2006 annual report

Shenandoah Telecommunications Company

SHENTEL®

Our Size
IS Our
Strength.

Experience

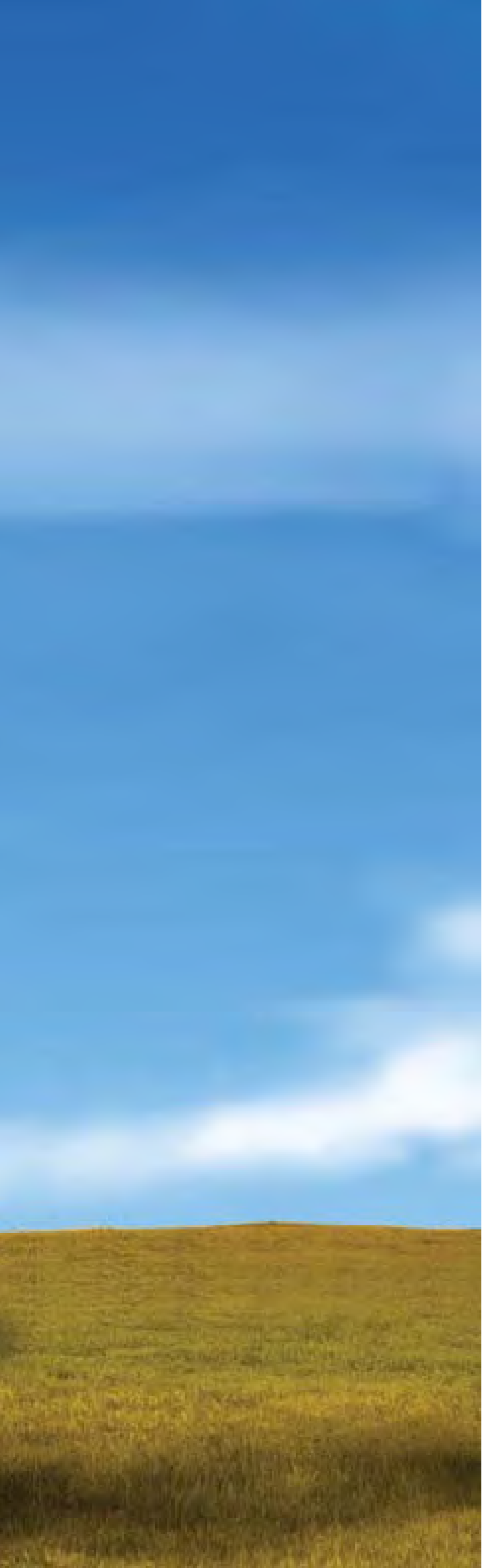
Practical knowledge, skill or practice derived from direct participation in events or in a particular activity

Reliability

The extent to which an experiment, test or measuring procedure yields the same results on repeated trials

Flexibility

Characterized by a ready capability to adapt to new, different or changing requirements



March 27, 2007

Dear Shareholder:

Despite a fairly challenging year, I am pleased to report that your Company has emerged stronger and much better positioned to compete in our rapidly changing industry. During 2006, we had to reevaluate our affiliate relationship with Sprint, working with them to determine if we would remain an affiliate (and if so, under what terms), or sell our PCS subsidiary. The possibility that we could end up no longer being in the PCS business was a catalyst to undertake a reexamination of our organization. We considered what would be the appropriate structure and size for our Company to be competitive in the future, regardless of whether PCS remained part of it. These efforts understandably caused higher levels of uncertainty within our organization, but I am very proud of our employees and management team for their ability to remain focused on the important tasks of providing good service and growing the Company as we continued to improve our financial results.

Led by record results in our PCS operation, our total revenues increased 15.6% to $169.2 million in 2006. Operating income reached $21.2 million, an increase of 9.3% over 2005. Net income for the year was $17.9 million, which included a one-time net-of-tax gain of $6.4 million related to the liquidation of the Rural Telephone Bank. In comparison, net income in 2005 was $10.7 million.

Operating losses in our Converged Services business, which primarily consists of NTC Communications, widened to $7.4 million from $3.9 million in 2005. The increased loss was primarily due to our decision to shorten the useful lives of certain assets and costs related to projects to enhance back office systems and network upgrades.

Total long-term debt was $26.0 million at year end, a reduction of $9.9 million. As of the end of the year, total long-term debt as a percent of total assets was 12.5%, compared to 17.5% a year earlier. Of historical interest is the fact that the Company has now repaid all remaining loans from the Rural Electrification Administration (REA) and its related entities. The first loans from the REA were a key factor in enabling the company to provide basic telephone service in the 1950's and then upgrading to single party dial service.

One of the more challenging aspects of 2006 was the changing nature of our discussions with Sprint Nextel concerning our affiliate relationship. The discussions were initiated as a result of the August 2005 merger between Sprint and Nextel, and initially were focused on ways to enable Shentel to continue partnering with them for the provision of PCS services. In April 2006, we announced that reaching a mutually acceptable agreement with Sprint Nextel had not been achieved, and the Company was going to consider other alternatives including a possible sale of its PCS business. A sale alternative did not materialize, but we were able to continue working with Sprint Nextel to resolve our concerns about the impact of their merger and the possibilities of our continuing to be a successful affiliate. On March 15, 2007 we announced that agreement was reached to remain an affiliate, provide distribution and customer service for Nextel products in our service area, amend our current operating agreements to greatly simplify the settlement of revenue and expense items between the two parties and, as a result, cease discussions concerning a possible sale.

Under the previous arrangement, Sprint Nextel basically remitted to the Company 92 percent of revenue billed to customers we put on the system. The eight percent withheld is compensation for use of their spectrum, brands and national advertising. Separately, the Company settled with Sprint Nextel on over 100 separate items, for such things as billing services, customer care costs, handset subsidies and commissions, and travel, wholesale and roaming minutes. These additional items resulted in a net payment back to Sprint Nextel of approximately nine percent of billed revenue in 2006. Combined with the eight percent mentioned above, this left the Company with approximately 83 percent of billed revenue with which to cover our own operating costs. The amended agreements provide that we will no longer separately settle for all these items, and will instead receive 83.2 percent of billed revenues.

In addition to resolving our differences with Sprint Nextel, the new amendment allows Shentel to continue benefiting from our past effort and experience in successfully building and operating a quality wireless network, and gives us more certainty concerning possible future changes in our costs and the amounts paid to Sprint Nextel. Wireless service has been the major driver of our growth in recent years, becoming the biggest source of our revenues and now surpassing our telephone subsidiary as the largest contributor of operating income.

Although we have now reached a successful conclusion to restructuring our relationship with Sprint Nextel, the potential of exiting the PCS business served as a catalyst for critically examining our organizational structure and staffing levels. Our goal was to identify changes that should be made to better position the Company for the future and reduce our overall cost structure. This review identified numerous areas for improvement. A decision was reached to freeze the defined benefit pension plan and distribute the assets to plan participants. Simultaneously, the defined contribution 401(k) plan was enhanced by making additional contributions to employee accounts. The Company also announced that it would eliminate up to 50 positions by the end of the first quarter of 2007, through a combination of an early retirement offer, attrition, and layoffs. This objective was met, primarily through early retirements and attrition.

During the review of our organization, it was clear that our staffing levels were too high in positions that supported our traditional businesses. Although our telephone subsidiary has not experienced the same net loss of access lines as the rest of our industry, our growth has dropped to negligible levels. At the same time, we continue to construct new telephone facilities in order to meet our obligations to provide service to new homes being constructed in our service territory. The new lines we do add are offset by the lines lost as customers increasingly use wireless or internet based services. This slowing of growth, coupled with forecasted decreases in access revenues, indicated a need to reduce labor costs, an objective that was met through our restructuring efforts.

