in earnings remains our primary goal, and we believe our shareholders will ultimately be best rewarded if we are successful in achieving this objective.

For the Board of Directors,

/s/ Christopher E. French

Christopher E. French
President

## Senior Management

[PHOTO]
Christopher E. French
President

[PHOTO]
David E. Ferguson
VP-Customer Service

[PHOTO]
David K. MacDonald
VP-Engineering and Construction

[PHOTO]
Laurence F. Paxton
VP-Finance

[PHOTO]
William L. Pirtle
VP-Personal Communications Service

[PHOTO]
Cynthia F. Soltis
Human Resources Manager

## Comparative Highlights

(Dollar figures in thousands, except per share data.)

| | December 31 2001 | December 31 2000 | Increase (Decrease) Amount | Increase (Decrease) Percent |
|---|---|---|---|---|
| Operating Revenues | $ 88,715 | $ 60,479 | $ 28,236 | 46.7 |
| Operating Expenses | $ 66,953 | $ 44,293 | $ 22,660 | 51.2 |
| Income Taxes | $ 9,961 | $ 5,994 | $ 3,967 | 66.2 |
| Interest Expense | $ 4,127 | $ 2,936 | $ 1,191 | 40.6 |
| Net Income | $ 16,372 | $ 9,855 | $ 6,517 | 66.1 |
| Net Income from Operations (1) | $ 8,306 | $ 6,329 | $ 1,977 | 31.2 |
| Earnings per Share - diluted | $ 4.34 | $ 2.61 | $ 1.73 | 66.3 |
| Cash Dividend per Share | $ 0.70 | $ 0.66 | $ 0.04 | 6.1 |
| Percent Return on Equity | 21.9 | 14.9 | 7.0 | 47.0 |
| Common Shares Outstanding | 3,765,478 | 3,759,231 | 6,247 | 0.2 |
| No. of Shareholders | 3,752 | 3,726 | 26 | 0.7 |
| No. of Employees (full-time equivalent) | 252.5 | 206.5 | 46 | 22.3 |
| Wages & Salaries | $ 8,994 | $ 7,402 | $ 1,592 | 21.5 |
| Investment in Net Plant | $ 128,104 | $ 111,808 | $ 16,296 | 14.6 |
| Capital Expenditures | $ 28,395 | $ 44,267 | ($15,872) | (35.9) |

(1) Excludes gains and losses on external investments unaffiliated with operations, and excludes gain on sale of partnership interest in the Virginia RSA 6 cellular operation.

## Sprint PCS Growth Continues

During 2001, the Company fulfilled its obligation to build out the final phase of its portion of Sprint's nationwide PCS network. During 2001, we added 126 sites, the majority in our Central Pennsylvania market. During the year, these additional sites added 80 miles of interstate highway coverage, bringing our total to 476. Coverage was also extended on other well traveled routes within our service area. With the additional coverage resulting from the new sites, we added 1,000,000 potential customers to our service area, bringing the total to 1.4 million people.

In addition to extending coverage, many areas also received upgrades to provide additional capacity to handle the growing use of the network. During the year, sites were equipped to handle future capacity upgrades and expanded data traffic requirements. Other network activities included the re-homing of the remaining base stations to the Company-owned switch installed in Edinburg during the summer.

Work is already in progress for additional sites which we will add during 2002, both to extend coverage and provide additional traffic handling capabilities. By mid-2002, the network will be upgraded with 3G (third generation) capabilities. These enhancements will allow us to offer greater data speeds, provide increased capability for both voice and data calls, and allow the network to more easily introduce new wireless applications for both consumer and business markets.

By the end of 2001, the Company had approximately 49,000 Sprint PCS customers, a 111 percent increase from the prior year. We are now selling Sprint PCS services through our eight retail stores and 137 retail outlets provided by third-party distributors. These retail channels are supplemented by a growing direct sales force which focuses on sales to business and non-retail consumers.

[GRAPHIC]      Current Sprint PCS Service Area Provided by Shentel

## Shenandoah Cable Expands Programming and Updates Equipment

During the past year, Shentel made significant improvements to its cable television network and expanded its programming offerings. In an effort to provide better value to customers, five new channels were added and three channels were scheduled to be dropped from the basic cable package. Additionally, optional services were added, including the Fans Choice Package (all sports programming), the Home Life Package, and the Spanish Language Package. The Company also introduced expanded movie packages for HBO, Showtime, and Encore. With these programming changes, customers can now choose from packages that range from twelve channels including the five major networks for as low as $19.95; to plans with 106 viewing channels; 46 CD-quality, commercial-free music channels; 24 digital channels of pay-per-view movies; and sports and special events for only $39.95 per month.

In order to provide the best quality picture for its cable television customers and to reduce interruptions, Shenandoah Cable Television has upgraded its equipment receivers at the headend. In order to reduce television interruptions, major networks are beginning to provide companies like Shentel with receivers that have multiple backup capabilities. With this backup protection, if a signal is lost from one satellite, the program provider can switch to one of two other satellites so that transmission will not be interrupted.

It is a constant challenge to provide our customers with the best service possible and keep up with consumer demand for new program offerings. These improvements in programming and technology have positioned Shentel to continue providing their customers with the best cable service possible and high quality programming at a competitive price.

[PHOTO] Employees Chris Haynes and Eugene Miller check newly installed headend receivers

## Shentel Pages

Shenandoah Telephone Company generates over $1 million in revenue each year through traditional printed Yellow Pages advertising. With more consumers today using Internet and web-based services to research and decide on which products and services they will purchase, we felt it was important to develop an electronic medium to address the changing shopping habits of customers. Shentel Pages was introduced during the fall of 2001 to address this need.

The Shentel Pages web site provides business directory listings for the six-county area of Shenandoah, Frederick, Clarke, Warren, Page, and Rockingham. With this expanded service area there is an even greater

variety of products and services that can be advertised to customers, as well as a broader base of advertisers that could make use of this new advertising approach. Advertising in the Shentel Pages is similar to the ads found in traditional, printed Yellow Pages directories. Even the advertising styles are familiar, with full-page display ads, in-column text and basic listings. But the similarities end there. While printed directories are updated only once a year, Internet directories can be updated anytime the advertiser chooses to change a display ad message. Shentel Pages display ads are single-page web sites that conveniently link to the on-line Yellow Pages listings. Interactive maps help customers locate businesses they would like to visit in person. Advertisers can also include audio and video sales presentations in their Shentel Pages listings, and offer specials and discount coupons.

The Company's team of graphic designers and web developers can design and customize web sites that reflect the expanding needs of businesses and create unique web identities and commercial functionality for businesses of all sizes. All customized web sites are hosted locally in Edinburg, making use of the Company's high quality Internet services.

From on-line business directory listings to custom web sites, Shentel Pages serves a growing, and changing business community where more and more people choose the Internet as a new and better way to shop locally. Shentel Pages can be found at www.shentelpages.com.

Employees Retire With Over 100 Years of Combined Service

Three long-time employees of Shenandoah Telephone Company retired in the early part of 2002, each with over 25 years of service to the Company and its customers. Each of these employees worked in various positions, but retired from the following: Carroll Lambert, Electronic Technician in the Central Office Department; Dot Baker, Accounting Clerk in the Revenue Accounting Department; and, Shelby Hollar, Supervisor of the Communications Center. We appreciate the loyalty and dedication each of these employees had for the Company and wish them the best in their well-deserved retirement.

[PHOTO] Carroll Lambert - 40 Years of Service

[PHOTO] Dot Baker - 36 Years of Service

[PHOTO] Shelby Hollar - 26 Years of Service

Shentel to Complete Fiber Optic Line to Herndon/Dulles

The Company is nearing completion of its second fiber optic route to the Herndon/Dulles area in Northern Virginia. The new fiber route will pass through five counties, and the communities of Front Royal, Marshall, Warrenton, and Manassas, attaching to more than 1,400 telephone poles along the way. The total distance, once constructed, will be 90 miles.

The Northern Virginia area is one of Virginia's largest and fastest growing regions for data traffic, Internet access, and telecommunications technology, and is a hub for technology industries and the Federal Government. There are a number of major carriers and consumers of data traffic located in this area, and through interconnections with other network providers, customers on Shentel's network can fulfill almost any communications need.

With customers demanding uninterrupted service around the clock, alternate fiber routes become increasingly important. For our customers, this means that service over our network will be even more reliable than in the past. These additions to our infrastructure and our diverse facilities now in place guarantee our network can continue to operate without service disruption. Our customers will have a higher level of confidence that when they pick up a telephone, log on to the Internet, or watch cable television, the service will be there.

Impact of Illuminet/VeriSign Merger

The Company's financial results for 2001 included after-tax gains on investments of $8.1 million. Within this total gain, $7.9 million was a non-cash gain resulting from the December 12, 2001 merger between Illuminet Holdings, Inc. and VeriSign, Inc. At the time of the closing of this merger, the Company received 310,158 shares of VeriSign stock, valued at $13.2 million. Subsequent to the merger, the market value of VeriSign's stock had declined and the gain recognized at the time of the merger was offset by approximately $1.4 million in losses recorded in the fourth quarter of 2001. Subsequent declines in VeriSign's stock price in the first quarter of 2002 have contributed to a further reduction in the value of the Company's investment in VeriSign. At the end of 2001, the Company carried its investment in VeriSign at $38.04 per share. Additional losses may be recorded in future periods if VeriSign's stock price remains below $38.04.

The Company's recognition of the gain on exchange of Illuminet shares for VeriSign shares in 2001 was in accordance with generally accepted accounting principles. The Company cautions readers, however, that this is a non-cash gain; and, until the Company sells its stock in VeriSign, the actual total gains or losses realized on this investment may significantly differ.

The Company's current investment in VeriSign is a result of its prior investments in Illuminet's predecessor companies. In total, the Company originally invested $990,000 and has received cash proceeds of $5.3 million from sales of Illuminet stock prior to the exchange for VeriSign shares. Its remaining holdings of 310,158 shares of VeriSign represent 54 percent of the Company's original investment in Illuminet; but, due to the non-cash gain described above, were carried on the books for $11.8 million as of the end of 2001.

Planning Under Way for 100th Anniversary Celebration

On June 9, 2002, Shenandoah Telecommunications Company will reach the 100th anniversary of the incorporation of its predecessor company, The Farmers Mutual Telephone System of Shenandoah County. In honor of this occasion, the Company is planning a series of celebration activities culminating with a public Open House on Sunday, June 9, 2002. The Open House will be held at the Company's offices at 500 Mill Road, Edinburg, VA. This is the former Shenandoah Knitting Mills building in Edinburg, VA, which the Company purchased in 2000. Initially used for storage and limited office space, renovations are currently underway to convert the building into additional office and meeting facilities.

Board of Directors

[PHOTO]

Seated, left to right: James E. Zerkel II, Grover M. Holler, Jr., Christopher E. French, Harold Morrison, Jr., Noel M. Borden.
Standing, left to right: Zane Neff, Douglas C. Arthur, Dick D. Bowman, Ken L. Burch

## Five-Year Summary of Selected Financial Data

(Dollar figures in thousands, except per share data.)

| | 2001 | 2000 | 1999 | 1998 | 1997 |
|---|---|---|---|---|---|
| Operating Revenues | $ 88,715 | $ 60,479 | $ 42,334 | $ 35,496 | $ 30,970 |
| Operating Expenses | $ 66,953 | $ 44,293 | $ 29,793 | $ 24,992 | $ 22,603 |
| Income Taxes | $ 9,961 | $ 5,994 | $ 3,797 | $ 3,599 | $ 2,594 |
| Interest Expenses | $ 4,127 | $ 2,936 | $ 1,951 | $ 1,501 | $ 1,556 |
| Net Income | $ 16,372 | $ 9,855 | $ 6,428 | $ 5,604 | $ 4,480 |
| Net Income from Operations(1) | $ 8,306 | $ 6,329 | $ 6,082 | $ 5,364 | $ 4,531 |
| Total Assets | $ 166,797 | $ 152,293 | $ 133,644 | $ 94,137 | $ 89,408 |
| Long-term Obligations | $ 56,436 | $ 55,487 | $ 33,030 | $ 29,262 | $ 27,361 |
| Shareholder Information | | | | | |
| Number of Shareholders | 3,752 | 3,726 | 3,683 | 3,654 | 3,567 |
| Shares of Stock | 3,765,478 | 3,759,231 | 3,755,760 | 3,755,760 | 3,760,760 |
| Earnings per Share - diluted | $ 4.34 | $ 2.61 | $ 1.71 | $ 1.49 | $ 1.19 |
| Cash Dividend per Share | $ 0.70 | $ 0.66 | $ 0.56 | $ 0.51 | $ 0.43 |

(1) Excludes gains and losses on external investments unaffiliated with operations, and excludes gain on sale of partnership interest in the Virginia RSA 6 cellular operation.

## INDEPENDENT AUDITORS' REPORT

[GRAPHIC] MCGLADREY & PULLEN, LLP
Certified Public Accountants

The Board of Directors and Shareholders
Shenandoah Telecommunications Company
Edinburg, Virginia

We have audited the accompanying consolidated balance sheets of Shenandoah Telecommunications Company and Subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and comprehensive income (loss), and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Telecommunications Company and Subsidiaries as of December 31, 2000 and 1999, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ McGladrey & Pullen, LLP

Richmond, Virginia
January 26, 2001

# INDEPENDENT AUDITORS' REPORT

KPMG

The Board of Directors and Shareholders
Shenandoah Telecommunications Company:

We have audited the accompanying consolidated balance sheet of Shenandoah Telecommunications Company and subsidiaries, (the Company) as of December 31, 2001, and the related consolidated statements of income, shareholders' equity and comprehensive income (loss), and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the 2001 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Telecommunications Company and subsidiaries as of December 31, 2001, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Richmond, Virginia
February 1, 2002

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2001, 2000 and 1999
in thousands

| ASSETS (Note 4) | 2001 | 2000 | 1999 |
|---|---|---|---|
| Current Assets | | | |
| Cash and cash equivalents | $ 2,173 | $ 3,133 | $ 7,156 |
| Accounts receivable (Note 6) | 8,498 | 7,320 | 5,511 |
| Income taxes receivable | 1,205 | 2,052 | -- |
| Materials and supplies | 2,999 | 2,856 | 4,089 |
| Prepaid expenses and other | 1,159 | 854 | 544 |
| Total current assets | 16,034 | 16,215 | 17,300 |
| Securities and Investments (Notes 2 and 7) | | | |
| Available-for-sale securities | 12,025 | 11,771 | 30,719 |
| Other investments | 6,438 | 6,996 | 5,094 |
| Total securities and investments | 18,463 | 18,767 | 35,813 |
| Property, Plant and Equipment | | | |
| Plant in service (Note 3) | 160,325 | 122,750 | 99,822 |
| Plant under construction | 14,961 | 29,350 | 9,134 |
| | 175,286 | 152,100 | 108,956 |
| Less accumulated depreciation | 47,182 | 40,292 | 34,407 |
| Net property, plant and equipment | 128,104 | 111,808 | 74,549 |
| Other assets | | | |
| Cost in excess of net assets of business acquired | 5,630 | 5,630 | 5,630 |
| Deferred charges and other assets | 979 | 436 | 590 |
| Radio spectrum license | -- | 1,341 | 1,341 |
| | 6,609 | 7,407 | 7,561 |
| Less accumulated amortization | 2,413 | 1,904 | 1,579 |
| Net other assets | 4,196 | 5,503 | 5,982 |
| Total assets | $166,797 | $152,293 | $133,644 |

See accompanying notes to consolidated financial statements.