The changes happening in our traditional industries, coupled with our wireless growth, have continued to fundamentally change the overall mix of our businesses. Of particular interest is the geographic source of our revenues, which no longer are primarily derived from Shenandoah County. We have estimated that less than 25 percent of our total revenues originated in Shenandoah County during 2006, and more than 75 percent came from areas that are not part of our original telephone service area. This shift underscores the success we have had over the years diversifying away from our dependence on the telephone subsidiary as the primary source of revenues and profits. As we continue to look for ways to grow our Company and increase profits, it remains clear that we will have to increasingly depend on opportunities outside of Shenandoah County.

As our mix of businesses change, we must continue to deal with changes within our industry and its rules and regulations. Interstate access rates approved by the Federal Communications Commission are scheduled to decrease in July of 2007, and are expected to result in an annual reduction of about one million dollars in revenue for our telephone subsidiary. While the loss of access revenues will have a negative impact, it underscores the need to invest in new technologies that will enable us to continue improving our services, and allow us to economically provide them to a broader range of customers. This has already started with our investment in fiber-to-the-home (FTTH) projects, as we expect fiber distribution networks to be able to support all future customer needs. We also made further enhancements to our electronic bill paying capability, expanding it beyond our NTC student customer base and now promoting it to our traditional telephone service customers. These customers can now receive their bills electronically and make payments online, reducing the time needed to perform this monthly task and also lowering our processing costs. Future improvements are expected as we plan to upgrade our billing and operational support systems during 2007.

We have also installed our first soft-switch, based on packet-switching technology, which lets us provide IP-based services to our customer base and provision traditional telephone services on a more economical basis. The switch is already providing services to one of our FTTH projects and will be used for all new FTTH projects when services are initiated. Other applications are to help lower the cost of providing services to our Converged Services customers in multi-dwelling-unit properties. Another area of focus during 2006 was the addition of high-definition television service to our CATV system. This service, along with digital video recorder capabilities, was made available to our CATV customers in January 2007.

In addition to continued investments in new technologies, we also need to improve our efforts to find, evaluate and pursue other growth opportunities. Whether we start new lines of business or acquire other businesses that are complementary to ours, we invariably will need to assume higher levels of risk than we incur with our present mix of businesses. Additionally, as we continue to become a more visible public company, we must continue to enhance our financial expertise and controls. Although we continue to have a very large retail shareholder base, about ten percent of our shares are now held by mutual funds, most of which are index funds as our stock is part of the Russell 3000 Index. Additionally, a comparable amount of shares are also held by insurance companies, investment advisors and pension funds.

As our revenue base has broadened beyond Shenandoah County, so has the make-up of our Board of Directors. Our nine member board is now comprised of five Shenandoah County residents and four residents from the surrounding region. As importantly, we have broadened the mix of skills and expertise in response to the demand for public companies to have more diverse boards with the ability to deal with the complex and changing requirements of our industry. The untimely death of Noel Borden, who served almost 34 years, and the retirement of Grover Holler after 54 years of service, was a loss of a significant amount of board experience. We now plan to meet the challenge of replacing them and the opportunity to further enhance and re-strengthen our board's capabilities.

During 2006 we continued to work to improve the results in our Converged Services business. Although the operating loss more than doubled from the prior year, we significantly improved the quality of service provided to our student customers, and laid the foundation to be better able to grow the business to a profitable size. Our efforts have now started to show results, and we have seen increases in the average revenue per unit, longer contract terms with property owners, and a reduction in construction costs per unit served.

Shareholders were again rewarded in 2006 for owning stock in Shenandoah Telecommunications Company. The stock price closed the year at $47.01, an 18.0 percent increase over the 2005 end-of-year close. The Board of Directors declared a total cash dividend of 75 cents per share which included a special dividend of 27 cents per share. Total return to shareholders over the previous five year period still greatly exceeds the benchmark returns of both the NASDAQ National Market and the NASDAQ Telecommunications indices as evidenced by the total return graph which is now included in Form 10-K filed with the Securities and Exchange Commission.

We accomplished much in 2006, but recognize that securing a successful future is not without risks. It will require us to continue investing in new technologies and our people, while constantly striving to improve the services we offer our customers. While there is no guarantee of success, we will continue to pursue our objective of generating profitable growth over the long-term, and we ask for your continued support of our efforts to do so.

For the Board of Directors,

Christopher E. French
President

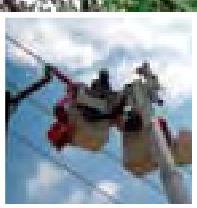
Over 100 Years

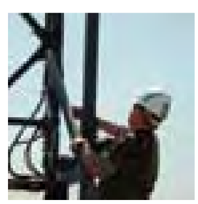
We're proud of our origins. For more than 100 years, we have successfully taken on the myriad of challenges facing the telecommunications industry. During that time we have provided hundreds of thousands of customers with service in an area that has grown from Shenandoah County, Virginia, to the eastern seaboard.

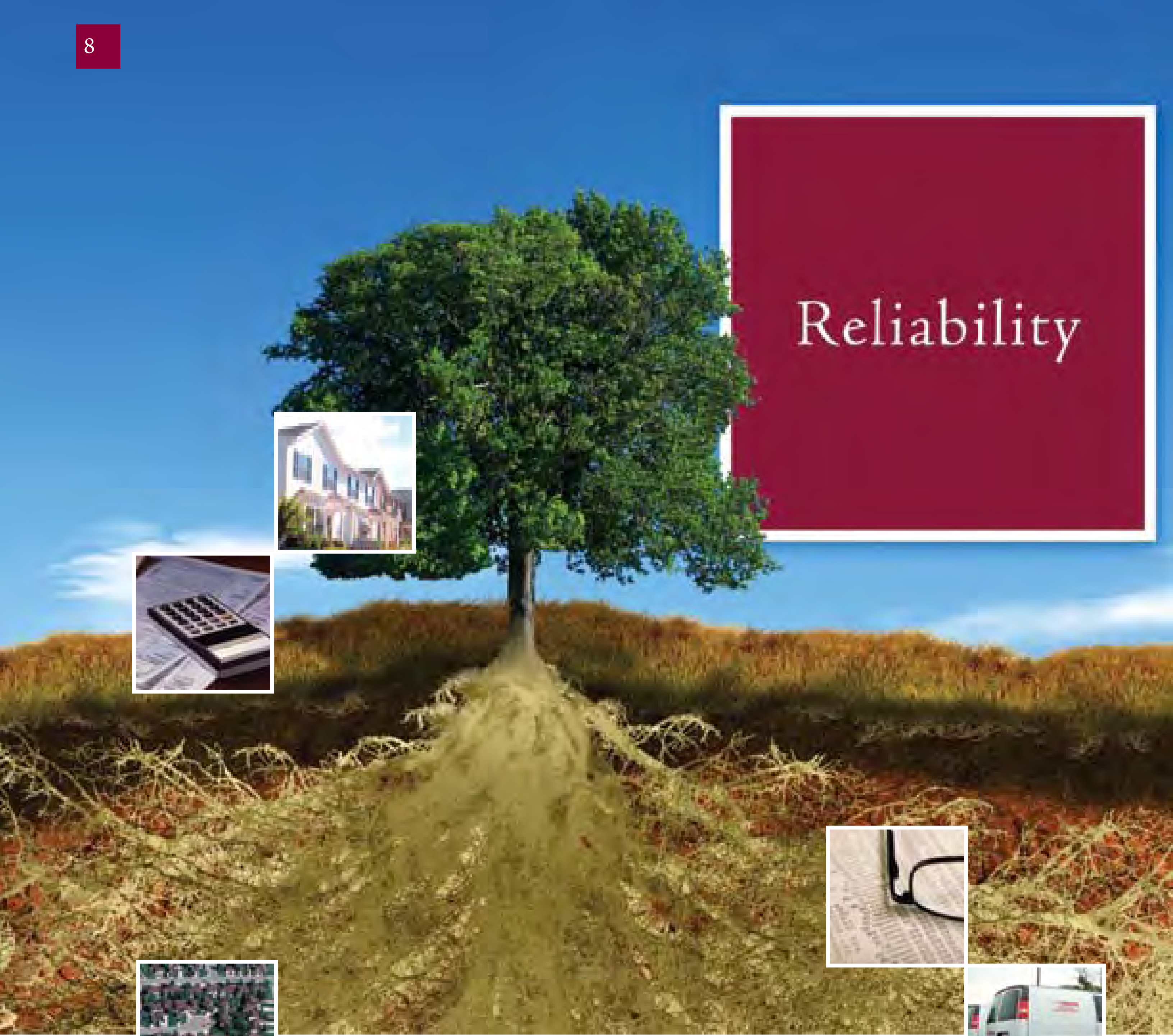
Innovative leader

We have always been an innovative leader in the delivery of our services. We were one of the first telcos to adopt buried cables and quickly saw the benefit of digital switching. Our goal has been to remain diversified. We took the initiative and applied our can-do attitude to reach beyond local telephone service to offer Cable TV, Internet access and the first PCS service in rural America.

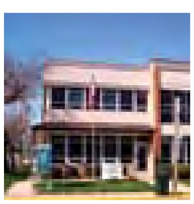
Experience







Reliability



Financially Sound
$170 million annual sales

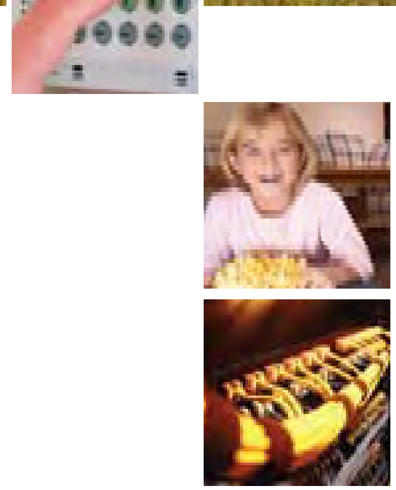
The legacy of Shenandoah Telecommunications Company is one of prudent fiscal management. The company's balance sheet is envied in an industry where many companies have found it hard to meet their debt obligations, much less being able to invest in their future.

Not only survived but thrived

While industry changes since the late 1990s have proven to be too challenging for many telecommunications companies, we have not just survived, we've thrived. Our management team continues to pursue new business opportunities in an effort to diversify and generate long-term profitable growth.

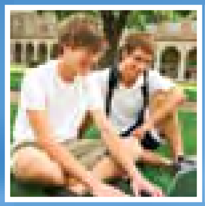
Shenandoah County has relied on Shentel

For more than a century, we have provided solutions that have exceeded our customers' expectations. From the installation of our first telephone service to the launch of our High Definition television service, Shentel has strived for quality and reliability in every area of communication.



Access to Management

Our customers have access to managers at all levels of the Company up to and including the CEO. This access separates us from the telecom giants and provides our customers with paths to solve their problems quickly.




Flexibility




Not a one-size-fits-all approach

We serve our customers by considering their individual communication needs. Our mission is to provide the right solution at a fair price – one customer at a time.

Customer service

As a total vendor solution, we strive in every area to provide not just exceptional solutions but superior customer service. Our attitude toward our customers sets us apart from other providers. We keep our promises and are dedicated to keeping our customers satisfied long after our services are installed.

PCS

Our personal business approach delivers more than a service solution. Rubbermaid Commercial Products, headquartered in Winchester, Virginia, selected Shentel, a Sprint PCS Affiliate over a national mobile wireless carrier to handle its wireless communication.

When Rubbermaid compared Shentel with a national mobile wireless carrier, they saw the immediate value in forming a relationship with Shentel. Our knowledge of the wireless network layered with local professional customer service exceeded Rubbermaid's expectations.

"After weighing the pros and cons the main reason we chose Shentel was because with Shentel we have personal local direct contact," said Telecommunications Analyst Danielle Lamb, manager of this project for Rubbermaid. "And we deal with someone we know instead of an 800 number."

Shentel employees working out of our Winchester Sprint store handle the Rubbermaid account which has grown to hundreds of phones. Our personnel's diligence continues to combine solutions with an elite level of customer service.

High Definition Launch

With the increase in High Definition Television (HDTV) set sales, adding High-Definition capability and content to our Shenandoah County cable system was a must. Two goals were outlined in late 2006: deliver to our customers the same service available in urban areas, and meet the customers' increased need for superior digital-quality video and audio. We achieved both objectives by launching HDTV combined with Digital Video Recorder (DVR) service.

We aligned resources from our operations, engineering and technology groups. The focused effort upgraded the cable network, presenting our customers with the highest quality HD signal and programming. Marketing launched an active awareness campaign and customers responded. Customer service began taking orders. Our customers were eager to sign up, ready to experience our HDTV and DVR solution.

MetroPointe Lofts MDU

When Ambling Management Company acquired MetroPointe, an off campus student housing complex in Atlanta, Georgia, there were two immediate concerns: Restore the reputation of the property and increase the occupancy rate from below 30%. With only two months until college students returned, immediate progress was needed. MetroPointe wanted to include Internet access in the rent to entice new residents, but their current provider could not facilitate MetroPointe's specific needs.

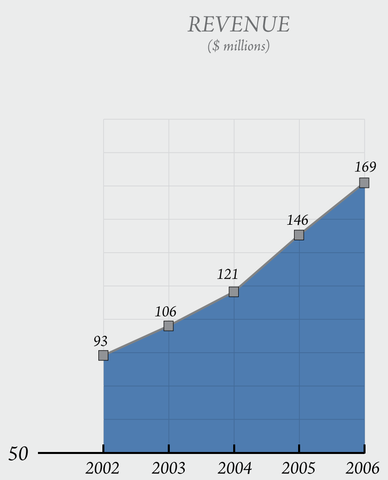
Shentel responded to MetroPointe's need and made the commitment to meet the challenge within the tight deadline. MetroPointe's challenge became ours. The solution required inside wiring of fiber and Ethernet to all 386 units across four buildings with access to the Internet. The work began in mid-July with a deadline of September 30.

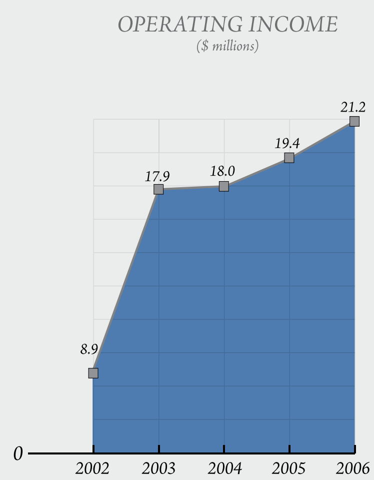
The diligence paid off. We met the goal and delivered high-speed broadband access to all 1,214 bedrooms two weeks ahead of schedule. "Ambling Management Company was impressed with Shentel's professional installation of the infrastructure for Internet accessibility at our MetroPointe location," said William Barkwell, President of Ambling Management Company. "Providing residents a quality product and dependable service is important and Shentel delivered."