(Continued)

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2001, 2000 and 1999
in thousands

| LIABILITIES AND SHAREHOLDERS' EQUITY | 2001 | 2000 | 1999 |
|---|---|---|---|
| Current Liabilities | | | |
| Current maturities of long-term debt (Note 4) | $ 4,387 | $ 2,403 | $ 1,341 |
| Revolving line of credit (Note 4) | 6,200 | -- | -- |
| Accounts payable (Note 6) | 5,394 | 9,654 | 2,789 |
| Advance billings and customer deposits | 2,889 | 1,577 | 990 |
| Refundable equipment payment (Note 6) | -- | 3,871 | 3,871 |
| Accrued compensation | 1,084 | 996 | 947 |
| Other current liabilities | 1,687 | 1,838 | 950 |
| Income taxes payable | -- | -- | 740 |
| Total current liabilities | 21,641 | 20,339 | 11,628 |
| Long-term debt, less current maturities (Note 4) | 52,049 | 53,084 | 31,689 |
| Other Liabilities | | | |
| Deferred income taxes (Note 5) | 14,402 | 9,218 | 16,062 |
| Pension and other (Note 8) | 2,265 | 1,602 | 1,530 |
| Total other liabilities | 16,667 | 10,820 | 17,592 |
| Minority Interests | 1,838 | 1,715 | 2,460 |
| Commitments and Contingencies (Notes 2, 4, 5, 6, 8, 11 and 12) | | | |
| Shareholders' Equity (Notes 4 and 9) | | | |
| Common stock, no par value, authorized 8,000 shares; issued and outstanding, 3,765 shares in 2001, 3,759 shares in 2000, and 3,756 shares in 1999 | 4,950 | 4,817 | 4,734 |
| Retained earnings | 69,610 | 55,873 | 48,499 |
| Accumulated other comprehensive income (Note 2) | 42 | 5,645 | 17,042 |
| Total shareholders' equity | 74,602 | 66,335 | 70,275 |
| Total liabilities and shareholders' equity | $166,797 | $152,293 | $133,644 |

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2001, 2000 and 1999
in thousands, except per share amounts

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Operating revenues: | | | |
| Wireless (Note 6) | $ 56,144 | $ 30,964 | $ 17,114 |
| Wireline | 27,468 | 24,480 | 21,634 |
| Other | 5,103 | 5,035 | 3,586 |
| Total operating revenues | 88,715 | 60,479 | 42,334 |
| Operating expenses: | | | |
| Cost of goods and services | 7,612 | 6,074 | 3,013 |
| Network operating costs | 29,949 | 18,477 | 11,083 |
| Depreciation and amortization | 11,834 | 7,318 | 6,712 |
| Selling, general and administrative | 17,558 | 12,424 | 8,985 |
| Total operating expenses | 66,953 | 44,293 | 29,793 |
| Operating income | 21,762 | 16,186 | 12,541 |
| Other income (expense): | | | |
| Non-operating income, net | 281 | 76 | 1,043 |
| Interest expense | (4,127) | (2,936) | (1,951) |
| Net gain on investments (Note 2) | 12,943 | 5,602 | 555 |
| | 9,097 | 2,742 | (353) |
| Income before income taxes and minority interest | 30,859 | 18,928 | 12,188 |
| Income tax provision (Note 5) | 9,961 | 5,994 | 3,797 |
| | 20,898 | 12,934 | 8,391 |
| Minority interest | 4,526 | 3,079 | 1,963 |
| Net income | $ 16,372 | $ 9,855 | $ 6,428 |
| Net earnings per share, basic | $ 4.35 | $ 2.62 | $ 1.71 |
| Net earnings per share, diluted | $ 4.34 | $ 2.61 | $ 1.71 |
| Cash dividends per share | $ 0.70 | $ 0.66 | $ 0.56 |
| Weighted average shares outstanding, basic | 3,761 | 3,757 | 3,756 |
| Weighted average shares outstanding, diluted | 3,774 | 3,771 | 3,756 |

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME (LOSS)
Years Ended December 31, 2001, 2000 and 1999
in thousands, except per share amounts

| | Shares | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income | Total |
|---|---|---|---|---|---|
| Balance, January 1, 1999 | 3,756 | $4,734 | $ 44,174 | $ 639 | $ 49,547 |
| Comprehensive income: | | | | | |
| Net income | -- | -- | 6,428 | -- | 6,428 |
| Net unrealized change in securities available-for-sale, net of tax of ($10,079) | -- | -- | -- | 16,403 | 16,403 |
| Total comprehensive income | | | | | 22,831 |
| Dividends declared ($0.56 per share) | -- | -- | (2,103) | -- | (2,103) |
| Balance, December 31, 1999 | 3,756 | 4,734 | 48,499 | 17,042 | 70,275 |
| Comprehensive income: | | | | | |
| Net income | -- | -- | 9,855 | -- | 9,855 |
| Net unrealized change in securities available-for-sale, net of tax of $6,974 | -- | -- | -- | (11,397) | (11,397) |
| Total comprehensive loss | | | | | (1,542) |
| Dividends declared ($0.66 per share) | -- | -- | (2,481) | -- | (2,481) |
| Common stock issued through exercise of incentive stock options | 3 | 83 | -- | -- | 83 |
| Balance, December 31, 2000 | 3,759 | 4,817 | 55,873 | 5,645 | 66,335 |
| Comprehensive income: | | | | | |
| Net income | -- | -- | 16,372 | -- | 16,372 |
| Net unrealized change in securities available-for-sale, net of tax of $3,482 | -- | -- | -- | (5,603) | (5,603) |
| Total comprehensive income | | | | | 10,769 |
| Dividends declared ($0.70 per share) | -- | -- | (2,635) | -- | (2,635) |
| Common stock issued through exercise of incentive stock options | 6 | 133 | -- | -- | 133 |
| Balance, December 31, 2001 | 3,765 | $4,950 | $ 69,610 | $ 42 | $ 74,602 |

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2001, 2000 and 1999
in thousands

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash Flows from Operating Activities | | | |
| Net income | $ 16,372 | $ 9,855 | $ 6,428 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 11,111 | 6,993 | 6,216 |
| Amortization | 723 | 325 | 496 |
| Deferred tax charges (benefit) | 8,666 | 130 | (758) |
| Loss on disposal of assets | 506 | 15 | 1 |
| Net (gain) loss on disposal of investments | (14,162) | (5,178) | -- |
| Net (gain) loss from patronage and equity investments | 789 | (975) | (1,154) |
| Minority interest, net of distributions | 123 | (745) | 195 |
| Other | 987 | 263 | (70) |
| Changes in assets and liabilities: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable | (1,502) | (787) | (646) |
| Materials and supplies | (143) | 1,233 | (601) |
| Increase (decrease) in: | | | |
| Accounts payable | (4,260) | 5,518 | 1,047 |
| Other prepaids, deferrals and accruals | (2,454) | (1,444) | 4,851 |
| Net cash provided by operating activities | 16,756 | 15,203 | 16,005 |
| Cash Flows From Investing Activities | | | |
| Purchase and construction of plant and equipment, net of retirements | (28,395) | (44,267) | (15,731) |
| Purchase of radio spectrum license | -- | -- | (607) |
| Purchase of investment securities | (1,250) | (2,787) | (581) |
| Proceeds from sale of equipment | 482 | -- | -- |
| Proceeds from sale of radio spectrum license | 1,133 | -- | -- |
| Proceeds from sale of securities (Note 2) | 5,842 | 7,615 | 1,503 |
| Other, net | -- | 154 | 11 |
| Net cash used in investing activities | (22,188) | (39,285) | (15,405) |

(Continued)

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2001, 2000 and 1999
in thousands

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Cash Flows From Financing Activities | | | |
| Proceeds from issuance of long-term debt | $ 24,641 | $ 24,120 | $ 4,598 |
| Principal payments on long-term debt | (23,692) | (1,663) | (830) |
| Net proceeds from line of credit | 6,200 | -- | -- |
| Debt issuance costs | (175) | -- | -- |
| Dividends paid | (2,635) | (2,481) | (2,103) |
| Proceeds from exercise of incentive stock options | 133 | 83 | -- |
| Net cash provided by financing activities | 4,472 | 20,059 | 1,665 |
| Net increase (decrease) in cash and cash equivalents | (960) | (4,023) | 2,265 |
| Cash and cash equivalents: | | | |
| Beginning | 3,133 | 7,156 | 4,891 |
| Ending | $ 2,173 | $ 3,133 | $ 7,156 |
| Supplemental Disclosures of Cash Flow Information | | | |
| Cash payments for: | | | |
| Interest, net of capitalized interest of $134 in 2001; $301 in 2000; $229 in 1999 | $ 4,217 | $ 3,057 | $ 2,132 |
| Income taxes | $ 506 | $ 8,656 | $ 3,519 |

Non-cash transactions:

The Company received 310,158 shares of VeriSign Inc. common stock in exchange for 333,504 shares of Illuminet Holdings, Inc. stock as a result of the merger of the two entities.

The Company completed the sale of its GSM network equipment in January 2001, for approximately $6.5 million of which approximately $4.9 million was escrowed as part of a like-kind exchange transaction. The escrowed funds were disbursed as new equipment was received during the first six months of 2001.

See accompanying notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Description of business: Shenandoah Telecommunications Company and subsidiaries (the "Company") provides telephone service, wireless personal communications service (PCS) under the Sprint brand name, cellular telephone, cable television, unregulated communications equipment sales and services, Internet access, and paging services. In addition, through its subsidiaries, the Company leases towers and operates and maintains an interstate fiber optic network. The Company's operations are located in the four state region surrounding the Northern Shenandoah Valley of Virginia. Operations follow the Interstate 81 corridor, through West Virginia, Maryland and into South-Central Pennsylvania. The Company is the exclusive Sprint PCS Network Partner providing wireless mobility communications network products and services in the geographic area extending from Altoona, Harrisburg and York, Pennsylvania, south through Western Maryland, and the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is licensed to use the Sprint brand name in this territory, and operates its network under the Sprint radio spectrum license (see Note 6). A summary of the Company's significant accounting policies follows:

Principles of consolidation: The consolidated financial statements include the accounts of all wholly-owned subsidiaries and other entities where effective control is exercised. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management reviews its estimates, including those related to recoverability and useful lives of assets as well as liabilities of income taxes and pension benefits. Changes in facts and circumstances may result in revised estimates or actual results could differ from those reported estimates.

Cash and cash equivalents: The Company considers all temporary cash investments with a purchased maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. At times, these investments may be in excess of FDIC insurance limits. Cash equivalents in thousands, at December 31, 2001, 2000 and 1999 were $2,173, $3,133, and $7,156, respectively.

Accounts receivable: The Company grants credit and terms to customers in accordance with standard industry practices. Accounts receivable are concentrated among customers within the Company's geographic service area and large telecommunications companies. The Company's reserve for uncollectible receivables was $666 thousand, $343 thousand and $16 thousand at December 31, 2001, 2000 and 1999, respectively.

Securities and investments: The classification of debt and equity securities is determined by management at the date individual investments are acquired. The appropriateness of such classification is continually reassessed. The Company monitors the fair value of all investments, and based on factors such as market conditions, financial information and industry conditions, the Company will reflect impairments in values as is warranted. The classification of those securities and the related accounting policies are as follows:

Available-for-Sale Securities: Debt and equity securities classified as available-for-sale consist of securities which the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including changes in market conditions, liquidity needs and similar criteria. Available-for-sale securities are recorded at fair value as determined by quoted market prices. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reportable as a separate component of other comprehensive income until realized. Realized gains and losses are determined on a specific identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

Investments Carried at Cost: Investments in which the Company does not have a significant ownership (less than 20%) and for which there is no ready market, are carried at cost. Information regarding investments carried at cost is reviewed continuously for evidence of impairment in value. Impairments are charged to earnings and a new cost basis for the investment is established.

Equity Method Investments: Investments in partnerships and investments in unconsolidated corporations where the Company's ownership is 20% or more are reported under the equity method. Under this method, the Company's equity in earnings or losses of investees is reflected in net income. Distributions received reduce the carrying value of these investments. The Company would recognize a loss when there is a decline in value in the investment which is other than a temporary decline.

Materials and supplies: New and reusable materials are carried in inventory principally at average original cost. Individual significant items are stated at actual cost. Non-reusable material is carried at estimated salvage value.

Property, plant and equipment: Property, plant and equipment is stated at cost. The Company capitalizes all costs associated with the purchase, deployment and installment of property, plant and equipment, including interest on major capital projects during the period of their construction. Expenditures, including those on leased assets, that extend the useful life or increase its utility are capitalized. Maintenance expense is recognized when repairs are performed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation expense was approximately 7.9%, 6.3% and 6.1% of average depreciable assets for the years 2001, 2000 and 1999, respectively. Depreciation lives are assigned to assets based on their estimated useful lives in conjunction with industry and regulatory guidelines, where applicable. Such lives, while similar, may exceed the lives that would have been used if the Company did not operate certain segments of the business in a regulated environment. The Company takes technology changes into consideration as it assigns the estimated useful lives, and monitors the remaining useful lives of asset groups to reasonably match the remaining economic life with the useful life and makes adjustments where necessary.

Cost in excess of net assets of business acquired: Intangible assets, which represent the cost in excess of identifiable net assets of businesses acquired, are amortized on a straight-line basis over the expected periods to be benefited, generally 15 years. The Company assesses the recoverability of this intangible asset by determining whether the amortization of the goodwill balance over its remaining useful life can be recovered through the undiscounted future operating cash flows of the acquired operation. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting the Company's average cost of funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Retirement plans: The Company maintains a noncontributory defined benefit plan covering substantially all employees. Pension benefits are based primarily on the employee's compensation and years of service. The Company's policy is to fund the maximum allowable contribution calculated under federal income tax regulations. The Company also maintains a defined contribution plan under which substantially all employees may defer a portion of their earnings on a pretax basis, up to the allowable federal maximum. The Company may make matching and discretionary contributions to this plan. Neither plan holds stock of the Company in the respective portfolios.

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.

Revenue recognition: Revenues are recognized by the Company based on the various types of transactions generating the revenue. For equipment sales, revenue is recognized when the sales transaction is complete. For services, revenue is recognized when it is earned. Beginning in 2000, coinciding with the inception of activation fees in its PCS segment, 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, which is generally 30 months. The amounts of deferred revenue at December 31, 2001 and 2000 were $1.2 million and $0.4 million, respectively. The deferred costs at December 31, 2001 and 2000 were $0.7 million and $0.3 million, respectively.

Stock Option Plan: To account for its fixed plan stock options, the Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations including Financial Accounting Standards Board (FASB) Interpretation No. 44 "Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25" issued in March 2000. Under

this method, compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. Statements of Financial Accounting Standards (SFAS) No. 123 "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123.

Earnings per share: Basic earnings per share were computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted earnings per share were computed under the treasury stock method, assuming the conversion, as of the beginning of the year, of all dilutive stock options. In 2001 and 2000, all options were dilutive except the grants made in 2000. There were no adjustments to net income in the computation of diluted earnings per share for any of the years presented. All stock options outstanding for 1999 were antidilutive; therefore, basic and diluted earnings per share are the same for that year. The following tables show the computation of basic and diluted earnings per share for 2001, 2000 and 1999:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Basic earnings per share | | | |
| Net income | $ 16,372 | $ 9,855 | $6,428 |
| Weighted average shares outstanding | 3,761 | 3,757 | 3,756 |
| Basic earnings per share | $ 4.35 | $ 2.62 | $ 1.71 |
| Effect of stock options outstanding: | | | |
| Weighted average shares outstanding | 3,761 | 3,757 | 3,756 |
| Assumed exercise of options at strike price at beginning of year | 52 | 40 | -- |
| Assumed repurchase of options under treasury stock method | (39) | (26) | -- |
| Diluted weighted average shares outstanding | 3,774 | 3,771 | 3,756 |
| Diluted earnings per share | $ 4.34 | $ 2.61 | $ 1.71 |

Recently Issued Accounting Standards: In June 2001, the FASB issued SFAS No. 141, "Business Combinations." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations transacted after June 30, 2001. SFAS No. 141 also specifies criteria that intangible assets acquired in a business combination must meet to be recognized and reported separately from goodwill. The Company adopted SFAS No.141 as of July 1, 2001, but the impact of such adoption did not have an effect on the Company's consolidated financial statements.

In June 2001, the FASB also issued SFAS No.142, "Goodwill and Other Intangible Assets," which eliminates amortization of goodwill and intangible assets that have indefinite useful lives and requires annual tests of impairment of those assets. SFAS No. 142 also provides specific guidance about how to determine and measure goodwill and intangible asset impairments, and requires additional disclosures of information about goodwill and other intangible assets. The provisions of SFAS No. 142 are required to be applied starting with fiscal years beginning after December 15, 2001 and applied to all goodwill and other intangible assets recognized in financial statements at that date. In connection with SFAS No. 142 transitional goodwill impairment evaluation, the Statement requires the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company must identify its reporting units and determine the carrying value of each unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002.

The Company will then have six months from January 1, 2002 to determine the fair value of each reporting unit and compare it to the carrying value of the reporting unit. If the fair value of the reporting unit is less than the carrying value including the reporting unit goodwill, the Company must perform a second step of the transitional impairment test. The second step is to be completed as soon as possible but no later than the end of the year of adoption. In the second step, the Company must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The fair value of the goodwill is determined by allocating the fair value of the reporting unit to all the assets (recognized and unrecognized) and the liabilities of the reporting unit in a manner

similar to the approach used in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in the Company's statement of income.

Goodwill amortization expense was $360 thousand per year for 2001, 2000 and 1999 and the unamortized goodwill as of December 31, 2001 was approximately $3.2 million. Management does not anticipate the adoption of SFAS No. 142 will materially impact the consolidated financial statements of the Company.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003. The Company is currently evaluating the timing of adoption and the effect that implementation of the new standard may have on its results of operations and financial position.

In August 2001, the FASB issued SFAS No. 144,"Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. SFAS No. 144 requires companies to separately report discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs of sale. The Company was required to adopt SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 is not expected to materially impact the Company's results of operations and financial position.

Reclassifications: Certain amounts reported in the 2000 and 1999 financial statements have been reclassified to conform with the 2001 presentation, with no affect on net income or shareholders' equity.

Note 2. Securities and Investments

Available-for-sale securities at December 31 consist of the following:

| | Cost | Gross Unrealized Holding Gains | Gross Unrealized Holding Losses | Fair Value |
|---|---|---|---|---|
| | | (in thousands) | | |
| **2001** | | | | |
| VeriSign, Inc. | $11,798 | $ -- | $ -- | $11,798 |
| Deutsche Telekom, AG | 85 | 10 | -- | 95 |
| Other | 74 | 58 | -- | 132 |
| | $11,957 | $ 68 | $ -- | $12,025 |
| **2000** | | | | |
| Loral Space and Communications, LTD | $ 885 | $ -- | $ 406 | $ 479 |
| Illuminet Holdings, Inc. | 844 | 9,783 | -- | 10,627 |
| ITC^DeltaCom, Inc. | 715 | -- | 381 | 334 |
| Other | 174 | 157 | -- | 331 |
| | $ 2,618 | $ 9,940 | $ 787 | $11,771 |
| **1999** | | | | |
| Loral Space and Communications, LTD | $ 1,636 | $ 2,019 | $ -- | $ 3,655 |
| Illuminet Holdings, Inc. | 844 | 24,658 | -- | 25,502 |
| ITC^DeltaCom, Inc. | 715 | 847 | -- | 1,562 |
| | $ 3,195 | $27,524 | $ -- | $30,719 |

During 2001, the Company liquidated its holdings of Loral Space and Communications, LTD and ITC^DeltaCom, Inc. for proceeds of $0.2 million and a realized loss of $1.4 million. Additionally, the Company sold 130,000 shares of Illuminet Holdings, Inc. (Illuminet) for proceeds of $5.3 million and a realized gain of $5.0 million. In September 2001, the Company was notified by Illuminet that VeriSign, Inc. (VeriSign) made an offer to acquire Illuminet. The Company decided to accept the VeriSign stock for the Illuminet investment. The Company received VeriSign stock valued at $13.2 million, and based on the fair value of the new asset received, recorded a realized gain of $12.7 million on the transaction through net gain on investments in the other income (expense) section of the income statement. Subsequent to the close of the transaction, the VeriSign stock declined in value and the Company recognized an impairment of $1.5 million, as management viewed the decline to be other than temporary.

Gross realized gains on available-for-sale securities included in income in 2001 were $17.7 million. There were none in 2000 or 1999. Gross realized losses included in income in 2001 and 2000 were $3.0 million, $0.7 million, respectively. There were none in 1999.

Note 2. Securities and Investments (Continued)

Changes in the unrealized gains on available-for-sale securities during the years ended December 31, 2001, 2000, and 1999 reported as a separate component of shareholders' equity are as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| | (in thousands) | | |
| Beginning Balance | $ 9,153 | $ 27,524 | $ 1,042 |
| Unrealized holding gains (losses) during the year, net | 5,615 | (19,118) | 26,482 |
| Reclassification of recognized (gain) losses during the year, net | (14,700) | 747 | -- |
| | 68 | 9,153 | 27,524 |
| Deferred tax effect related to net unrealized gains | 26 | 3,508 | 10,482 |
| Ending Balance | $ 42 | $ 5,645 | $17,042 |

As of December 31, other investments, comprised of equity securities, (except as noted) which do not have readily determinable fair values, consist of the following:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| | (in thousands) | | |
| Rural Telephone Bank | 796 | 771 | 653 |
| NECA Services, Inc. | 500 | 500 | -- |
| CoBank | 768 | 411 | 202 |
| NTC Communications (Convertible debt) | 500 | -- | -- |
| Concept Five Technologies | -- | 635 | 1,335 |
| Coriss.net | -- | -- | 250 |
| Other | 254 | 283 | 318 |
| | 2,818 | 2,600 | 2,758 |
| Equity method: | | | |
| South Atlantic Venture Fund III L.P. | 393 | 749 | 672 |
| South Atlantic Private Equity Fund IV L.P. | 891 | 1,140 | 822 |
| Dolphin Communications Parallel Fund, L.P. | 441 | 844 | 171 |
| Dolphin Communications Fund II, L.P. | 518 | 318 | -- |
| Burton Partnership | 970 | 1,000 | -- |
| Virginia Independent Telephone Alliance | 400 | 326 | 328 |
| Virginia Rural Service Area 6 | -- | -- | 318 |
| ValleyNet | 7 | 19 | 25 |
| | 3,620 | 4,396 | 2,336 |
| | $ 6,438 | $ 6,996 | $ 5,094 |

During 2001, the Company recognized a loss of $635 thousand on the liquidation of Concept Five Technologies. The Company invested $357 thousand in additional capital in CoBank as a result of its new traunch of long-term debt obtained in 2001. Additionally, the Company invested $500 thousand in NTC Communications which provides telecommunications facilities and services to student housing facilities near college and university campuses.

During 2000, the Company sold its limited interest in Virginia Rural Service Area 6 Cellular Partnership for $7.4 million. As a result, the Company recorded a one time pre-tax gain of $6.9 million on the sale.

Note 2. Securities and Investments (Continued)

The Company has committed to invest an additional $3.9 million in various equity method investees pursuant to capital calls from the fund managers. It is not practical to estimate the fair value of the other investments due to their limited market and restrictive nature of their transferability.

The Company's ownership interests in Virginia Independent Telephone Alliance and ValleyNet are approximately 22% and 20%, respectively. Other equity method investees are investment limited partnerships which are approximately 2% owned each.

Note 3. Plant in Service

Plant in service consists of the following at December 31:

| | Estimated Useful Lives | 2001 | 2000 | 1999 |
|---|---|---|---|---|
| | | (in thousands) | | |
| Land | | $ 775 | $ 757 | $ 578 |
| Buildings and structures | 15-40 years | 20,437 | 18,941 | 11,536 |
| Cable and wire | 15-50 years | 45,188 | 41,668 | 41,240 |
| Equipment | 5-16.6 years | 93,925 | 61,384 | 46,468 |
| | | $160,325 | $122,750 | $99,822 |

Note 4. Long-Term Debt and Revolving Lines of Credit

Total debt consists of the following at December 31:

| | | Weighted Average Interest Rate | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Rural Telephone Bank (RTB) | Fixed | 6.74% | $ 11,428 | $ 11,634 | $ 9,814 |
| Rural Utilities Service (RUS) | Fixed | 4.17% | 224 | 295 | 382 |
| CoBank (term portion) | Fixed | 7.58% | 44,584 | 23,637 | 22,634 |
| CoBank 2-year (revolver) | Variable | 5.14%-7.75% | -- | 19,721 | -- |
| RUS Development Loan | | interest free | 200 | 200 | 200 |
| | | | 56,436 | 55,487 | 33,030 |
| Current maturities | | | 4,387 | 2,403 | 1,341 |
| Total long-term debt | | | $ 52,049 | $ 53,084 | $31,689 |
| CoBank 1-year Revolver | Variable | 3.37%-5.03% | $ 6,200 | $ -- | $ -- |

The RTB loans are payable $70 thousand monthly and $225 thousand quarterly, including interest. RUS loans are payable $24 thousand monthly, including interest. The RUS and RTB loan facilities have maturities through 2019. The CoBank term facility requires monthly payments of $600 thousand, including interest. The final maturity of the CoBank facility is 2013.

The CoBank revolver is a $35.0 million facility expiring on June 30, 2002, with interest due monthly. The Company is evaluating financing alternatives in relation to this revolver facility, including converting portions of the revolver into a long-term financing facility, or establishing a new revolver for the future. At December 31, 2001 the balance outstanding was $6.2 million, with $28.8 million available on the facility. The Company is required to pay a commitment fee of 12.5 basis points (annual rate) multiplied by the unused balance of the facility at each month end.

Note 4. Long-Term Debt and Revolving Lines of Credit (Continued)

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2001 are as follows:

| Year | Amount |
|---|---|
| 2002 | $ 4,387 |
| 2003 | 4,482 |
| 2004 | 4,643 |
| 2005 | 4,816 |
| 2006 | 5,006 |
| Later years | 33,102 |
| | $ 56,436 |

Substantially all of the Company's assets serve as collateral for the long-term debt. The long-term debt agreements have certain financial and capital measures that the Company must maintain. These requirements include maintenance of defined working capital levels, restrictions on dividends and capital stock repurchases. The covenants also require the Company to maintain certain levels of debt service coverage to be in compliance with the loan agreements. The Company was in compliance with all financial requirements of the loan agreements as of December 31, 2001.

The estimated fair value of fixed rate debt instruments as of December 31, 2001 and 2000 was $57.1 million and $36.2 million, respectively, determined by discounting the future cash flows of each instrument at rates offered for similar debt instruments of comparable maturities as of the respective year end dates.

As of December 31, 2001, the Company had a $2.0 million revolving line of credit available from a bank. The Company accesses this facility for short term variations in liquidity, and anticipates renewing this facility before it expires in June 2002. There are no commitment fees related to this facility. There was no balance outstanding as of December 31, 2001.

All other financial instruments presented on the consolidated balance sheets approximate fair value. They include, cash and cash equivalents, receivables, prepaid expenses, other assets, investments, payables, and accrued liabilities.

Note 5. Income Taxes

Total income taxes for the years ended December 31, 2001, 2000 and 1999 were allocated as follows:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| | (in thousands) | | |
| Income from continuing operations | $ 9,961 | $ 5,994 | $ 3,797 |
| Accumulated other comprehensive income for unrealized holding gains on equity securities | (3,482) | (6,974) | 10,079 |
| | $ 6,479 | $ (980) | $136,876 |

Note 5. Income Taxes (Continued)

The Company and its subsidiaries file income tax returns in several jurisdictions. The provision for the federal and state income taxes included in the consolidated statements of income consists of the following components:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | (in thousands) | | |
| Current provision | | | |
| Federal taxes | $ 1,091 | $ 4,870 | $ 3,835 |
| State taxes | 204 | 994 | 720 |
| Total current provision | 1,295 | 5,864 | 4,555 |
| Deferred provision | | | |
| Federal taxes | 7,296 | 108 | (636) |
| State taxes | 1,370 | 22 | (122) |
| Total deferred provision | 8,666 | 130 | (758) |
| Income tax provision | $ 9,961 | $ 5,994 | $ 3,797 |

A reconciliation of income taxes determined by applying the U.S. Federal tax rate of 34% to pretax income is as follows:

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2001 | 2000 | 1999 |
| | (in thousands) | | |
| Computed "expected" tax expense | $ 8,953 | $ 5,389 | $ 3,477 |
| State income taxes, net of federal tax benefit | 525 | 405 | 1,043 |
| Other, net | (35) | 80 | (85) |
| Income tax provision | $ 9,961 | $ 5,994 | $ 3,797 |

Net deferred tax liabilities consist of the following at December 31:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| | (in thousands) | | |
| Deferred tax assets: | | | |
| Recognized investment impairment losses | $ -- | $ 658 | $ -- |
| Accrued compensation costs | 149 | 136 | 136 |
| Accrued pension costs | 397 | 367 | 361 |
| Other, net | 426 | 215 | -- |
| | 972 | 1,376 | 497 |
| Deferred tax liabilities: | | | |
| Plant-in-service | 11,313 | 7,086 | 6,063 |
| Unrealized gain on investments | 26 | 3,508 | 10,482 |
| Recognized gain on investments, net | 4,035 | -- | -- |
| Other, net | -- | -- | 14 |
| | 15,374 | 10,594 | 16,559 |
| Net deferred tax liabilities | $ 14,402 | $ 9,218 | $ 16,062 |

Note 5.  Income Taxes (Continued)

In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets are deductible, management believes it is more likely than not the Company will realize the benefits of these deductible differences.

Note 6.  Significant Contractual Relationship

In 1999, the Company executed a Management Agreement (the "Agreement") with Sprint PCS ("Sprint") whereby the Company committed to construct and operate a PCS network using CDMA air interface technology, replacing an earlier PCS network based on GSM technology. Under this Agreement, the Company is the exclusive Sprint PCS Network Partner providing wireless mobility communications network products and services in its territory which extends from Altoona, Harrisburg and York, Pennsylvania, south through Western Maryland, and the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is authorized to use the Sprint brand name in its territory, and operate its network under the Sprint radio spectrum license.

As a Sprint PCS Network Partner, the Company has the exclusive right to build, own and maintain its portion of Sprint's nationwide PCS network in the aforementioned areas, to Sprint's specifications. The initial term of the agreement is for 20 years and is automatically renewable for three 10-year options, unless terminated by either party under provisions outlined in the Agreement. The Company complied with its network contractual build-out obligations in 2001, and currently projects to spend $18 million in 2002 to expand and improve the network and to provide appropriate 3G technology service to its subscribers.

The PCS market is characterized by significant risks as a result of rapid changes in technology, increasing competition and the cost associated with the build-out and enhancement of Sprint's nationwide PCS network. The Company's PCS subsidiary's continued operations are dependent upon Sprint's ability to execute certain functions like billing, customer care, collections and other operating activities under the Company's Sprint Agreements. Additionally, the Company's ability to attract and maintain a sufficient customer base is critical to maintaining a positive cash flow from operations. Changes in technology, increased competition, or economic conditions, individually and or collectively, could have an adverse effect on the Company's financial position and results of operations.

Sprint retains 8% of all collected service revenue from subscribers with their service home in the Company's territory. Additionally, Sprint retains 8% of the roaming revenue generated by non-Sprint wireless subscribers who use the Company's network.

The Company receives and pays travel fees for inter-market usage of the network by Sprint wireless subscribers not homed in a market in which they may use the service. Sprint and its affiliates pay the Company for the use of its network by their wireless subscribers, while the Company pays Sprint and its affiliates reciprocal fees for Company subscribers using other segments of the network not operated by the Company. The rates paid on inter-market travel have been reduced during 2001 from $0.20 per minute through April 30, 2001, $0.15 through September 30, 2001, and $0.12 through December 31, 2001 to $0.10 per minute as of January 1, 2002. The $0.10 rate will apply for the full year of 2002, with future travel rates yet to be determined.

As part of the Agreement executed in 1999, the Company received $3.9 million from Sprint as an advance payment for the Company's expenditures in building the initial CDMA network. These funds were recorded as a refundable equipment payment to be repaid following the sale of the Company's original GSM PCS network assets. In January 2001, the Company sold its GSM network assets to VoiceStream and its affiliates for $6.5 million which equaled the carrying value of the assets. The transaction included the GSM equipment and the radio spectrum licenses for two areas in the western part of Virginia. As a result of the sale of the assets, and per the Agreement, the Company refunded the $3.9 million payment to Sprint in early 2001.