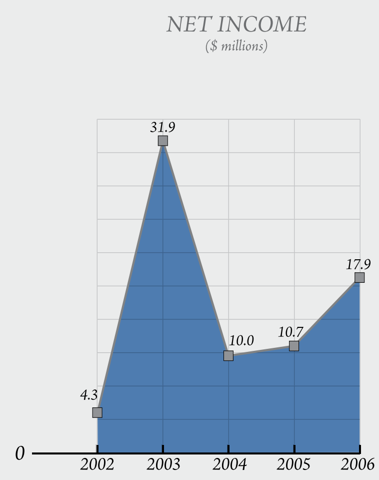
Currently, the Georgia property is enjoying an occupancy rate that is over 90%.

Executive Officers & Directors

William L. Pirtle VP Sales; **David E. Ferguson** VP Customer Services; **Richard Baughman** Director Information Technology; **Marlene Williams** Controller; **Earle A. MacKenzie** Executive Vice President, CFO & COO; **Ed McKay** Director Technology; **Christopher E. French** President & CEO; **Bobby Gadams** Director Human Resources; **Jonathan R. Spencer** VP & General Counsel; **David K. MacDonald** VP Operations; **Chris Kyle** Director Planning; **Dexter Torculas** Director Engineering; **Tom Whitaker** Director Operations; **Dan Detamore-Hunsberger** Director Compliance;





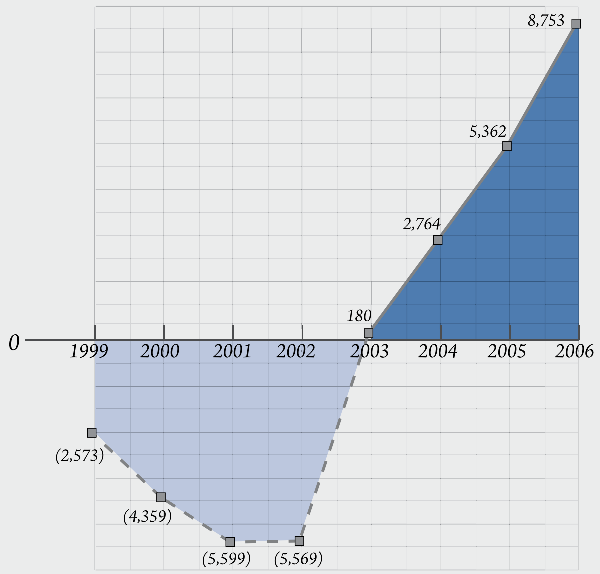


Board of Directors

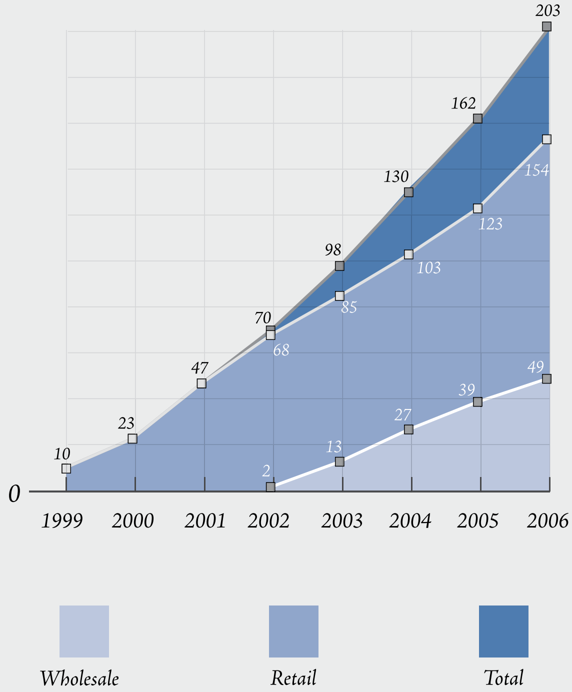
Standing, left to right: **Dale S. Lam** CFO, Comsonics, Inc.; **Richard L. Koontz, Jr.** VP, Holtzman Oil Corp; **Douglas C. Arthur** Attorney, Arthur and Allamong; **William A. Truban, Jr.** Attorney, Owen and Truban, PLC

Seated, left to right: **Ken L. Burch** Farmer; **Jonelle St. John** Financial Systems Expert and Consultant, Pace Harmon, LLC; **Christopher E. French** President, Shentel; **Tracy Fitzsimmons** Senior VP & VP, Academic Affairs, Shenandoah University; **James E. Zerkel II** VP, James E. Zerkel, Inc.

PCS NET INCOME
(thousands)



PCS CUSTOMERS
(thousands)



In Memoriam

Noel M. Borden

Noel Borden was elected to the Board on November 13, 1972 and served until he passed away on August 13, 2006.

Five-Year Summary of Selected Financial Data

(in thousands, except share and per share data)	2006	2005	2004	2003	2002
Operating revenues	$ **169,195**	$ 146,391	$ 120,994	$ 105,661	$ 92,764
Operating expenses	**148,021**	127,015	102,983	87,740	83,878
Interest expense	**2,362**	3,076	3,129	3,510	4,195
Income taxes (benefit)	**12,370**	6,716	5,921	5,166	(2,223)
Net income (loss) from continuing operations[1]	$ **17,999**	$ 10,735	$ 10,038	$ 9,539	$ (3,150)
Discontinued operations, net of tax	**-**	-	-	22,389	7,412
Cumulative effect of a change in accounting, net of tax	**(77)**	-	-	(76)	-
Net income	$ **17,922**	$ 10,735	$ 10,038	$ 31,852	$ 4,262
Total assets	**207,720**	204,921	211,421	185,520	163,927
Total debt – including current maturities	**26,016**	35,918	52,291	43,346	52,043

Shareholder Information

	2006	2005	2004	2003	2002
Shares outstanding	**7,761,428**	7,687,045	7,629,810	7,592,768	7,551,818
Income (loss) per share from continuing operations-diluted	$ **2.31**	$ 1.39	$ 1.31	$ 1.25	$ (0.42)
Income per share from discontinued operations-diluted	**-**	-	-	2.94	0.98
Loss per share from cumulative effect of a change in accounting	**(0.01)**	-	-	(0.01)	-
Net income per share-diluted	**2.30**	1.39	1.31	4.18	0.56
Cash dividends per share	$ **0.75**	$ 0.46	$ 0.43	$ 0.39	$ 0.37

Notes

[1] The 2006 balance shown includes a gain of $6.4 million, net of tax, relating to the disposition of the RTB stock.

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

Selected Statistics (unaudited)

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

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

Notes

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

[2] Originated by customers of the Company's Telephone subsidiary.

[3] POPS refers to the estimated population of a given geographic area and is based on information purchased by Sprint Nextel from Geographic Information Services. Market POPS are those within a market area which the Company is authorized to serve under its Sprint Nextel agreements, and Covered POPS are those covered by the network's service area.

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

[5] Indicates MDU complexes where NTC provides service

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

[7] Service is provided under contract with individual subscribers.

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

Plant Facility Statistics at Dec. 31, 2006

Excludes information for Converged Services (NTC)

	Telephone	CATV
Route Miles	2,233	570
Miles of Distribution Wire	626	186
Utility Poles	7,599	38
Miles of Aerial Copper Cable	321	162
Miles of Buried Copper Cable	1,376	372
Miles of Underground Copper Cable	39	2
Fiber Miles Regulated	280	-
Fiber Miles Unregulated	249	-
Fiber Miles Network	93	-

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of our Chief Executive Officer and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006, based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on management's evaluation under the COSO framework of our internal control over financial reporting, management concluded that our internal control over financial reporting was effective as of December 31, 2006.