Note 7. Related Party Transactions

ValleyNet, an equity method investee of the Company, resells capacity on the Company's fiber network under an operating lease agreement. Facility lease revenue from ValleyNet was approximately $4.1 million, $3.1 million, and $1.6 million in 2001, 2000, and 1999, respectively. At December 31, 2001, the Company had accounts receivable from ValleyNet of approximately $0.4 million.

Several of the Company's operating subsidiaries lease capacity through ValleyNet fiber facilities. These subsidiaries include the PCS and Mobile Companies. Payment for usage of these facilities was $1.2 million in 2001, $0.7 million in 2000, and $0.2 million in 1999 for the PCS Company. The Mobile Company similarly incurred costs of $13 thousand in 2001, $13 thousand in 2000, and $8 thousand in 1999.

Note 8. Retirement Plans

The Company maintains a noncontributory defined benefit pension plan and a separate defined contribution plan. The following table presents the defined benefit plan's funded status and amounts recognized in the Company's consolidated balance sheets.

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| | | (in thousands) | |
| Change in benefit obligation: | | | |
| Benefit obligation, beginning | $ 6,847 | $ 6,004 | $ 6,434 |
| Service cost | 313 | 277 | 321 |
| Interest cost | 507 | 460 | 429 |
| Actuarial (gain) loss | 1,054 | 95 | (1,032) |
| Benefits paid | (183) | (160) | (148) |
| Change in plan provisions | -- | 171 | -- |
| Benefit obligation, ending | 8,538 | 6,847 | 6,004 |
| Change in plan assets: | | | |
| Fair value of plan assets, beginning | 8,081 | 7,967 | 6,875 |
| Actual return on plan assets | (523) | 274 | 1,241 |
| Benefits paid | (183) | (160) | (149) |
| Fair value of plan assets, ending | 7,375 | 8,081 | 7,967 |
| Funded status | (1,163) | 1,234 | 1,963 |
| Unrecognized net gain | (124) | (2,442) | (3,035) |
| Unrecognized prior service cost | 315 | 346 | 196 |
| Unrecognized net transition asset | (67) | (96) | (124) |
| Accrued benefit cost | $(1,039) | $ (958) | $(1,000) |

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Components of net periodic benefit costs: | | (in thousands) | |
| Service cost | $ 313 | $ 277 | $ 321 |
| Interest cost | 507 | 460 | 429 |
| Expected return on plan assets | (640) | (632) | (544) |
| Amortization of prior service costs | 31 | 21 | 21 |
| Amortization of net gain | (102) | (140) | (39) |
| Amortization of net transition asset | (29) | (29) | (28) |
| Net periodic benefit cost | $ 80 | $ (43) | $ 160 |

Note 8. Retirement Plans (Continued)

Weighted average assumptions used by the Company in the determination of pension plan information consisted of the following at December 31:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Discount rate | 7.00% | 7.50% | 7.75% |
| Rate of increase in compensation levels | 5.00% | 5.00% | 5.00% |
| Expected long-term rate of return on plan assets | 8.00% | 8.00% | 8.00% |

The Company's matching contributions to the defined contribution plan were approximately $182 thousand, $162 thousand and $144 thousand for the years ended December 31, 2001, 2000 and 1999, respectively.

Note 9. Stock Incentive Plan

The Company has a shareholder approved Company Stock Incentive Plan (the "Plan"), providing for the grant of incentive compensation to employees in the form of stock options. The Plan authorizes grants of options to purchase up to 240,000 shares of common stock over a ten-year period beginning in 1997. The option price is the average of the market for the five days preceding the date of grant. Grants have been made in which one-half of the options are exercisable on each of the first and second anniversaries of the date of grant, with the options expiring five years after they are granted.

The fair value of each grant is estimated at the grant date using the Black-Scholes option-pricing model with the following weighted average assumptions:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| Dividend rate | 1.78% | 2.05% | 1.70% |
| Risk-free interest rate | 4.31% | 6.81% | 4.77% |
| Expected lives of options | 5 years | 5 years | 5 years |
| Price volatility | 38.29% | 52.51% | 26.20% |

Grants of options under the Plan are accounted for following the APB Opinion No. 25 and related interpretations. Accordingly, no compensation expense has been recognized under the Plan. Had compensation expense been recorded, as determined based on fair values of the awards at the grant date (the method described in SFAS No. 123), reported net income and earnings per share would have been reduced to the pro forma amounts shown below:

| | 2001 | 2000 | 1999 |
|---|---|---|---|
| | (in thousands, except per share amounts) | | |
| Net income | | | |
| As reported | $ 16,372 | $ 9,855 | $ 6,428 |
| Pro forma | $ 16,254 | $ 9,655 | $ 6,281 |
| Earnings per share, basic and diluted | | | |
| As reported, basic | $ 4.35 | $ 2.62 | $ 1.71 |
| As reported, diluted | $ 4.34 | $ 2.61 | $ 1.71 |
| Pro forma, basic | $ 4.32 | $ 2.57 | $ 1.67 |
| Pro forma, diluted | $ 4.31 | $ 2.56 | $ 1.67 |

Note 9. Stock Incentive Plan (Continued)

A summary of the status of the Plan at December 31, 2001, 2000 and 1999 and changes during the years ended on those dates is as follows:

| | Shares | Weighted Average Grant Price Per Share | Fair Value Per Share |
|---|---|---|---|
| Outstanding January 1, 1999 | 27,782 | $ 21.23 | |
| Granted | 17,578 | 19.94 | 15.40 |
| Cancelled | (1,303) | 20.70 | |
| Outstanding December 31, 1999 | 44,057 | 20.73 | |
| Granted | 19,191 | 34.37 | 14.19 |
| Cancelled | (1,160) | 28.74 | |
| Exercised | (3,527) | 21.47 | |
| Outstanding December 31, 2000 | 58,561 | 25.00 | |
| Granted | 19,969 | 31.58 | 16.12 |
| Cancelled | (3,290) | 29.72 | |
| Exercised | (6,213) | 21.43 | |
| Outstanding December 31, 2001 | 69,027 | 27.01 | |

There were 41,731, 31,945 and 19,708 shares exercisable at December 31, 2001, 2000 and 1999, at weighted average exercise prices per share of $23.43, $20.88 and $21.47, respectively.

The following table summarizes information about stock options outstanding at December 31, 2001:

| Exercise Prices | Shares Outstanding | Option Life Remaining | Shares Exercisable |
|---|---|---|---|
| $ 21.98 | 7,020 | 1 year | 7,020 |
| 20.59 | 12,079 | 2 years | 12,079 |
| 19.94 | 13,973 | 3 years | 13,973 |
| 34.37 | 16,969 | 4 years | 8,456 |
| 31.58 | 18,986 | 5 years | -- |

## Note 10. Major Customers

The Company has several major customers. In 2001, the Company's relationship with Sprint continued to increase significantly, due to growth in the PCS business segment. Approximately 35.1% of total revenues were generated through Sprint and its customers using the Company's portion of Sprint's nationwide PCS network. This was compared to 19.1% of total revenue in 2000. A roaming partner of the Company's cellular business segment accounted for 13.1% of total revenue in 2001 for roaming revenue, compared to 11.6% generated in 2000, through the cellular operation of the Mobile subsidiary. As a result of the growth in total revenues, carrier access charges to long distance carriers for use of the telephone subsidiary's network, which historically was a source of revenue concentrated in a few customers, became less significant in 2001. In 2001, the largest carrier access billing customer was 3.7% of total revenues, compared to 2000 when a single customer generated 8% of total revenue.

## Note 11. Shareholder Rights

The Board of Directors adopted a Shareholder Rights Plan in 1998, whereby, under certain circumstances, holders of each right (granted in 1998 at one right per share of outstanding stock) will be entitled to purchase $80 worth of the Company's common stock for $40. The rights are neither exercisable nor traded separately from the Company's common stock. The rights are only exercisable if a person or group becomes or attempts to become, the beneficial owner of 15% or more of the Company's common stock. Under the terms of the Plan, such a person or group is not entitled to the benefits of the Rights.

## Note 12. Lease Commitments

The Company leases land, towers and tower space under various non-cancelable agreements, which expire between 2002 and 2006 and require various minimum annual rental payments. The leases generally contain certain renewal options for periods ranging from 5 to 20 years.

Future minimum lease payments under non-cancelable operating leases with initial variable lease terms in excess of one year as of December 31, 2001 are as follows:

| Year Ending | Amount (in thousands) |
|---|---|
| 2002 | $ 1,895 |
| 2003 | 1,774 |
| 2004 | 1,483 |
| 2005 | 971 |
| 2006 | 527 |
| | $ 6,650 |

The Company's total rent expense for each of the previous three years was $2.5 million in 2001, $1.2 million in 2000, and $0.6 million in 1999.

Note 12. Lease Commitments (Continued)

As lessor, the Company has leased towers, tower space and communications equipment to other entities under various non-cancelable agreements, which require various minimum annual payments. The Company records lease revenue as revenue on the Income Statement based on the business unit in which it is generated. The total minimum rental receipts at December 31, 2001 are as follows:

| Year Ending | Amount |
|---|---|
| | (thousands) |
| 2002 | $ 1,885 |
| 2003 | 1,867 |
| 2004 | 1,759 |
| 2005 | 1,600 |
| 2006 | 428 |
| | $ 7,539 |

Note 13. Quarterly Results (unaudited)

The following table shows selected quarterly results for the Company.

In thousands except for per share data

| For the year ended December 31, 2001 | | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|---|
| Revenues (a) | | $ 17,833 | $ 21,281 | $ 24,545 | $ 25,056 | $88,715 |
| Operating income | | 3,898 | 5,075 | 6,369 | 6,420 | 21,762 |
| Net income (b) | | $ 489 | $ 1,996 | $ 2,094 | $ 11,793 | $16,372 |
| Earnings per share - basic | | $ 0.13 | $ 0.53 | $ 0.56 | $ 3.13 | $ 4.35 |
| Earnings per share - diluted | | 0.13 | 0.53 | 0.55 | 3.12 | 4.34 |
| Closing Stock price | High | $ 34.50 | $ 31.50 | $ 40.03 | $ 40.90 | |
| | Low | 29.88 | 28.00 | 27.50 | 32.70 | |

| For the year ended December 31, 2000 | | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|---|
| Revenues (a) | | $ 13,397 | $ 14,501 | $ 16,387 | $ 16,194 | $60,479 |
| Operating income | | 3,899 | 3,750 | 4,583 | 3,954 | 16,186 |
| Net income (c) | | $ 2,028 | $ 5,860 | $ 1,932 | $ 36 | $ 9,855 |
| Earnings per share - basic | | $ 0.54 | $ 1.56 | $ 0.50 | $ 0.01 | $ 2.62 |
| Earnings per share - diluted | | 0.54 | 1.56 | 0.50 | 0.01 | 2.61 |
| Closing Stock price | High | $ 55.00 | $ 42.75 | $ 46.00 | $ 38.13 | |
| | Low | 32.00 | 28.00 | 30.50 | 32.00 | |

(a) Certain costs previously netted with revenues have been reclassified to selling, general and administrative expenses.

(b) Fourth quarter results of 2001 include the gain of $12.7 million on the exchange of the Illuminet stock for VeriSign stock as a result of their merger.

(c) Second quarter results of 2000 include the $7.4 million gain on the sale of the Company's interest in the Virginia RSA 6 partnership.

Per share earnings may not add to the full year values as each per share calculation stands on its own.

Note 14. Segment Reporting

The Company has identified nine reporting segments based on the products and services each provide. Each segment is managed and evaluated separately because of differing technologies and marketing strategies.

The reporting segments and the nature of their activities are as follows:

| | |
|---|---|
| Shenandoah Telecommunications Company (Holding) | Holding company which invests in both affiliated and non-affiliated companies. |
| Shenandoah Telephone Company (Telephone) | Provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the Northern Shenandoah Valley. |
| Shenandoah Cable Television Company (CATV) | Provides cable television service in Shenandoah County. |
| ShenTel Service Company (ShenTel) | Sells and services telecommunications equipment and provides Internet access to customers in the multistate region surrounding the Northern Shenandoah Valley. |
| Shenandoah Valley Leasing Company (Leasing) | Finances purchases of telecommunications equipment to customers of other segments. |
| Shenandoah Mobile Company (Mobile) | Provides paging and cellular services throughout the Northern Shenandoah Valley, and tower rental in the PCS territory. |
| Shenandoah Long Distance Company (Long Distance) | Provides long distance services. |
| Shenandoah Network Company (Network) | Leases interstate fiber optic facilities. |
| Shenandoah Personal Communications Company (PCS) | Provides digital wireless service as a Sprint PCS network partner to a four-state area covering the region from Harrisburg and Altoona, Pennsylvania, to Harrisonburg, Virginia. |

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Performance is evaluated based on the net income of each company, less dividend income from other segments. Each segment accounts for intersegment sales and transfers as if the sales or transfers were to outside parties.

Income (loss) recognized from equity method nonaffiliated investees by segment is as follows:

| Year | Holding | Telephone | Mobile | Consolidated Totals |
|---|---|---|---|---|
| | | (in thousands) | | |
| 2001 | $(1,218) | $104 | $ -- | $(1,114) |
| 2000 | 554 | 126 | 87 | 767 |
| 1999 | 540 | 394 | 220 | 1,154 |

Note 14. Segment Reporting (Continued)

Selected financial data for each segment is as follows:

| | Holding | Telco | CATV | ShenTel | Leasing |
|---|---|---|---|---|---|
| | | | (in thousands) | | |
| Operating revenues - external: | | | | | |
| 2001 | $ -- | $21,599 | $ 3,792 | $ 5,078 | $ 25 |
| 2000 | -- | 19,146 | 3,620 | 5,017 | 18 |
| 1999 | -- | 16,568 | 3,397 | 3,576 | 11 |
| Operating revenues - internal: | | | | | |
| 2001 | $ -- | $ 2,532 | $ 2 | $ 362 | $ -- |
| 2000 | -- | 2,362 | 2 | 220 | -- |
| 1999 | -- | 2,005 | 2 | 236 | -- |
| Depreciation and amortization: | | | | | |
| 2001 | $ 196 | $ 3,609 | $ 1,354 | $ 472 | $ -- |
| 2000 | 196 | 3,296 | 1,009 | 473 | -- |
| 1999 | 123 | 3,170 | 906 | 355 | -- |
| Nonoperating income less expenses: | | | | | |
| 2001 | $ 3,804 | $ 646 | $ (184) | $ (36) | $ 1 |
| 2000 | 1,385 | 2,209 | (14) | (15) | 3 |
| 1999 | 634 | 2,029 | 3 | 1 | 4 |
| Interest expense: | | | | | |
| 2001 | $ 2,664 | $ 1,428 | $ 690 | $ 237 | $ -- |
| 2000 | 503 | 2,602 | 705 | 287 | -- |
| 1999 | -- | 1,943 | 759 | 196 | -- |
| Income tax expense (benefit): | | | | | |
| 2001 | $ 5,117 | $ 4,373 | $ (312) | $ (32) | $ 4 |
| 2000 | (374) | 3,523 | (126) | (76) | (4) |
| 1999 | 360 | 3,420 | (124) | (199) | (12) |
| Net income: | | | | | |
| 2001 | $ 8,463 | $ 7,167 | $ (509) | $ (73) | $ 7 |
| 2000 | (521) | 6,420 | (169) | (127) | 13 |
| 1999 | 587 | 5,751 | (203) | (295) | 20 |
| Total assets: | | | | | |
| 2001 | $ 110,447 | $55,942 | $ 11,466 | $ 5,359 | $ 254 |
| 2000 | 65,667 | 77,542 | 12,193 | 5,076 | 300 |
| 1999 | 55,234 | 71,423 | 11,415 | 4,128 | 301 |
| EBITDA: | | | | | |
| 2001 | $ 16,440 | $16,577 | $ 1,223 | $ 604 | $ 11 |
| 2000 | (269) | 15,715 | 1,316 | 439 | 9 |
| 1999 | 947 | 11,114 | 432 | (298) | 8 |

EBITDA is calculated as net income plus income tax expense (benefit), interest expenses, and depreciation and amortization expenses.