KPMG LLP, an independent registered public accounting firm, which audited the Company's financial statements included in this Annual Report, has issued an attestation report on management's assessment of the Company's internal control over financial reporting, which is included on page 20 of this Annual Report.

Remediation of Material Weaknesses in Internal Control Over Financial Reporting

In connection with correcting our methodology of accounting for operating leases, we instituted the following procedures to remediate the related material weakness in our internal control over financial reporting discussed in our Annual Report for 2005:

- the Company reviews all new or renewing leases to determine if a straight-line calculation is required;
- the Company reviews new and/or modified lease arrangements to ensure appropriate consideration of lease renewal periods; and
- the Company enhanced the systematic controls applicable to the calculation of deferred rent assets and liabilities.

To remediate the material weakness with respect to the income tax calculation process, the Company engaged a new tax specialist to more effectively address the complex tax issues the Company is facing in its expanding multi-state operations. The Company adopted procedures and processes to provide for the effective supervisory review of the prepared tax calculations. Management continues to support employee training in complex tax subjects, in addition to the monitoring, review and analysis of the tax calculations and disclosures that are prepared by the Company's tax specialists.

As of December 31, 2006, the Company has remediated all of its previously reported material weaknesses.

Reports of Independent Registered Accounting Firm

The Board of Directors and Shareholders
Shenandoah Telecommunications Company:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Shenandoah Telecommunications Company and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Shenandoah Telecommunications Company and subsidiaries, as of December 31, 2006, 2005 and 2004, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended, and our report dated March 14, 2007 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Richmond, Virginia
March 14, 2007

The Board of Directors and Shareholders
Shenandoah Telecommunications Company:

We have audited the accompanying consolidated balance sheets of Shenandoah Telecommunications Company and subsidiaries (the Company), as of December 31, 2006, 2005, and 2004, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years 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 audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Telecommunication Company and subsidiaries as of December 31, 2006, 2005, and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in note 10 to the consolidated financial statements, the Company changed its method of accounting for share based payment in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Richmond, Virginia
March 14, 2007

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Balance Sheets
December 31, 2006, 2005 and 2004

ASSETS (in thousands)	*2006*	*2005*	*2004*
Current Assets			
Cash and cash equivalents	**$ 13,440**	$ 2,572	$ 14,172
Accounts receivable, net	**11,611**	11,864	9,019
Escrow receivable	**-**	-	5,000
Income taxes receivable	**-**	795	2,341
Materials and supplies	**2,499**	2,702	2,108
Prepaid expenses and other	**2,016**	2,336	1,877
Deferred income taxes	**1,297**	532	-
Total current assets	**30,863**	20,801	34,517
Securities and Investments			
Available-for-sale securities	**-**	-	232
Other investments	**7,075**	7,365	7,018
Total securities and investments	**7,075**	7,365	7,250
Property, Plant and Equipment			
Plant in service	**267,622**	248,321	227,004
Plant under construction	**6,439**	9,061	3,319
	274,061	257,382	230,323
Less accumulated amortization and depreciation	**118,417**	95,144	74,071
Net property, plant and equipment	**155,644**	162,238	156,252
Other Assets			
Intangible assets, net	**2,799**	3,346	3,547
Cost in excess of net assets of businesses acquired	**9,852**	10,103	8,863
Deferred charges and other assets, net	**1,487**	1,068	992
Net other assets	**14,138**	14,517	13,402
Total assets	**$ 207,720**	$ 204,921	$ 211,421

(continued)

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Balance Sheets
December 31, 2006, 2005 and 2004

LIABILITIES AND SHAREHOLDERS' EQUITY (in thousands)	***2006***	2005	2004
Current Liabilities			
Current maturities of long-term debt	**$ 4,109**	$ 4,526	$ 4,372
Accounts payable	**7,364**	6,928	6,003
Advanced billings and customer deposits	**4,975**	4,247	3,566
Accrued compensation	**1,974**	3,294	1,785
Income taxes payable	**23**	-	-
Deferred income taxes	**-**	-	1,453
Accrued liabilities and other	**2,835**	3,746	4,667
Total current liabilities	**21,280**	22,741	21,846
Long-term debt, less current maturities	**21,907**	31,392	47,919
Other Long-Term Liabilities			
Deferred income taxes	**22,515**	24,599	24,162
Pension and other	**4,303**	2,359	2,859
Deferred lease payable	**2,526**	2,230	1,878
Total other liabilities	**29,344**	29,188	28,899
Commitments and Contingencies			
Shareholders' Equity			
Common stock, no par value, authorized 16,000 shares; issued and outstanding 7,761 shares in 2006, 7,687 shares in 2005, and 7,630 shares in 2004	**11,322**	8,128	6,319
Retained earnings	**125,690**	113,576	106,373
Accumulated other comprehensive income (loss), net of tax	**(1,823)**	(104)	65
Total shareholders' equity	**135,189**	121,600	112,757
Total liabilities and shareholders' equity	**$ 207,720**	$ 204,921	$ 211,421

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2006, 2005 and 2004

(in thousands, except per share amounts)	***2006***	2005	2004
Operating revenues	**$ 169,195**	$ 146,391	$ 120,994
Operating expenses:			
Cost of goods and services, exclusive of depreciation and amortization shown separately below	**71,656**	60,299	45,847
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	**49,075**	44,334	38,116
Depreciation and amortization	**27,290**	22,382	19,020
Total operating expenses	**148,021**	127,015	102,983
Operating income	**21,174**	19,376	18,011
Other income (expense):			
Interest expense, net	**(2,362)**	(3,076)	(3,129)
Gain (loss) on investments, net	**10,644**	(152)	(57)
Non-operating income, net	**913**	1,303	1,134
Income before income taxes and cumulative effect of a change in accounting	**30,369**	17,451	15,959
Income tax expense	**12,370**	6,716	5,921
Net income before cumulative effect of a change in accounting	**17,999**	10,735	10,038
Cumulative effect of a change in accounting, net of income taxes	**(77)**	-	-
Net income	**$ 17,922**	$ 10,735	$ 10,038
Income (loss) per share:			
Basic net income (loss) per share:			
Net income before cumulative effect of a change in accounting	**$ 2.33**	$ 1.40	$ 1.32
Cumulative effect of a change in accounting, net of income taxes	**(0.01)**	-	-
	$ 2.32	$ 1.40	$ 1.32
Weighted average shares outstanding, basic	**7,719**	7,659	7,611
Diluted net income (loss) per share:			
Net income before cumulative effect of a change in accounting	**$ 2.31**	$ 1.39	$ 1.31
Cumulative effect of a change in accounting, net of income taxes	**(0.01)**	-	-
	$ 2.30	$ 1.39	$ 1.31
Weighted average shares, diluted	**7,777**	7,703	7,657

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Shareholders' Equity & Comprehensive Income
Years Ended December 31, 2006, 2005 and 2004

(in thousands, except per share amounts)	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2003	7,593	$ 5,733	$ 99,614	$ 26	$ 105,373
Comprehensive income:					
Net income	-	-	10,038	-	10,038
Net unrealized change in securities available-for-sale, net of tax of $(21)	-	-	-	39	39
Total comprehensive income	-	-	-	-	10,077
Dividends declared ($0.43 per share)	-	-	(3,279)	-	(3,279)
Common stock issued through exercise of incentive stock options	37	586	-	-	586
Balance, December 31, 2004	7,630	$ 6,319	$ 106,373	$ 65	$ 112,757
Comprehensive income:					
Net income	-	-	10,735	-	10,735
SERP additional minimum pension liability	-	-	-	(104)	(104)
Net unrealized change in securities available-for-sale, net of tax of $(40)	-	-	-	(65)	(65)
Total comprehensive income	-	-	-	-	10,566
Dividends declared ($0.46 per share)	-	-	(3,532)	-	(3,532)
Stock based compensation	-	347	-	-	347
Common stock issued through exercise of incentive stock options	57	1,169	-	-	1,169
Excess tax benefit from stock options exercised	-	293	-	-	293
Balance, December 31, 2005	7,687	$ 8,128	$ 113,576	$ (104)	$ 121,600
Comprehensive income:					
Net income	-	-	17,922	-	17,922
SERP additional minimum pension liability	-	-	-	104	104
Net unrealized loss from pension plans, net of tax	-	-	-	(1,823)	(1,823)
Total comprehensive income	-	-	-	-	16,203
Dividends declared ($0.75 per share)	-	-	(5,808)	-	(5,808)
Dividends reinvested in common stock	10	474	-	-	474
Common stock repurchased from dividend reinvestment plan participants	-	(6)	-	-	(6)
Stock based compensation	-	94	-	-	94
Conversion of liability classified awards to equity classified awards	-	1,037	-	-	1,037
Common stock issued through exercise of incentive stock options	64	1,368	-	-	1,368
Net excess tax benefit from stock options exercised	-	227	-	-	227
Balance, December 31, 2006	7,761	$ 11,322	$ 125,690	$ (1,823)	$ 135,189

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31, 2006, 2005 and 2004

(in thousands)	*2006*	2005	2004
Cash Flows from Operating Activities from Continuing Operations			
Net income	**$ 17,922**	$ 10,735	$ 10,038
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:			
Cumulative effect of change in accounting principle	**77**	-	-
Depreciation	**26,459**	21,920	18,976
Amortization	**831**	462	44
Stock based compensation expense	**350**	347	-
Excess tax benefits on stock option exercises	**(228)**	-	-
Deferred income taxes	**(1,693)**	(1,511)	5,803
Loss on disposal of assets	**1,396**	383	1,251
Net gain on disposal of investments	**(10,542)**	(74)	(144)
Net (gain) loss from patronage and equity investments	**(206)**	(8)	33
Other	**915**	(962)	(777)
Changes in assets and liabilities, exclusive of acquired businesses:			
(Increase) decrease in:			
Accounts receivable	**254**	(2,374)	(2,140)
Materials and supplies	**203**	(589)	75
Increase (decrease) in:			
Accounts payable	**436**	925	(172)
Deferred lease payable	**296**	353	382
Other prepaids, deferrals and accruals	**(2,120)**	2,642	1,047
Net cash provided by operating activities from continuing operations	**$ 34,350**	$ 32,249	$ 34,416
Cash Flows From Investing Activities			
Purchase and construction of plant and equipment, net of retirements	**$ (21,195)**	$ (29,527)	$ (34,095)
Acquisition of businesses, net of cash acquired	**-**	(600)	(9,153)
Purchase of investment securities	**(453)**	(536)	(736)
Proceeds from investment activities	**11,489**	403	416
Proceeds from sale of equipment	**323**	147	39
Net cash used in investing activities from continuing operations	**$ (9,836)**	$ (30,113)	$ (43,529)

(continued)

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2006, 2005 and 2004

(in thousands)	2006	2005	2004
Cash Flows from Financing Activities			
Proceeds from issuance of long-term debt	$ -	$ -	$ 13,177
Principal payments on long-term debt	(8,725)	(4,373)	(15,895)
Net payments of lines of credit	(1,177)	(12,000)	-
Dividends paid	(5,334)	(3,532)	(3,279)
Repurchase of stock from DRIP participants	(6)	-	-
Excess tax benefits on stock option exercises	228	-	-
Proceeds from exercise of incentive stock options	1,368	1,169	586
Net cash used in financing activities from continuing operations	$ (13,646)	$ (18,736)	$ (5,411)
Net cash provided by (used in) continuing operations	$ 10,868	$ (16,600)	$ (14,524)
Net cash provided by operating activities from discontinued operations	-	5,000	-
Net increase (decrease) in cash and cash equivalents	$ 10,868	$ (11,600)	$ (14,524)
Cash and cash equivalents:			
Beginning	2,572	14,172	28,696
Ending	$ 13,440	$ 2,572	$ 14,172
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest, net of capitalized interest of $19 in 2006, $20 in 2005, and $30 in 2004	$ 2,362	$ 3,072	$ 3,112
Income taxes	$ 12,960	$ 6,296	$ 935

See accompanying notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Description of business: Shenandoah Telecommunications Company and its subsidiaries (collectively, the "Company") provide telephone service, wireless personal communications service ("PCS") under the Sprint brand name, cable television, unregulated communications equipment sales and services, Internet access, and paging services. In addition, the Company leases towers and operates and maintains an interstate fiber optic network. As a result of the NTC Communications, L.L.C. ("NTC") acquisition on November 30, 2004, the Company, through its subsidiary Shentel Converged Services, provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to multi-dwelling unit ("MDU") communities (primarily off-campus college student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. The Company's other operations are located in the four-state region surrounding the Northern Shenandoah Valley of Virginia. Pursuant to a management agreement with Sprint Nextel Communications Company and its related parties (collectively, "Sprint Nextel"), the Company is the exclusive Sprint PCS Affiliate providing wireless mobility communications network products and services on the 1900 megahertz spectrum range 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 Nextel radio spectrum license (See Note 7). 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. 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 related 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 periods. Management reviews its estimates, including those related to recoverability and useful lives of assets as well as liabilities for income taxes and pension benefits. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those reported estimates.

Allocations: In connection with the adoption of a new affiliates agreement which was approved by the Virginia State Corporation Commission effective January 1, 2005, and pursuant to assignment and assumption agreements between Shentel Management Company and Shenandoah Telephone Company, and the Company's other subsidiaries, effective January 1, 2005, all employees and certain assets and liabilities of these subsidiaries have been transferred to Shentel Management Company which is now the entity through which all shared services and shared assets are provided to all existing and future affiliates of the Company. The new affiliates agreement had no impact on the consolidated financial statements.

Effective January 1, 2005, the Company implemented a new methodology for allocating all shared services and shared assets of the Company. The Company believes the new allocation methodology more accurately allocates labor, benefits and shared costs to its affiliates. FAS 131, "Disclosures about Segments of an Enterprise and Related Information" requires the Company to restate previously reported segment information following a change in the composition of an enterprise's segment information unless it is impractical to do so. Further, if the Company is unable to restate previously reported segment information, the Company is required to provide current-period segment information on both the old and new basis of segmentation in the year in which the change occurs unless it is impracticable to do so. Due to the nature of the change in allocation methodology, and the process to derive the allocation of shared costs, management has determined that it would be impractical to restate fiscal year 2004 segment information or calculate the allocation using both the old and new methods.

Cash and cash equivalents: The Company considers all temporary cash investments purchased with a 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 were $12.6 million, $2.1 million, and $14.1 million at December 31, 2006, 2005 and 2004, respectively.

Accounts receivable: Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience and industry and local economic data. The Company reviews its allowance for doubtful accounts monthly. Past due balances meeting specific criteria are reviewed individually for collectibility. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts receivable are concentrated among customers within the Company's geographic service area and large telecommunications companies.