| Mobile | Long Distance | Network | PCS | Combined Totals | Eliminating Entries | Consolidated Totals |
|---|---|---|---|---|---|---|
| | | | (in thousands) | | | |
| $22,123 | $1,114 | $ 963 | $ 34,021 | $ 88,715 | $ -- | $ 88,715 |
| 17,071 | 1,079 | 635 | 13,893 | 60,479 | -- | 60,479 |
| 13,441 | 1,058 | 610 | 3,673 | 42,334 | -- | 42,334 |
| $ 535 | $ 679 | $ 109 | $ 17 | $ 4,236 | $ (4,236) | $ -- |
| 892 | 378 | 192 | 30 | 4,076 | (4,076) | -- |
| 552 | 334 | 133 | 16 | 3,278 | (3,278) | -- |
| $ 1,098 | $ -- | $ 114 | $ 4,991 | $ 11,834 | $ -- | $ 11,834 |
| 965 | -- | 148 | 1,231 | 7,318 | -- | 7,318 |
| 873 | -- | 124 | 1,161 | 6,712 | -- | 6,712 |
| $ 108 | $ 2 | $ -- | $ 50 | $ 4,391 | $ (4,110) | $ 281 |
| 153 | 2 | 6 | (670) | 3,059 | (2,983) | 76 |
| 311 | 3 | 14 | 14 | 3,014 | (1,971) | 1,043 |
| $ 87 | $ -- | $ -- | $ 3,131 | $ 8,237 | $ (4,110) | $ 4,127 |
| 71 | -- | -- | 1,751 | 5,919 | (2,983) | 2,936 |
| 184 | -- | -- | 840 | 3,922 | (1,971) | 1,951 |
| $ 3,636 | $ 223 | $ 313 | $ (3,361) | $ 9,961 | $ -- | $ 9,961 |
| 5,437 | 104 | 228 | (2,718) | 5,994 | -- | 5,994 |
| 1,597 | 129 | 198 | (1,572) | 3,797 | -- | 3,797 |
| $ 5,931 | $ 364 | $ 511 | $ (5,489) | $ 16,372 | $ -- | $ 16,372 |
| 7,990 | 169 | 339 | (4,259) | 9,855 | -- | 9,855 |
| 2,606 | 211 | 324 | (2,573) | 6,428 | -- | 6,428 |
| $15,273 | $ 22 | $1,005 | $ 61,530 | $261,298 | $(94,501) | $166,797 |
| 18,286 | 238 | 1,199 | 45,142 | 225,643 | (73,350) | 152,293 |
| 15,631 | 264 | 1,145 | 15,820 | 175,361 | (41,717) | 133,644 |
| $10,752 | $ 587 | $ 938 | $ (728) | $ 46,404 | $ (4,110) | $ 42,294 |
| 14,371 | 273 | 691 | (4,065) | 28,480 | (2,983) | 25,497 |
| 4,387 | 340 | 522 | (3,305) | 14,147 | (1,971) | 12,176 |

## Management's Discussion and Analysis of Financial Condition and Results of Operations

The statements contained in this Annual Report that are not purely historical are 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, but are not limited to, changes in the interest rate environment, management's business strategy; national, regional and local market conditions and legislative and regulatory conditions. Readers should not place undue reliance on forward-looking statements, which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

### General

Shenandoah Telecommunications Company and subsidiaries (the Company) is a diversified telecommunications company providing both regulated and unregulated telecommunications services through its nine wholly owned subsidiaries. These subsidiaries provide local exchange telephone services, wireless personal communications services (PCS), as well as cable television, cellular telephone, paging, Internet access, long distance, fiber optics facilities, and leased tower facilities. The Company is the exclusive provider of wireless mobility communications network products and services under the Sprint brand from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company refers to the Hagerstown, Maryland, Martinsburg, West Virginia, and Harrisonburg and Winchester, Virginia markets as its Quad State region. The Company refers to the Altoona, Harrisburg, and York, Pennsylvania markets as its Central Penn region. Competitive local exchange carrier (CLEC) services are now being established on a limited basis. In addition, the Company sells and leases equipment, mainly related to services it provides, and also participates in emerging services and technologies by direct investment in non-affiliated companies.

To better conform to industry standards, the Company has adopted the approach of reporting revenues as wireline, wireless and other revenues. These revenue classifications are defined as follows: Wireless revenues are made up of the Sprint PCS (Personal Communications Service) Company, the Mobile Company, and within the Mobile Company the revenues of the cellular operation. Wireline revenues include the following subsidiary revenues in the financial results: Telephone Company, Network Company, Cable Television Company, and the Long Distance Company. Other revenues are comprised of the revenues of ShenTel Service Company, the Leasing Company, and the Holding Company. The Company has reclassified prior period results to reflect this change.

Over the past five years the Company has made significant investments in upgrading and adding equipment to provide up-to-date services to its customers in an increasingly dynamic and competitive telecommunications industry. The Company's gross plant investment, inclusive of plant under construction, increased from $70.8 million at year-end 1996 to $175.3 million at the end of 2001. This increase reflects the Company's continuing expansion of its operations from its historical roots in Shenandoah County, Virginia to portions of West Virginia, Maryland and Pennsylvania, principally along the Interstate 81 corridor. Recent expansion has been most extensive in the wireless operations of the business, particularly the PCS segment. Through this expansion the Company has completed the contractual obligations it had regarding its territory build-out under its Sprint affiliation.

With the expansion and growth of the Company's wireless businesses through its Sprint PCS and cellular operations, a smaller percentage of the Company's total revenue has been generated by its wireline operations. In 1996, 67.1% of the Company's total revenue was generated by the wireline operations, while in 2001 those operations contributed 31.0% of total revenue. The Company expanded its Sprint PCS operations with additional investments in 2001, opening three retail stores and activating 100 base stations in the Central Penn region, and activating an additional 26 base stations in the Quad State region. As a result of the Company's increased

marketing and sales efforts, and its expansion into new markets, the Company experienced accelerated growth in Sprint PCS revenues and customers, and a continued shift in its historical revenue mix. Revenue sources for 2001 were as follows: $56.1 million or 63.3% from wireless revenues, $27.5 million or 31.0% from wireline operations, and $5.1 million or 5.7% from other revenue.

The Company's strategy is to continue to expand services and geographic coverage areas where it is economically feasible. The expanded market area of the Sprint PCS operation increased the Company's covered populations from approximately 400 thousand persons in late 1999, to over 1.0 million as of mid-February 2001, and 1.4 million by December 31, 2001. As a Sprint PCS Network Partner, the Company markets a nationally branded service associated with over 15 million nationwide Sprint wireless customers at the end of 2001.

Results of Operations

2001 compared to 2000

Total revenue was $88.7 million in 2001, an increase of $28.2 million or 47%. Total revenues included $56.1 million of wireless revenues, an increase of $25.2 million or 81.3%; wireline revenues of $27.5 million, an increase of $3.0 million or 12.2%; and, other revenues of $5.1 million, an increase of $0.1 million or 1.4%.

Within wireless revenues, the PCS operation contributed $34.5 million, an increase of $20.1 million. PCS service revenues were $19.4 million, an increase of $10.4 million or 115.6%. These revenues were driven by the increased subscriber base, which totaled 48,914 at December 31, 2001, an increase of 25,682 or 110.6% compared to 23,232 subscribers at year-end 2000. The subscriber increase is attributed to expanded sales and marketing efforts starting with the February 2001 launch of the Central Penn market, as well as continued strong demand for services in the Quad State markets.

PCS travel revenue, which is compensation between Sprint and its affiliates for use of the other party's network, was $13.6 million, an increase of $9.5 million or 231.5%. Travel revenue is impacted by the geographic size of the Company's network service area, the overall number of Sprint wireless customers, and the travel exchange rate. The Sprint PCS operation service area increased substantially with the February 2001 launch of the Central Penn markets and continued enhancements to the Quad State markets. Wireless subscribers of Sprint and its affiliates grew by approximately 5.2 million during 2001. The rates paid on travel have been declining, from $0.20 per minute through April 30, 2001; $0.15 through September 30, 2001; $0.12 through December 31, 2001; and ending at $0.10 per minute as of January 1, 2002. The $0.10 rate will apply for the full year of 2002, with future travel rates yet to be determined.

PCS equipment sales were $1.5 million, an increase of $0.6 million or 64.9%. Three additional retail stores were opened in the Central Penn region, and the overall sales force was increased in size during the year.

The Company's Sprint PCS service was extended to Altoona, Pennsylvania in late 2001. The Altoona market launch and planned enhancements on the other existing sections of the network are expected to have a positive impact on travel use and support continued subscriber growth in 2002. There are no significant additions to coverage planned during 2002, although investments will continue to be made for capacity and service improvements.

In accordance with Sprint's requirements, the Company is scheduled to launch third generation (3G 1X) service in mid-2002. 3G 1X is the first of a four-stage migration path that will enable additional voice capacity and increased data speeds for subscribers. The network upgrades are comprised of software changes, channel card upgrades, and some new network elements for packet data. The Company's existing base stations are compatible with the network card enhancements, thereby allowing the Company to provide 3G 1X service without wholesale changeouts of base stations. 3G 1X is backwards compatible with the existing 2G network, thereby allowing continued use of current customer handsets. The impact of 3G 1X on revenues cannot be estimated at this time.

The analog cellular operation contributed $20.0 million to wireless revenues, an increase of $3.9 million or 24.6%. Roaming revenues, generated from use of our cellular network by customers of other providers, were $16.1 million, an increase of $4.4 million or 37.9%. Cellular local service revenues were $3.2 million, a decrease of $0.3 million or 7.7%, as the cellular operation's customer base declined 12.9% to 9,440.

Tower leases added $1.7 million to wireless revenues, an increase of $1.2 million or 227.9%. The increase was a result of other wireless carriers executing additional leases to use space on the Company's portfolio of towers. Of the 70 towers owned by the Company, 41 have space leased to other carriers.

Wireless revenues from the Company's paging operation were $0.4 million, a decrease of $0.1 million as the local customer base increasingly chose competing, digital wireless services. Paging service subscribers declined by 33.3% in 2001.

Within wireline revenues, the Telephone Company contributed $21.6 million, an increase of $2.5 million, or 12.8%. Telephone access revenues were $9.6 million, an increase of $1.4 million or 16.4%. The growth in access revenues was driven by a 7.4% increase in access minutes of use on the Company's network and an increased percentage of minutes in the intrastate jurisdiction, where rates are higher than the interstate jurisdiction. Access revenues will be impacted in 2002, due to the January 1, 2002 increase of the Federal subscriber line charge (SLC) for residential customers from $3.50 to $5.00 per month. The SLC is scheduled to increase again on July 1, 2002 to $6.00. Comparable rate increases are also scheduled for business subscribers. Tied to these SLC rate increases are offsetting declines in rates charged to interexchange carriers for interstate minutes of use. Management expects overall access revenues to change only slightly in 2002, as changes in network usage are expected to balance the changes in rates.

Facility lease revenue contributed $6.6 million to wireline revenues, an increase of $1.4 million or 26.9%. During 2001 the Company started constructing a second, diverse fiber route to its existing interconnecting point in the Dulles airport area of Northern Virginia. The construction will provide an increased level of security in the event of fiber cuts or breaks, and extend the availability of the Company's fiber network to additional market locations. Project completion is expected in early 2002.

Billing and collection services contributed $0.4 million to wireline revenues, a decrease of $0.1 million or 23.2%. Revenues from this source have been and are expected to continue declining, as interexchange carriers issue a greater proportion of their bills directly to their customers.

Wireline revenues from cable television service were $3.8 million, an increase of $0.2 million or 4.8%. During 2001 there was an increased penetration of digital services and increased pay per view sales. The Company enacted a basic service rate increase effective in December 2001, which should increase cable television revenues by approximately $0.4 million annually, based on the year-end 2001 customer base.

Within other revenues, Internet service revenues were $3.9 million, an increase of $0.9 million or 28.3%. The Company had 17,423 Internet subscribers at December 31, 2001 compared to 14,900 at the end of the previous year. Services provided to the Travel Shenandoah and 511Virginia programs contributed $0.3 million to other revenues, an increase of $0.2 million. Telephone equipment sales revenues were $0.6 million, a decrease of $0.8 million, or 54.1%, due to decreased sales of larger telephone systems and equipment.

Total operating expenses were $67.0 million, an increase of $22.7 million or 51.2%. The expansion of the PCS operation was principally responsible for the change.

Cost of goods and services was $7.6 million, an increase of $1.5 million or 25.3%. The PCS cost of goods sold was $5.5 million, an increase of $2.1 million or 63.2%. This change is due primarily to higher volumes of handsets sold through Company owned stores and PCS handset subsidies paid to third-party retailers. The cable television royalty (cost of service) expense was $1.3 million, an increase of $0.2 million or 13.4%. The cost of

goods sold for telephone system equipment was $0.5 million, a decline of $0.6 million or 56.2%, while other cost of goods sold decreased by $0.2 million.

Network operating costs were $29.9 million, an increase of $11.5 million or 62.1%. Line and switching costs were $10.0 million, an increase of $3.0 million or 43.6%, due principally to the expanded PCS network. Travel expense, generated by the Company's PCS subscribers' use of minutes on other providers' portions of the Sprint PCS network, was $9.9 million, an increase of $6.1 million or 159.0%. Rates for travel expense are the same as those for travel revenue. Due in large part to operation and maintenance of the additional plant placed in service in recent years, plant specific costs were $7.3 million, an increase of $1.9 million or 36.0%. Tower, building, and land rentals, as well as PCS equipment maintenance, were major contributors to the plant specific expense growth. Other network costs such as power, network administration, and engineering, were $2.7 million, an increase of $0.5 million or 23.6%.

Depreciation and amortization expense was $11.8 million, an increase of $4.5 million or 61.7%. The PCS operation had depreciation expense of $5.0 million, an increase of $3.6 million or 270.4%. The PCS switch was placed in service in February 2001, and 126 additional PCS base stations were activated and three retail stores were opened during the year. Amortization expense in the cable television operation was $0.7 million, an increase of $0.3 million due to additional amortization on certain intangible assets.

Selling, general and administrative expenses were $17.6 million, growing $5.1 million or 41.3%. Customer support costs were $5.4 million, an increase of $1.1 million or 26.4%. The growth in Sprint PCS subscribers is primarily responsible for this change. Advertising expense was $2.8 million, an increase of $1.9 million or 198.3%. The change is primarily attributed to the increased marketing efforts in support of the launch of the Harrisburg and York, Pennsylvania PCS markets. PCS sales staff expenses were $2.1 million, an increase of $1.3 million or 157.4%. The increase was principally due to the opening of three retail locations and the additional staff to support the increased market area. An additional expense category related to the growth in PCS subscribers is bad debt expense, which reached $1.3 million, increasing $0.5 million or 70.6%.

Operating income grew to $21.8 million, an increase of $5.6 million or 34.4%. Increased revenues, primarily in the wireless operations, were greater than the increase in operating expenses, although the overall operating margin declined to 24.5%, compared to 26.8% in 2000.

Other income (expense) is comprised of non-operating income and expenses, interest expense and gain or loss on investments. Collectively, the net contribution of these items to pre-tax income was $9.1 million, an increase of $6.4 million or 231.8%. The largest component was a non-cash gain on investments that is discussed below.

Non-operating income was $0.3 million, an increase of $0.2 million, primarily due to an increase in patronage equity earned from CoBank, the Company's primary lender.

Interest expense was $4.1 million, an increase of $1.2 million or 40.6%. The Company's average debt outstanding was greater during the year as compared to the previous year. Long-term debt (inclusive of current maturities), was $56.4 million at year-end 2001, versus $55.5 million at year-end 2000. The Company secured long-term fixed rate financing in June 2001, on funds previously borrowed under a variable rate revolver facility.

Net gain on investments was $12.9 million, an increase of $7.3 million or 131.0%. Results include the $12.7 million non-cash gain recognized as a result of the merger between Illuminet Holdings, Inc. (Illuminet) and VeriSign, Inc. (VeriSign). The Company's recognition of the gain on the exchange of Illuminet shares for VeriSign shares was in accordance with generally accepted accounting principles. The Company cautions readers that this is a non-cash gain, and until the Company sells its stock in VeriSign, the actual total cash gains or losses recognized on this investment may significantly differ. Additionally, the Company realized net gains on the sales of other investments of $3.9 million, including the sale of 130,000 shares of Illuminet stock sold prior to the

acquisition of Illuminet by VeriSign. The Company also recognized impairment losses of $2.4 million on available-for-sale securities, and partnership investments incurred losses totaling $1.2 million, during 2001.

Income before taxes was $30.9 million, an increase of $12.0 million or 63.0%. The Company recognizes income tax expense at an effective rate of approximately 38.0%.

Minority interest, which is pre-tax income allocated to the 34.0% minority partners in the cellular operation, was $4.5 million, an increase of $1.4 million or 47.0%. Increased earnings in the cellular partnership, driven by the growth in roaming revenue, are responsible for this change.

Net income was $16.4 million, an increase of $6.5 million or 66.1%. The increase is primarily made up of the one-time impact of the non-cash gain on the exchange of the Illuminet stock, and the improved financial performance of the cellular operation.

One of the Company's performance measures is net income from ongoing operations, which excludes gains or losses on external investments. In 2001, net income from ongoing operations was $8.3 million, an increase of $2.0 million or 30.8% over 2000.

2000 compared to 1999

Total revenue was $60.5 million in 2000, an increase of $18.2 million or 42.9%. Wireless revenues were $31.0 million, an increase of $13.9 million or 80.9%. Wireline revenues were $24.5 million, an increase of $2.8 million or 13.2%. Other revenues were $5.0 million, an increase of $1.4 million or 40.4%.

Within wireless revenues, the analog cellular operation contributed $16.1 million, an increase of $3.5 million or 27.8%. Roaming revenues generated from the use of our cellular network by customers of other providers were $11.7 million, an increase of $4.1 million or 54.5%. Cellular local service revenues were $3.5 million, a decrease of $0.5 million or 12.7% as the cellular operation's customer base declined 8.9% to 10,836.

The PCS operation contributed $13.9 million to wireless revenues, an increase of $10.2 million. PCS service revenues were $9.0 million, an increase of $5.6 million or 153.4%. These revenues were driven by the increased subscriber base, which totaled 23,232, at December 31, 2000, an increase of 13,476 or 138.1%, compared to 9,756 subscribers at year-end 1999. PCS travel revenue was $4.1 million, compared to $40 thousand in 1999. This increase is attributed to the full year of CDMA network operation in the Quad State region, along with the growth in usage by other Sprint wireless customers utilizing our network. Equipment sales, made through our own retail stores and third parties, were $0.8 million, an increase of $0.7 million or 520.2%.

Tower leases contributed $0.5 million to wireless revenues, an increase of $0.2 million or 75.1%. The increase was a result of other wireless carriers executing additional leases to use space on the Company's portfolio of existing towers.

Within wireline revenues, the Telephone Company contributed $19.1 million, an increase of $2.6 million, or 15.6%. Telephone access revenues were $8.2 million, an increase of $0.4 million or 4.7%. The growth in access revenues was driven in part by a 6.4% increase in access minutes of use on the Company's network. Telephone local service revenues were $4.6 million, an increase of $0.5 million or 12.1%. The change was due in part to increased use of custom calling features. Access lines increased by 3.2%.

Facility lease revenue contributed $5.2 million to wireline revenues, an increase of $1.8 million or 51.9%. Increased use of our fiber facilities was primarily responsible for this change.

Cable television revenues were $3.6 million, an increase of $0.2 million or 6.6%. Increased subscription to digital television services was the primary driver. Subscriber growth was 1.2%.

Within other revenues, Internet service revenues were $2.9 million, an increase of $0.6 million or 29.0%. The Company had 14,900 Internet subscribers at December 31, 2000 compared to 10,647 at the end of the previous year. Telephone equipment sales revenues were $1.4 million, an increase of $0.8 million, or 136.8%, due to an increase in sales of larger telephone systems and equipment.

Total operating expenses were $44.3 million, an increase of $14.5 million or 48.7%. The expansion of the Sprint PCS operation was principally responsible for the change.

Cost of goods and services was $6.1 million, an increase of $3.1 million or 101.6%. The PCS cost of goods sold was $3.4 million, an increase of $2.3 million or 223.7%. This change was due primarily to higher volumes of handsets sold through Company owned stores and Sprint PCS handset subsidies paid to third-party retailers, associated with the first full year of operating with the Sprint brand name. The cost of goods sold for telephone system equipment was $1.1 million, an increase of $0.7 million or 159.3%, as part of the large telephone and equipment systems sales mentioned under other revenues.

Network operating costs were $18.5 million, an increase of $7.4 million or 66.7%. Line and switching costs were $7.0 million, an increase of $1.0 million or 16.1%, due principally to the expanded PCS network. Due in part to operation and maintenance of the additional plant placed in service in recent years, plant specific costs were $5.4 million, an increase of $1.9 million or 54.5%. Tower, building, and land rentals, as well as PCS equipment maintenance, were major contributors to the plant specific expense growth. Travel expense, generated by the Company's PCS subscribers' use of minutes on other providers' portions of the Sprint PCS network, was $3.8 million, compared to an immaterial amount in the prior year. Other network costs such as power, network administration, and engineering were $2.2 million, an increase of $0.7 million or 44.4%.

Selling, general and administrative expenses were $12.4 million, an increase of $3.4 million or 38.3%. Customer support costs were $4.3 million, an increase of $1.2 million or 40.0%. The growth in Sprint PCS subscribers is primarily responsible for this change. Advertising expense was $0.9 million, an increase of $0.5 million or 94.2%. The change is primarily attributed to the increased marketing efforts in support of the first full year of operating with the Sprint brand name. PCS sales staff expenses were $0.8 million, an increase of $0.3 million or 57.7%. An additional expense category related to the growth in Sprint PCS subscribers is bad debt expense, which reached $0.8 million, increasing $0.6 million or 461.7%.

Operating income grew to $16.2 million, an increase of $3.6 million or 29.1%. Increased revenues, primarily in the wireless operations, were greater than the increase in operating expenses, although the overall operating margin declined to 26.8%, compared to 29.6% in 1999.

Other income (expense) is comprised of non-operating income and expenses, interest expense and gain or loss on investments. Collectively, the net contribution of these items to pre-tax income was $2.7 million, an increase of $3.1 million over the negative net expense of $0.4 million the previous year. The largest component was the sale of the interest in a limited partnership as discussed below.

Non-operating income was $76 thousand, a decrease of $1.0 million or 92.7%. The $0.7 million charge on the value of the GSM equipment in the PCS subsidiary, to its estimated realizable value, was primarily responsible for this change.

Interest expense was $2.9 million, an increase of $1.0 million or 50.5%. The Company's debt was larger during the year as compared to the previous year. Long-term debt (inclusive of current maturities), was $55.5 million at year-end 2000, versus $33.0 million at year-end 1999. A majority of these funds were drawn to finance the expansion of the PCS territory.

Net gain on investments was $5.6 million, an increase of $5.0 million compared to 1999. The change was principally due to the sale of the Virginia RSA 6 Partnership interest in May 2000. The Company received $7.4 million in cash, and realized a one-time gain of $6.9 million on the transaction. Additionally, the Company incurred impairment charges of $1.4 million on two investments during the year which somewhat offset the aforementioned gain.

Income before taxes was $18.9 million, an increase of $6.7 million or 55.3%. The Company recognizes income tax expense at an effective rate of approximately 38.0%. The provision for taxes was $6.0 million compared to $3.8 million the previous year.

Minority interest, which is pre-tax income allocated to the 34% minority partners in the cellular operation, was $3.1 million, an increase of $1.1 million or 56.9%. Increased earnings in the cellular partnership, driven by the growth in roaming revenue, were responsible for this change.

Net income was $9.9 million, an increase of $3.4 million or 53.3%. The increase was primarily made up of the one-time gain on the sale of the interest in the Virginia RSA 6 cellular operation.

One of the Company's performance measures is net income from ongoing operations, which excludes gains or losses on external investments. In 2000, net income from ongoing operations was $6.3 million, an increase of $0.5 million or 8.6%. The 2000 figure excludes not only the gains or losses on external investments, but the gain on the sale of the limited partnership interest in the Virginia RSA 6 cellular operation as well.

Investments in Non-Affiliated Companies

The Company has investments in several available-for-sale securities, which the Company may choose to liquidate from time to time, based on market conditions, capital needs, other investment opportunities, or a combination of any number of these factors. As a result of the uncertainty of these factors, there is also uncertainty as to what the value of the investments may be when they are sold.

In December 2001, the Company recognized a non-cash gain on the exchange of Illuminet stock for VeriSign stock, totaling $12.7 million. The Company held 333,504 shares of Illuminet Holding Company stock, and elected to convert those shares into VeriSign stock on the date of the merger. The conversion rate was .93 shares of VeriSign for each share of Illuminet, giving the Company 310,158 shares of VeriSign. The Company's recognition of the VeriSign gain was in accordance with generally accepted accounting principles. The Company cautions readers, however, that this recognition of gain is purely non-cash; and, until the Company sells its stock in VeriSign, the actual cash gains or losses realized on this investment may be materially different.

The fair value of the Company's available-for-sale securities was $12.0 million at the end of 2001, compared to $11.8 million at the end of 2000. The Company's available-for-sale portfolio at December 31, 2001 is made up of three investments, all of which are within the telecommunications industry. Therefore, due to the volatility of the securities markets, particularly in the telecommunications industry, there is uncertainty about the ultimate value these investments will realize in the future.

Sale of GSM PCS Equipment, Refundable Equipment Payment, Like-Kind Exchange

On January 11, 2001, the Company completed a transaction to sell its GSM technology PCS equipment and three radio spectrum licenses for $6.5 million, which was the book value of the assets that were sold. In June 2000, the Company had recorded a charge of $0.7 million to value the assets it intended to sell at their estimated realizable value. As a result of the impairment charge recorded in June 2000, there was no additional impact to the operating statement as a result of the transaction closing.

As part of the original Sprint PCS Network Partner agreements, in late 1999 the Company received a refundable equipment payment of $3.9 million in cash from Sprint. The payment was to provide liquidity during the construction of the CDMA network while the Company attempted to sell its GSM equipment, and to cover the shortfall in the event a sale was made at less than net book value. As a result of the sale of the GSM equipment in January 2001, the Company repaid the refundable equipment payment to Sprint, as required by the affiliate agreement.

The Company entered into an agreement with a third party to act as the Company's agent in a like-kind exchange in the sale of the Company's GSM PCS network equipment and the purchase of new CDMA PCS equipment. This transaction was completed in 2001, and allowed the Company to defer taxes on the sale of the GSM equipment.

Financial Condition Liquidity and Capital Resources

The Company has four principal sources of funds available to meet the financing needs of its operations, capital projects, debt service and potential dividends. These sources include cash flows from operations, two revolving credit facilities (both of which mature in 2002), and investments which can be liquidated. Management routinely considers these alternatives to determine what mix of the external sources is best suited for the long-term benefit of the Company.

Management anticipates its operations will generate similar operating cash flows in 2002, compared to 2001, although there are items outside the control of the Company that could have an adverse impact on cash flows. Outside factors that could adversely impact operating results include, but are not limited to; changes in overall economic conditions, regulatory requirements, changes in technologies, availability of labor resources and capital, and other conditions. The PCS subsidiary's continued operations are dependent upon Sprint's ability to execute certain functions like billing, customer care, collections and other operating activities under the Company's Sprint PCS Agreements. Additionally, the Company's ability to attract and maintain a sufficient customer base is critical to maintaining a positive cash flow from operations. These items individually and or collectively could impact the Company's results.

Capital expenditures budgeted for the next three years total approximately $65.1 million, including approximately $34.3 million for the Sprint PCS operation for additional base stations and switch enhancements to improve and enhance the PCS network. There is nearly $5.8 million included for new towers to support the expanding Sprint PCS network in addition to approximately $18.8 million for improvements, and replacements in the telephone operation. The remaining $6.2 million includes new cable for the cable television operation, building renovations at Company facilities, and a fiber cable project to improve reliability and expand the network into new areas.

The most significant source of external funding is the $35.0 million revolving line of credit with CoBank that allows the Company to borrow up to $35.0 million with the option to term out the amount on the revolving line of credit. There was $6.2 million outstanding as of December 31, 2001, at an interest rate of approximately 3.5% as of that date. This facility expires in June 2002. Management anticipates terming out all outstanding balances on the revolving line of credit, prior to its expiration, at terms similar to the existing term facilities with CoBank. Management is evaluating replacing the $35.0 million revolving credit facility with another multi-year facility that will provide adequate funding for any further expansion of the operations. Management has not determined the amount at which the new facility will be established, but anticipates that it will not exceed the current level of $35.0 million.

Another external source of funding is the $2.0 million unsecured, variable rate revolving line of credit with SunTrust Bank. The facility expires in June 2002. Management anticipates renewing this facility with SunTrust Bank under similar terms and conditions. The Company uses this facility as a source of short-term liquidity in its daily cash management operations. As of February 15, 2002, the Company's unused balance on this facility was $2.0 million.

At the end of 2001, current maturities of the Company's long-term debt were $4.4 million. If the current balance of $6.2 million on the $35.0 million revolver is added to this, and termed out over the life of the other CoBank debt, the current maturities would increase approximately $0.6 million.

Management anticipates being able to generate adequate capital to fund the capital projects, debt payments, and potential dividend payments through operating cash flow, existing financing facilities and the anticipated financing facilities discussed previously. Additionally, the Company may, at its election, liquidate some of its investments to generate additional cash for its capital needs as market conditions allow.

Critical Accounting Policies and Estimates and Recently Issued Accounting Standards

The Company views its critical accounting policies to be: revenue recognition, security and investment valuations and accounting for property, plant and equipment including determination of useful lives. The accounting policies for these areas are described in Note 1 to the accompanying consolidated financial statements.

Also included in Note 1 is a description of recently issued accounting standards including the effective dates of the standards and the expected impact the adoption of the standards will have on the Company's results.

Other Commitments, Contingencies and Risks

The Company is one of twelve Sprint PCS Network Partners, and accordingly, is impacted by decisions and requirements adopted by Sprint PCS in regard to the PCS operation. As part of the national roll-out of 3G by Sprint, the Company is required to make upgrades to its network by mid-year 2002. These commitments are reflected in the capital budget described above. Management continually reviews its relationship with Sprint as new developments and requirements are added to the affiliation with Sprint. Note 6 to the accompanying consolidated financial statements contains a detailed description of the significant contractual relationship.

Market Risk

The Company's market risks relate primarily to changes in interest rates, on instruments held for other than trading purposes. Our interest rate risk involves two components. The first component is outstanding debt with variable rates. As of December 31, 2001, the balance of the Company's variable rate debt was $6.2 million, made up of a single traunch of the revolving note payable to CoBank, which matures June 1, 2002. The rate of this note is based upon the lender's cost of funds. The Company also has a variable rate line of credit totaling $2.0 million, with no outstanding borrowings at December 31, 2001. The Company's remaining debt has fixed rates through its maturity. A 10.0% decline in interest rates would increase the fair value of the fixed rate debt by approximately $1.8 million, while the current fair value of the fixed rate debt is approximately $57.1 million.

The second component of interest rate risk is temporary excess cash, primarily invested in overnight repurchase agreements and short-term certificates of deposit. As the Company continues to expand its operations, temporary excess cash is expected to be minimal. Available cash will be used to repay existing and anticipated new debt obligations, maintaining and upgrading capital equipment, ongoing operations expenses, investment opportunities in new and emerging technologies, and potential dividends to the Company's shareholders. Management does not view market risk as having a significant impact on the Company's results of operations, although adverse results could be generated if interest rates were to escalate markedly.

Due to the significant investment in VeriSign stock, the Company has a market price risk related to the investment. As of December 31, 2001, the stock closing price for VeriSign was $38.04 per share, while the range of closing prices during the time the shares were held (December 12, 2001 through December 31, 2001) was a high of $42.75 per share and a low of $37.94 per share. For 2002, through March 1, the trading price varied from $39.23 per share to $21.47 per share. As a result of the significant swings in value of this security, the market price risk to the Company is a risk that is significant, and may impact financial results.