Changes in the allowance for doubtful accounts for trade accounts receivable for the years ended December 31, 2006, 2005 and 2004 are summarized as set forth in the adjacent table:

(in thousands)	***2006***	2005	*2004*
Balance at beginning of year	$ **573**	$ 351	$ 478
Bad debt expense	**3,553**	2,780	1,426
Losses charged to allowance	**(3,753)**	(2,839)	(1,695)
Recoveries added to allowance	**210**	281	142
Balance at end of year	$ **583**	$ 573	$ 351

Securities and investments: The classifications of debt and equity securities are 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 reported 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 common stock 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 in unconsolidated corporations where the Company's ownership is 20% or more, or where the Company otherwise has the ability to exercise significant influence, are reported under the equity method. Under this method, the Company's equity in earnings or losses of investees is reflected in earnings. Distributions received reduce the carrying value of these investments. The Company recognizes a loss when there is a decline in value of the investment which is other than a temporary decline.

Materials and supplies: New and reusable materials are carried in inventory at the lower of average cost or market value. Inventory held for sale, such as telephones and accessories, are carried at the lower of average cost or market value. 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 installation of property, plant and equipment, including interest on major capital projects during the period of their construction. Expenditures, including those on leased assets, which 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 and amortization is not included in the income statement line items "Costs of goods and services" or "Selling, general and administrative." Depreciation lives are assigned to assets based on their estimated useful lives. Leasehold improvements are depreciated over the lesser of their useful lives or respective lease terms. 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 when necessary. During the years ended December 31, 2006, 2005 and 2004, the estimated useful lives of certain asset classes were decreased to reflect the remaining estimated economic useful lives of these assets and as a result, the Company recorded charges of $0.2 million, $0.4 million and $0.5 million, respectively, for the changes in estimated useful lives.

Valuation of long-lived assets: Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are 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 estimated undiscounted future 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. During 2006, the Company determined that certain long-lived assets associated with Shentel Wireless Company were impaired, and impairment charges of approximately $88 thousand were recognized during the fourth quarter.

Fair value: Financial instruments presented on the consolidated balance sheets that approximate fair value include: cash and cash equivalents, receivables, payables, and accrued liabilities.

Asset retirement obligations: The Company records 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 is 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 records the retirement obligation on towers owned where there is a legal obligation to remove the tower and restore the site to its original condition, as required by certain operating leases and applicable zoning ordinances of certain jurisdictions, at the time the Company discontinues its use. The obligation is estimated based on the size of the towers. The Company's cost to remove the tower is amortized over the life of the tower. On December 31, 2006, 2005 and 2004, the liability was $929 thousand, $375 thousand and $334 thousand, respectively. Accretion and depreciation expense for the years ended December 31, 2006, 2005 and 2004 was approximately $95 thousand, $46 thousand and $20 thousand before taxes, respectively.

Note 1. (cont.)

Cost in excess of net assets of business acquired and intangible assets: SFAS No. 142, "Goodwill and Other Intangible Assets," 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. Goodwill is assessed annually, at November 30, for impairment and in interim periods if certain events occur indicating that the carrying value may be impaired. No impairment of goodwill was required to be recorded in the years ended December 31, 2005 or 2004. Goodwill is allocated to the reporting segment responsible for the acquisition that gave rise to the goodwill. The following presents the goodwill balance allocated by segment and changes in the balances for the years ended December 31, 2006, 2005 and 2004:

	CATV Segment	Converged Services Segment	Shentel Wireless Segment	Total
Balance as of December 31, 2003	$ 3,313	$ -	$ -	$ 3,313
Acquisition[1]	-	5,550	-	5,550
Balance as of December 31, 2004	3,313	5,550	-	8,863
NTC purchase price adjustment[2]	-	989	-	989
Acquisition[3]	-	-	251	251
Balance as of December 31, 2005	3,313	6,539	251	10,103
Impairment charge[4]	-	-	(251)	(251)
Balance as of December 31, 2005	$ 3,313	$ 6,539	$ -	$ 9,852

Notes

[1] Goodwill recorded for the NTC acquisition (Note 14).

[2] During the third quarter of 2005, the Company recorded an adjustment to the initial allocation of the purchase price for the November 30, 2004 acquisition of NTC (Note 14). Property, plant and equipment was reduced by approximately $1.5 million with a corresponding increase to goodwill. In addition, goodwill was reduced by approximately $0.5 million as a result of settling the escrow funds dispute.

[3] Goodwill recorded for the Broadband Metro Communications acquisition (Note 14).

[4] During the fourth quarter of 2006, the Company recognized an impairment charge for the goodwill associated with the Shentel Wireless Segment when the Company terminated Shentel Wireless' operations and transferred its one remaining asset to NTC.

Intangible assets consist of the following at December 31, 2006, 2005 and 2004:

	2006			*2005*			*2004*		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Business contracts	$ **2,823**	$ **(578)**	$ **2,245**	$ **2,823**	$ **(291)**	$ **2,532**	$ 2,653	$ (89)	$ 2,564
Non-compete agreement	**898**	**(459)**	**439**	**898**	**(238)**	**660**	835	(17)	818
Trade name	**168**	**(69)**	**99**	**168**	**(36)**	**132**	168	(3)	165
Other	**28**	**(12)**	**16**	**28**	**(6)**	**22**	-	-	-
	$ **3,917**	$ **(1,118)**	$ **2,799**	$ **3,917**	$ **(571)**	$ **3,346**	$ 3,656	$ (109)	$ 3,547

For the years ended December 31, 2006, 2005 and 2004, amortization expense related to intangible assets was $0.5 million, $0.5 million and $35 thousand, respectively. The 2006 amount included $0.1 million in impairment charges related to the termination of certain of Shentel Wireless' contracts.

Aggregate amortization expense for intangible assets for the periods shown will be as shown in the adjacent table:

Year Ending	*Amount* (in thousands)
2007	$ 468
2008	459
2009	251
2010	201
2011	185

Retirement plans: Prior to January 31, 2007, the Company maintained a noncontributory defined benefit plan covering substantially all employees. Pension benefits were based primarily on the employees' compensation and years of service. The Company's policy was to fund the maximum allowable contribution calculated under federal income tax regulations. The Company also maintained an Executive Supplemental Retirement Plan for selected employees. This was an unfunded plan and was maintained primarily for the purpose of providing additional retirement benefits for a select group of management employees. Effective January 31, 2007, the Company has frozen benefits payable under these plans, and will settle accumulated benefits for participants and terminate the plans in accordance with Department of Labor and ERISA regulations and requirements.

The Company also maintains a defined contribution 401(k) 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 of the funded retirement plans holds Company stock in the plan's portfolio.

Income taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the recoverability of tax assets generated on a state-by-state basis from net operating losses apportioned to that state. Management uses a more likely than not threshold to make that determination and has concluded that at December 31, 2006, a valuation allowance against the deferred tax assets is not necessary (see Note 6).

Revenue recognition: The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered or products have been delivered, the price to the buyer is fixed and determinable and collectibility is reasonably assured. Revenues are recognized by the Company based on the various types of transactions generating the revenue. For services, revenue is recognized as the services are performed. For equipment sales, revenue is recognized when the sales transaction is complete.

Nonrefundable PCS activation fees and the portion of the activation costs deemed to be direct costs of acquiring new customers (primarily activation costs and credit analysis costs) are deferred and recognized ratably over the estimated life of the customer relationship in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104. Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a bundled transaction, and the consideration will be measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 has required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition would need to be made in the future. The adoption of EITF 00-21 resulted in substantially all of the activation fee revenue generated from Company-owned retail stores and associated direct costs being recognized at the time the related wireless handset is sold and is classified as equipment revenue and cost of goods and services, respectively. Upon adoption of EITF 00-21, previously deferred revenues and costs continued to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. Revenue and costs for activations at other retail locations will continue to be deferred and amortized over their estimated lives as prescribed by SAB 104. In late 2006, the Company modified the estimated lives of its new PCS customers from 30 months to 40 months, reflecting the decline in the churn rate to 1.9% in each of the quarters of 2006. Previously deferred amounts were not affected by this change. The amounts of deferred revenue under SAB 104 at December 31, 2006, 2005 and 2004 were \$0.4 million, \$0.6 million and \$0.8 million, respectively. The deferred costs at December 31, 2006, 2005 and 2004 were \$0.1 million, \$0.2 million and \$0.3 million, respectively.