Selected Statistics

OPERATING STATISTICS

| | Three Month Period Ended | | | | |
|---|---|---|---|---|---|
| | Dec. 31, 2001 | Sep 30, 2001 | Jun 30, 2001 | Mar 31, 2001 | Dec 31, 2000 |
| Telephone Access Lines | 24,704 | 24,583 | 24,432 | 24,288 | 24,117 |
| CATV Subscribers | 8,770 | 8,834 | 8,756 | 8,742 | 8,707 |
| Internet Subscribers | 17,423 | 16,923 | 16,385 | 16,045 | 14,900 |
| Digital PCS Subscribers | 48,914 | 39,724 | 32,067 | 27,339 | 23,232 |
| Analog Cellular Subscribers | 9,440 | 9,526 | 9,985 | 10,416 | 10,836 |
| Paging Subscribers | 3,190 | 4,160 | 4,640 | 4,710 | 4,786 |
| Long Distance Customers | 9,159 | 9,047 | 8,718 | 8,532 | 8,178 |
| Fiber Route Miles | 485 | 482 | 468 | 438 | 408 |
| Total Fiber Miles | 23,893 | 23,854 | 23,162 | 20,229 | 17,295 |
| Long Distance Calls (000) | 5,561 | 5,712 | 5,335 | 4,858 | 4,714 |
| Switched Access Minutes (000) | 33,067 | 31,873 | 30,550 | 30,417 | 29,513 |
| CDMA Base Stations (sites) | 184 | 150 | 130 | 126 | 58 |
| Cellular Base Stations | 20 | 20 | 20 | 20 | 20 |
| Towers Owned (over 100 foot) | 70 | 64 | 64 | 64 | 64 |
| PCS Market POPS (000) | 2,048 | 2,048 | 2,048 | 2,048 | 2,048 |
| PCS Covered POPS (000) | 1,395 | 1,100 | 1,100 | 1,100 | 400 |
| Cellular Market POPS (000) | 170 | 170 | 170 | 170 | 170 |
| PCS ARPU (excluding travel) | $53.28 | $53.49 | $54.11 | $50.86 | $54.36 |
| PCS Travel Revenue per Subscriber | $33.73 | $25.53 | $27.78 | $19.97 | $15.06 |
| PCS Average Management Fee per Subscriber | $ 4.26 | $ 4.28 | $ 4.33 | $ 4.07 | $ 4.35 |
| PCS Ave monthly churn % | 2.77% | 2.02% | 1.83% | 2.18% | 2.33% |
| PCS CPGA | $317.72 | $294.34 | $395.60 | $350.97 | $311.57 |
| PCS CCPU | $45.14 | $55.29 | $56.07 | $55.02 | $53.70 |

POPS is the estimated population of people in a given geographic area. Market POPS are those within a market area, and Covered POPS are those covered by the network's service area. ARPU is Average Revenue Per User, before travel, roaming revenue, and management fee. PCS Travel revenue includes roamer revenue and is divided by average subscribers. PCS Average management fee per subscriber is 8 % of collected revenue paid to Sprint, excluding travel revenue. PCS Ave Monthly Churn is the average of three monthly calculations of deactivations (excluding returns less than 30 days) divided by beginning of period subscribers. CPGA is Cost Per Gross Add and includes selling costs, product costs, and advertising costs. CCPU is Cash Cost Per User, and includes network, customer care and other costs.

| PLANT FACILITY STATISTICS | Telephone | CATV |
|---|---|---|
| Route Miles | 2,066.0 | 515.8 |
| Customers Per Route Mile | 12.0 | 17.0 |
| Miles of Distribution Wire | 562.9 | -- |
| Telephone Poles | 7,790 | 35 |
| Miles of Aerial Copper Cable | 346.7 | 162.4 |
| Miles of Buried Copper Cable | 1,430.3 | 318.0 |
| Miles of Underground Copper Cable | 39.1 | 1.9 |
| Lines of Switching Equipment | 36,462 | -- |
| Intertoll Circuits to Interexchange Carriers | 1,426 | -- |
| Special Service Circuits to Interexchange Carriers | 262 | -- |

EXHIBIT 20

SHENANDOAH TELECOMMUNICATIONS COMPANY

124 South Main Street
Edinburg, Virginia

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 16, 2002

March 22, 2002

TO THE SHAREHOLDERS OF SHENANDOAH TELECOMMUNICATIONS COMPANY:

The annual meeting of shareholders of Shenandoah Telecommunications Company will be held in the auditorium of the Company's offices at 500 Mill Road, Edinburg, Virginia, on Tuesday, April 16, 2002, at 11:00 a.m. for the following purposes:

1. To elect three Class I Directors to serve until the 2005 Annual Shareholders' Meeting; and

2. To transact such other business as may properly come before the meeting or any adjournment thereof.

Only shareholders of record at the close of business March 19, 2002, will be entitled to vote at the meeting.

Lunch will be provided.

By Order of the Board of Directors

Harold Morrison, Jr.
Secretary

IMPORTANT

YOU ARE URGED TO COMPLETE, SIGN, AND RETURN THE ENCLOSED PROXY CARD IN THE SELF-ADDRESSED STAMPED (FOR U. S. MAILING) ENVELOPE PROVIDED AS PROMPTLY AS POSSIBLE, WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING IN PERSON. IF YOU DO ATTEND THE MEETING IN PERSON, YOU MAY THEN WITHDRAW YOUR PROXY AND VOTE YOUR OWN SHARES.

PROXY STATEMENT

P. O. Box 459
Edinburg, VA 22824

March 22, 2002

TO THE SHAREHOLDERS OF SHENANDOAH TELECOMMUNICATIONS COMPANY:

Your proxy in the enclosed form is solicited by the management of the Company for use at the Annual Meeting of Shareholders to be held in the auditorium of the Company's offices at 500 Mill Road, Edinburg, Virginia, on Tuesday, April 16, 2002, at 11:00 a.m., and any adjournment thereof.

The mailing address of the Company's executive offices is P. O. Box 459, Edinburg, Virginia 22824.

The Company has 8,000,000 authorized shares of common stock, of which 3,767,695 shares were outstanding on March 19, 2002. This proxy statement and the Company's Annual Report, including financial statements for 2001, are being mailed on or about March 22, 2002, to approximately 3,757 shareholders of record on March 19, 2002. Only shareholders of record on that date are entitled to vote. Each outstanding share will entitle the holder to one vote at the Annual Meeting. The Company intends to solicit proxies by the use of the mail, in person, and by telephone. The cost of soliciting proxies will be paid by the Company.

Executed proxies may be revoked at any time prior to exercise. Proxies will be voted as indicated by the shareholders. Executed but unmarked proxies will be voted "FOR" the election of the three nominees for Class I Director.

THE ELECTION OF DIRECTORS

Directors Standing for Election

There are currently nine directors (constituting the entire Board of Directors of the Company), divided into three classes. The current term of Class I Directors expires at the 2002 Annual Meeting. The Board of Directors proposes that the nominees described below, all of whom are currently serving as Class I Directors, be re-elected to Class I for a new term of three years and until their successors are duly elected and qualified.

The proxy holders will vote the proxies received by them (unless contrary

instructions are noted on the proxies) for the election of the three nominees as directors, all of whom are now members of and constitute the Class I Directors. If any such nominees should be unavailable, the proxy holders will vote for substitute nominees in their discretion. Shareholders may withhold the authority to vote for the election of directors or one or more of the nominees. Directors will be elected by a plurality of the votes cast. Abstentions and shares held in street name that are not voted in the election of directors will not be included in determining the number of votes cast. The names and principal occupation of the three nominees, six current directors and executive officers are indicated in the following table. The Board of Directors unanimously recommends a vote "FOR" election of the three nominees for Class I Director.

## BOARD OF DIRECTORS

| Name of Director (1) | Year Elected Director (2) | Age | Principal Occupation and Other Directorships for Past Five Years (3) |
|---|---|---|---|
| **Nominees for Election of Directors** | | | |
| Class I (Term expires 2005) - The directors standing for election are: | | | |
| Douglas C. Arthur | 1997 | 59 | Attorney-at-Law, Arthur and Allamong; Director, First National Corporation; Member, Shenandoah County School Board. |
| Harold Morrison, Jr<br>Secretary of the Company | 1979 | 72 | Chairman of the Board, Woodstock Garage, Inc. (an auto sales & repair firm) |
| Zane Neff<br>Asst. Secretary of the Company | 1976 | 73 | Retired Manager, Hugh Saum Company, Inc. (a hardware and furniture store) |
| **Directors Continuing in Office** | | | |
| Class II (Term expires 2003) | | | |
| Noel M. Borden<br>Vice President | 1972 | 65 | Retired President, H. L. Borden Lumber Company (a retail building materials firm); Chairman of the Board, First National Corporation. |
| Ken L. Burch | 1995 | 57 | Farmer |
| Grover M. Holler, Jr | 1952 | 81 | President, Valley View, Inc. (a real estate developer) |
| Class III (Term expires 2004) | | | |
| Dick D. Bowman<br>Treasurer of the Company | 1980 | 73 | President, Bowman Bros., Inc. (a farm equipment dealer); Director, Shenandoah Valley Electric Cooperative; Dominion Electric Cooperative. |
| Christopher E. French<br>President | 1996 | 44 | President, Shenandoah Telecommunications Co. and its subsidiaries; Director, First National Corporation. |
| James E. Zerkel II | 1985 | 57 | Vice Pres., James E. Zerkel, Inc. (a hardware firm); Director, Shenandoah Valley Electric Cooperative. |

(1) The directors who are not full-time employees of the Company were compensated in 2001 for their services on the Board and one or more of the Boards of the Company's subsidiaries at the rate of $550 per month plus $550 for each Board meeting attended. Additional compensation was paid during the year to certain non-employee directors who also serve as Vice President, Secretary, Assistant Secretary, and Treasurer, for their services in these capacities, in the amounts of $1,920, $3,840, $1,920, and $3,840, respectively.

(2) Years shown are when first elected to the Board of the Company or the Company's predecessor, Shenandoah Telephone Company. Each nominee has served continuously since the year he joined the Board.

(3) Each director also serves as a director of the Company's subsidiaries.

### Attendance of Board Members at Board and Committee Meetings

During 2001, the Board of Directors held 13 meetings. All of the directors attended at least 75 percent of the aggregate of: (1) the total number of meetings of the Board of Directors; and (2) the total number of meetings held by all committees of the Board on which they served.

### Standing Audit, Nominating, and Compensation Committees of the Board of Directors

1. Audit Committee - The Audit Committee of the Board consists of Grover M. Holler, Jr. (Chairman), Douglas C. Arthur, and James E. Zerkel II. During 2001 there were five meetings of the Audit Committee. The Committee is responsible for the employment of outside auditors and for receiving and reviewing the auditors' report.

2. Nominating Committee - The Board of Directors does not have a standing Nominating Committee.

3. Compensation Committee - The Personnel Committee of the Board of Directors performs the function of a compensation committee. The Personnel Committee consists of the following directors: Noel M. Borden (Chairman), Harold Morrison, Jr., and James E. Zerkel II. The committee is responsible for the wages, salaries, and benefit programs for all employees. During 2001 there were three meetings of this committee.

## STOCK OWNERSHIP

The following table presents information relating to the beneficial ownership of the Company's outstanding shares of common stock by all directors, executive officers, and all directors and officers as a group. The Company is not aware of any other ownership interest of 5% or more of the Company's outstanding stock.

| Name and Address | No. of Shares Owned as of 2-1-02(1) | Percent of Class(2) |
|---|---|---|
| Douglas C. Arthur | 1,610 | * |
| Noel M. Borden | 16,077 | * |
| Dick D. Bowman | 46,564 | 1.24 |
| Ken L. Burch | 45,172 | 1.20 |
| Christopher E. French | 294,803 | 7.83 |
| Grover M. Holler, Jr | 70,736 | 1.88 |
| Harold Morrison, Jr | 19,828 | * |
| Zane Neff | 8,026 | * |
| James E. Zerkel II | 4,498 | * |
| David E. Ferguson | 2,879 | * |
| David K. MacDonald | 969 | * |
| Laurence F. Paxton | 2,482(3) | * |
| William L. Pirtle | 1,931(3) | * |
| Total shares beneficially owned by 13 directors and officers as a group | 515,575 | 13.67 |

(1) Includes shares held by relatives and in certain trust relationships, which may be deemed to be beneficially owned by the nominees under the rules and regulations of the Securities and Exchange Commission; however, the inclusion of such shares does not constitute an admission of beneficial ownership.

(2) Asterisk indicates less than 1%.

(3) Includes 1,898, 1,355, 749, 1,277 and 1,297 shares subject to options exercisable within 60 days by Christopher French, David Ferguson, David MacDonald, Laurence Paxton, and William Pirtle, respectively.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

In 2001, the Company purchased vehicles and received services from Mr. Morrison's company in the amount of $199,385; and, purchased supplies and received services from Mr. Zerkel's company in the amount of $2,139. Management believes that each of the companies provides these services to the Company on terms comparable to those available to the Company from other similar companies. No other director is an officer, director, employee, or owner of a significant supplier or customer of the Company.

## SUMMARY COMPENSATION TABLE

The following Summary Table is furnished as to the salary and incentive payment paid by the Company and its subsidiaries on an accrual basis during the fiscal years 1999, 2000, and 2001 to, or on behalf of, the Chief Executive Officer and each of the other executive officers who earn more than $100,000 per year.

| Name and Principal Position | Year | Annual Compensation | | Long-Term Compensation | |
|---|---|---|---|---|---|
| | | Salary($) | Incentive Payment($) | Options(#) | Other Compensation($)(1) |
| Christopher E. French | 2001 | $183,792 | $20,481 | 615 | $9,444 |
| President | 2000 | 168,375 | 43,342 | 573 | 8,938 |
| | 1999 | 159,424 | 35,700 | 529 | 8,225 |
| David E. Ferguson | 2001 | 118,938 | 8,599 | 434 | 8,017 |
| Vice President- | 2000 | 111,681 | 18,123 | 406 | 7,703 |
| Customer Service | 1999 | 105,277 | 15,705 | 371 | 7,161 |
| David K. MacDonald | 2001 | 104,031 | 9,539 | 341 | 6,938 |
| Vice President- | 2000 | 87,004 | 17,725 | 317 | 6,379 |
| Engineering & Construction | 1999 | 84,365 | 13,039 | 262 | 5,720 |
| Laurence F. Paxton | 2001 | 95,646 | 7,201 | 304 | 6,651 |
| Vice President- | 2000 | 88,839 | 14,855 | 287 | 6,401 |
| Finance | 1999 | 84,872 | 12,290 | 283 | 5,906 |
| William L. Pirtle | 2001 | 114,144 | 8,615 | 398 | 7,065 |
| Vice President- | 2000 | 106,387 | 17,733 | 391 | 6,660 |
| Personal Comm. Service | 1999 | 101,633 | 15,384 | 378 | 6,192 |

(1) Includes amounts contributed by the Company under its 401(k) and Flexible Benefits Plans, each of which is available to all regular Company employees.

## OPTION GRANTS TABLE

Option Grants in Last Fiscal Year

| Name | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term | |
|---|---|---|---|---|---|---|
| | Options Granted(1) (Shares) | Percent of Total Options Granted To Employees In Fiscal Year | Exercise Or Base Price Per Share | Expiration Date | 5%(2) | 10%(2) |
| Christopher E. French | 615 | 3.1% | $31.58 | 2/12/2006 | $5,363 | 11,857 |
| David E. Ferguson | 434 | 2.2% | 31.58 | 2/12/2006 | 3,784 | 8,368 |
| David K. MacDonald | 341 | 1.7% | 31.58 | 2/12/2006 | 2,974 | 6,574 |
| Laurence F. Paxton | 304 | 1.5% | 31.58 | 2/12/2006 | 2,651 | 5,861 |
| William L. Pirtle | 398 | 2.0% | 31.58 | 2/12/2006 | 3,471 | 7,673 |

(1) Fifty percent of these options become exercisable on Feb 12, 2002, and the remaining fifty percent on Feb 12, 2003.

(2) In order to realize the potential value set forth, the price per share of the Company's common stock would be approximately $40.30 and $50.86, respectively, at the end of the five-year option term.

OPTION EXERCISES AND YEAR END VALUE TABLE

Aggregated Option Exercises in Last Fiscal Year and FY-End Option Value

| Name | Shares Acquired on Exercise | Value Realized | No. of Unexercised Options/ FY-End (Shares) Exercisable/ Unexercisable | Value of Unexercised in the Money Options/FY-End ($) Exercisable/ Unexercisable |
|---|---|---|---|---|
| Christopher E. French | 471 | 6,839 | 1,304/902 | 20,735/6,118 |
| David E. Ferguson | 352 | 5,111 | 935/637 | 14,891/4,319 |
| David K. MacDonaldq | 0 | 0 | 420/500 | 5,830/3,391 |
| Laurence F. Paxton | 0 | 0 | 981/448 | 16,135/3,034 |
| William L. Pirtle | 307 | 4,458 | 902/594 | 14,390/4,009 |

Closing price on December 31, 2001 was $39.25 and was used in calculating the value of unexercised options.

RETIREMENT PLAN

The Company maintains a noncontributory defined benefit Retirement Plan for its employees. The following table illustrates normal retirement benefits based upon Final Average Compensation and years of credited service. The normal retirement benefit is equal to the sum of:

(1) 1.14% times Final Average Compensation plus 0.65% times Final Average Compensation in excess of Covered Compensation (average annual compensation with respect to which Social Security benefits would be provided at Social Security retirement age) times years of service (not greater than 30); and

(2) 0.29% times Final Average Compensation times years of service in excess of 30 years (such excess service not to exceed 15 years).

| | Estimated Annual Pension | | | | |
|---|---|---|---|---|---|
| | Years of Credited Service | | | | |
| Final Average Compensation | 15 | 20 | 25 | 30 | 35 |
| $ 20,000 | $ 3,420 | $ 4,560 | $ 5,700 | $ 6,840 | $ 7,130 |
| 35,000 | 5,985 | 7,980 | 9,975 | 11,970 | 12,478 |
| 50,000 | 9,579 | 12,772 | 15,965 | 19,158 | 19,883 |
| 75,000 | 16,292 | 21,722 | 27,153 | 32,583 | 33,671 |
| 100,000 | 23,004 | 30,672 | 38,340 | 46,008 | 47,458 |
| 125,000 | 29,717 | 39,622 | 49,528 | 59,433 | 61,246 |
| 150,000 | 36,429 | 48,572 | 60,715 | 72,858 | 75,033 |
| 175,000 | 43,142 | 57,522 | 71,903 | 86,283 | 88,821 |
| 200,000 | 49,854 | 66,472 | 83,090 | 99,708 | 102,608 |

Covered Compensation for those retiring in 2002 is $39,444. Final Average Compensation equals an employee's average annual compensation for the five consecutive years of credited service for which compensation was the highest. The amounts shown as estimated annual pensions were calculated on a straight-life basis assuming the employee retires in 2002. The Company did not make a contribution to the Retirement Plan in 2001, as the Plan was adequately funded. Christopher French, David Ferguson, David MacDonald, Laurence Paxton, and William Pirtle had 20 years, 34 years, 6 years, 11 years, and 9 years, respectively, of credited service under the plan as of January 1, 2002.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee of the Board of Directors of the Company serves as a representative of the Board for general oversight of the Company's financial accounting and reporting systems, communication with the independent auditors, and monitoring compliance with applicable laws and regulations. The Board of Directors has adopted a written

charter for the Audit Committee. The Company's management has primary responsibility for preparing the Company's financial statements and the Company's financial reporting process. The Company's auditors are responsible for expressing an opinion on the conformity of the Company's audited financial statements with generally accepted accounting principles. In this context the Audit Committee hereby reports as follows:

1. The Committee has reviewed and discussed the audited 2001 financial statements with management.
2. The Committee has discussed with the independent auditors the matters required to be discussed by Statement on Standards No. 61.
3. The Committee has received the auditor's disclosures regarding the auditor's independence from the Company.
4. No item has come to the attention of the Committee which would lead its members to believe that the audited 2001 financial statements in the Company's Annual Report contained an untrue statement of a material fact or omitted a material fact that would make the statements misleading.
5. The Committee recommended to the Board of Directors, and the Board has approved, that the audited financial statements be included in the Company's Annual Report on Form 10-K for the calendar year ended December 31, 2001 for filing with the Securities and Exchange Commission.

Each of the members of the Audit Committee is independent as defined under the listing standards of the NASDAQ Stock Market.

Submitted by the Company's Audit Committee
Grover M. Holler, Jr., Chairman
Douglas C. Arthur
James E. Zerkel II

## COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

The members of the Personnel Committee of the Board of Directors of the Company perform the function of a compensation committee. The Committee's approach to compensation of the Company's executive officers, including the Chief Executive Officer, is to award a total compensation package consisting of salary, annual and long-term incentives, and fringe benefit components, which recognizes that the compensation of executive officers should be established at levels which are consistent with the Company's objectives and achievements. The compensation package, and the Committee's approach to setting compensation, is to provide base salaries at levels that are competitive with amounts paid to senior executives with comparable qualifications, experience, and responsibilities. The annual incentive compensation is approved upon achievement of corporate objectives. The longer-term incentive compensation, consisting of the Company's Incentive Stock Option Plan, is closely tied to the Company's success in achieving increases in the Company's stock price, thereby benefiting all shareholders. The Committee reviews industry compensation surveys, and compares compensation data from public filings by other publicly held companies in our industry and market region. In setting the compensation of the executive officers other than the Chief Executive Officer, the Committee receives and accords significant weight to the input of the Chief Executive Officer.

The Committee has recognized the success of the Company's executives in accomplishing the Company's various strategic objectives, and has taken into account management's commitment to the long-term success of the Company. The Company has continued to expand its product and service offerings and has also continued its expansion beyond its traditional geographic base. The Company has also continued to focus its efforts on increasing earnings and on providing superior customer service while controlling operating costs. These actions will in turn assist the Company in meeting the challenge of achieving growth in an increasingly competitive telecommunications industry. Based upon its evaluation of these and other relevant factors, the Committee is satisfied that the executives have contributed positively to the Company's long-term financial performance.

The annual base salary of the Chief Executive Officer is determined by the Committee in recognition of his leadership role in formulating and executing strategies for responding to the challenges of our industry, and the Committee's assessment of his past performance and its expectation for his future contributions in leading the Company. The 2001 base salary was not set in response to attainment of any specific goals by the Company, although the Committee took into consideration his individual contributions to the Company's performance, reflected by approximately 46% growth in revenues, 34% growth in operating earnings, and his overall efforts to successfully manage the Company's profitable growth.

The annual incentive plan stresses improvement in both financial performance, as measured by increases in net income, and service provided to the Company's customers, as measured by trouble reports from customers. Specific target goals are set each year. In 2001, targets were set for increases in revenues from the Company's PCS services; increases in earnings from our non-wireless businesses; reductions in troubles reported by customers; and, a subjective valuation of overall productivity, timely and cost effective completion of projects, and improvement in working relationships between different functional areas of the organization. Performance of these four factors could range from 0 to 200%, and were weighted by 20%, 25%, 30%, and 25%, respectively. Despite the Company's overall financial progress and continued improvement in its service levels, it did not fully achieve its internally set goals for improvement. While progress was made, the Company's improvements were not as great as hoped for, and the Company reached less than 75 percent of its combined goals. Since overall performance did not fully achieve the Company's goals, the incentive payments made to the Company's president and other executive officers were smaller than payments made in the previous year.

The long-term incentive plan involves most employees of the Company, and incentive stock options are currently being granted on a formula related to base salary. Rewards under this plan for the executive officers, as well as all participating employees, are dependent upon increases in the market price of the Company's stock.

Submitted by the Company's Personnel Committee:
Noel M. Borden, Chairman
Harold Morrison, Jr.
James E. Zerkel II

## FIVE-YEAR SHAREHOLDER RETURN COMPARISON

The following graph compares the performance of the Company's stock to the NASDAQ Market Index and the S&P Telephone Index. The S&P Telephone Index consists of Alltel Corporation; BellSouth Corporation; CenturyTel, Inc; Qwest Communications International Inc.; SBC Communications Inc.; and Verizon Communications. The graph assumes that the value of the investment in the Company's stock and each of the indices was $100 at December 31, 1996 and that all dividends were reinvested. As of October 23, 2000, the Company's stock became listed on the NASDAQ National Market, and continued to trade under the symbol "SHET."

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|
| Shenandoah Telecommunications Company | 100 | 88 | 91 | 164 | 159 | 198 |
| NASDAQ Stock Market | 100 | 122 | 173 | 321 | 193 | 153 |
| S&P Telephone Index | 100 | 140 | 205 | 217 | 194 | 161 |

Comparison of Five-Year Cumulative Total Return among Shenandoah Telecommunications Company, NASDAQ Market Index, and S&P Telephone Index

[Line chart representation of the above data}

## SECTION 16(a) - BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Ownership of and transactions in Company stock by executive officers and directors are required to be reported to the Securities and Exchange Commission pursuant to Section 16(a) of the Securities and Exchange Act. On November 13, 2001 Christopher E. French, David E. Ferguson, and William L. Pirtle, executive officers, filed Forms 4 for the month ended October 31, 2001 to correct an inadvertent failure to report the grant of incentive stock options in the calendar years 1997, 1998, 1999, and 2000. On January 9, 2002 David K. MacDonald and Laurence F. Paxton, executive officers, filed Forms 4 for the month ended October 31, 2001 to correct an inadvertent failure to report the grant of incentive stock options in the calendar years 1999 and 2000 for Mr. MacDonald and the years 1997, 1998, 1999, and 2000 for Mr. Paxton. Based solely upon a review of copies of reports of beneficial ownership provided to the Company by officers and directors, the Company believes that all reports required pursuant to Section 16(a) with respect to the year 2001 were timely filed.

## INDEPENDENT PUBLIC ACCOUNTANTS

On March 12, 2001, the Company's Board of Directors voted to engage the accounting firm of KPMG LLP as the principal accountant to audit the Company's financial statements for the fiscal year ending December 31, 2001, to replace the firm of McGladrey & Pullen, LLP, the principal accountant engaged to audit the Company's financial statements as of December 31, 2000 and 1999, and for each of the years in the three year period ended December 31, 2000. The Company conducted a competitive proposal process to select the independent public accountant to audit the Company's financial statements for the fiscal year ending December 31, 2001. The Company's Audit Committee received bids from several independent public accounting firms including McGladrey & Pullen, LLP. After reviewing the proposals, the Company's Audit Committee selected KPMG LLP, and the Company's Board of Directors approved this selection on March 12, 2001. McGladrey & Pullen, LLP did not resign or decline to stand for reelection. The Company decided, following the competitive proposal process, not to retain McGladrey & Pullen, LLP with respect to the audit of the Company's financial statements for periods beginning with the fiscal year ending December 31, 2001 and thereafter. McGladrey & Pullen, LLP's reports on the financial statements as of December 31, 2000 and 1999, and for each of the years in the three year period ended December 31, 2000, contained no adverse opinion or disclaimer of opinion and were not qualified as to uncertainty, audit scope or accounting principles. In connection with the audits of the three fiscal years ended December 31, 2000 and through the subsequent interim period preceding the engagement of KPMG LLP, there were no disagreements with McGladrey & Pullen, LLP on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedures, which disagreements if not resolved to their satisfaction would have caused them to make reference in connection with their reports on the financial statements to the subject matter of the disagreement. It is expected that representatives of KPMG LLP will be present at the annual meeting.

### Audit Fees

The aggregate fees billed for Audit of the Company's annual consolidated financial statements for 2001 and the reviews of the financial statements included in the Company's forms 10-Q for 2001 were $115,900.

### Financial Information Systems Design and Implementation Fees

The Company did not engage the principal accountant for any services of this nature.

### All Other Fees

Other fees billed by the principal accountant were $5,800, which was for tax planning services. The Audit Committee considers the nature of this work to be compatible with maintaining the principal accountant's independence.

## PROPOSALS OF SHAREHOLDERS

Proposals of shareholders to be included in management's proxy statement and form of proxy relating to next year's annual meeting must be received at the Company's principal executive offices no later than November 22, 2002. In addition, in order for any matter to be properly brought before the 2003 annual meeting, the shareholder must notify the Company in writing no later than December 23, 2002. The notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting: (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (b) the name and record address of the shareholder proposing such business; (c) the class, series and number of shares of the Company's stock that are beneficially owned by the shareholder proposing such business; and (d) any material interest of the shareholder in such business.

## OTHER MATTERS

Management does not intend to bring before the meeting any matters other than those specifically described above and knows of no matters other than the foregoing to come before the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the accompanying form of proxy to vote such proxy in accordance with their judgment on such matters, including any matters dealing with the conduct of the meeting.

## FORM 10-K

The Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission is available to shareholders, without charge, upon request to Mr. Laurence F. Paxton, Vice President-Finance, Shenandoah Telecommunications Company, P. O. Box 459, Edinburg, VA 22824; or, can be retrieved from the Securities and Exchange Commission website at www.sec.gov.

Shenandoah Telecommunications Company
124 South Main Street
Edinburg, VA 22824

PROXY
This proxy is solicited on behalf of
the Board of Directors

- ------------------------------------

The undersigned hereby appoints Noel M. Borden, Christopher E. French, and Grover M. Holler, Jr., and each of them, as Proxies with full power of substitution, to vote all common stock of Shenandoah Telecommunications Company held of record by the undersigned as of March 19, 2002, at the Annual Meeting of Shareholders to be held on April 16, 2002, and at any and all adjournments thereof.

1. Election of Directors

   [_] FOR CLASS I          Douglas C. Arthur, Harold Morrison, Jr., Zane Neff

   To withhold authority to vote for any individual nominee, strike a line through the nominee's name listed above.

   [_] Vote Withheld for all nominees listed above.

2. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

THIS PROXY, WHEN PROPERLY EXECUTED WILL BE VOTED IN THE MANNER DIRECTED HEREIN BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR ALL NOMINEES.

Please mark, sign exactly as name appears below, date, and return this proxy card promptly, using the enclosed envelope, whether or not you plan to attend the meeting.

---

When signing as attorney, executor, administrator, trustee, guardian, or agent, please give full title as such. If a corporation, please sign in full corporate name by president or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Dated_____________________, 2002

____I plan to attend the meeting
____Number of persons attending
____I cannot attend the meeting

---------------------------------------------
SIGNATURE

---------------------------------------------
ADDITIONAL SIGNATURE (if held jointly)

EXHIBIT 21 LIST OF SUBSIDIARIES

SHENANDOAH TELECOMMUNICAITONS COMPANY AND SUBSIDIARIES

The following are all subsidiaries of Shenandoah Telecommunications Company, and are incorporated in the State of Virginia.

Shenandoah Telephone Company
Shenandoah Cable Television Company
ShenTel Service Company
Shenandoah Long Distance Company
Shenandoah Valley Leasing Company
Shenandoah Mobile Company
Shenandoah Network Company
Shenandoah Personal Communications Company
Shentel Communications Company

EXHIBIT 23

INDEPENDENT AUDITOR'S CONSENT

As independent auditors, we hereby consent to the incorporation of our report, dated January 26, 2001, incorporated by reference into the Annual Report of Shenandoah Telecommunication Company on Form 10-K, into the Company's previously filed Form S-8 Registration Statement, File No. 333-21733, and Form S3-D Registration Statement No. 333-74297.

/s/ MCGLADREY & PULLEN, LLP

Richmond, Virginia
March 28, 2002



EXHIBIT 23

Consent of Independent Auditors

The Board of Directors
Shenandoah Telecommunications Company:

We consent to the incorporation by reference in the registration statements No. 333-21733 on Form S-8 and No. 333-74297 on Form S3-D of Shenandoah Telecommunications Company of our report dated February 1, 2002 with respect to the 2001 Consolidated Financial Statements listed in the accompanying Index to Financial Statements in Item 14(a)1 included in the 2001 Annual Report on Form 10-K of Shenandoah Telecommunications Company, which report appears in the 2001 Annual Report on Form 10-K of Shenandoah Telecommunications Company.

/S/ KPMG LLP

Richmond, Virginia
March 28, 2002