Nonrefundable NTC activation fees are deferred and recognized ratably over the estimated life of the customer relationship in accordance with SAB 104, typically 12 months. The amounts of deferred revenue under SAB 104 were \$0.2 million and \$0.2 million at December 31, 2006 and 2005, respectively.

NTC also allows Internet service customers to prepay their annual contract. For a prepayment equal to 11 monthly payments, the customer receives 12 months of service. The Company defers such revenue amounts and amortizes them over the contract period. Deferred revenues were \$0.2 million and \$0.2 million at December 31, 2006 and 2005, respectively. The 2005 amount included minimal amounts for prepaid cable and phone service.

Earnings per share: Basic net income per share was computed on the weighted average number of shares outstanding. Diluted net income per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period, for all dilutive stock options. In the years ended December 31, 2006 and 2004, all options were dilutive. For the year ended December 31, 2005, the dilutive net income per share was exclusive of approximately 160,000 stock options that were anti-dilutive. There were no adjustments to net income in the computation of diluted earnings per share for any of the years presented. The following tables show the computation of basic and diluted earnings per share for the years ended December 31, 2006, 2005 and 2004:

Basic income per share (in thousands, except per share amounts)	***2006***	*2005*	*2004*
Net income	$ **17,922**	$ 10,735	$ 10,038
Weighted average shares outstanding	**7,719**	7,659	7,611
Basic income per share	$ **2.32**	$ 1.40	$ 1.32
Effect of stock options outstanding:			
Weighted average shares outstanding	**7,719**	7,659	7,611
Assumed exercise, at the strike price at the beginning of year	**170**	96	170
Assumed repurchase of options under treasury stock method	**(112)**	(52)	(124)
Diluted weighted average shares	**7,777**	7,703	7,657
Diluted income per share	$ **2.30**	$ 1.39	$ 1.31

Note 1. (cont.)

Recently Issued Accounting Standards: In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the enterprise's financial statements in accordance with FASB Statement No. 109. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect the adoption of FIN 48 will have a material effect upon the Company's results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts, based on the assumptions market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy with quoted market prices as the highest level and unobservable data (i.e., the reporting entity's own data) as the lowest level. SFAS 157 requires expanded disclosure for fair value measurements based on lower level data in the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect that applying SFAS 157 will have a material effect upon the Company's results of operations or financial condition.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 requires an employer to recognize in its statement of financial position the overfunded or underfunded status of a defined benefit postretirement plan. For the Company, FAS 158 was effective as of December 31, 2006, and is reflected in the statement of financial condition as of that date.

Reclassifications: In January 2005, the Company implemented a new affiliate agreement approved by the Virginia State Corporation Commission that moved all of the Company's employees and shared expenses into a new company to provide services to all the Company's operating segments. The new method was designed to provide a more equitable allocation of shared resources and costs between the Company's segments. The change allocates to each segment employees' time and shared costs on drivers that are representative of the level of benefit each segment receives. The new method has moved costs between segments and expense classifications in a different pattern than the previous allocation method, causing expenses to increase in one classification while decreasing in another classification.

Note 2. Discontinued Operations

In November 2002, the Company entered into an agreement to sell its 66% General Partner interest in the Virginia 10 RSA Limited Partnership (cellular operation) to Verizon Wireless. The closing of the sale took place on February 28, 2003. The total proceeds received were $38.7 million, including $5.0 million held in escrow for any contingencies and indemnification issues arising during the two-year post-closing period and included as an escrow receivable in the consolidated balance sheet at December 31, 2004. In February 2005, the Company received the $5.0 million from the escrow agent.

Note 3. Securities and Investments

The Company has three classifications of investments: available-for-sale securities, investments carried at cost, and equity method investments. See Note 1 for definitions of each classification of investment. There were no available-for-sale-securities at December 31, 2006 or 2005.

Available-for-sale securities at December 31, 2004 consisted of the following:

2004 (in thousands)	*Cost*	*Gross Unrealized Holding Gains*	*Gross Unrealized Holding Losses*	*Fair Value*
Deutsche Telekom, AG	$ 85	$ 101	$ -	$ 186
Other	46	-	-	46
	$ 131	$ 101	$ -	$ 232

Gross realized gains for the year ended December 31, 2005 were $76 thousand. There were no gross realized gains on available-for-sale securities included in income for the year ended December 31, 2004. Gross realized losses included in income for the years ended December 31, 2005 and 2004 were $2 thousand and $28 thousand, respectively.

Changes in the unrealized gains (losses) on available-for-sale securities during the years ended December 31, 2005 and 2004 were reported as a separate component of shareholders' equity as set forth in the adjacent table:

Available-for-sale securities: (in thousands)	*2005*	*2004*
Beginning Balance	$ 101	$ 41
Unrealized holding gains (losses) during the year, net	(27)	32
Reclassification of recognized (gains) during the year, net	(74)	28
	-	101
Deferred tax effect related to net unrealized gains	-	36
Ending Balance	$ -	$ 65

At December 31, 2006, 2005 and 2004, other investments, comprised of equity securities, which do not have readily determinable fair values, were as set forth in the adjacent table:

Cost method: (in thousands)	***2006***	*2005*	*2004*
Rural Telephone Bank	$ **-**	$ 796	$ 796
NECA Services, Inc.	**500**	500	500
CoBank	**1,817**	1,716	1,486
Other	**187**	197	151
	2,504	3,209	2,933
Equity method:			
South Atlantic Venture Fund III L.P.	**-**	33	52
South Atlantic Private Equity Fund IV L.P.	**506**	539	513
Magnolia Holding Company, LLC	**18**	-	-
Dolphin Communications Parallel Fund, L.P.	**206**	150	190
Dolphin Communications Fund II, L.P.	**2,012**	1,870	1,870
Burton Partnership	**1,596**	1,409	1,252
Virginia Independent Telephone Alliance	**191**	113	173
ValleyNet	**42**	42	35
	4,571	4,156	4,085
Total investments	$ **7,075**	$ 7,365	$ 7,018

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

The Company's investment in CoBank increased $101 thousand, $230 thousand and $165 thousand in the years ended December 31, 2006, 2005 and 2004, respectively, due to the ongoing patronage earned from the outstanding investment and loan balances the Company has with CoBank.

In the year ended December 31, 2006, the Company received distributions from its equity investments totaling $124 thousand in cash and invested $421 thousand in two equity investments, Dolphin Communications Parallel Fund, LP and Dolphin Communications Fund II, LP. These two investments recorded a net loss of approximately $222 thousand in the year ended December 31, 2006. Other equity investments had a net gain of $319 thousand in the year ended December 31, 2006. The investment in Magnolia Holding Company, LLC was part of the distribution from South Atlantic Venture Fund III L.P.

The Company is committed to invest an additional $0.5 million at December 31, 2006 in various equity method investees pursuant to capital calls from the fund managers.

The Company's ownership interests in Virginia Independent Telephone Alliance and ValleyNet at December 31, 2006 were approximately 22% and 20%, respectively, which is consistent with the Company's ownership interests at December 31, 2005 and 2004. The Company purchases services from Virginia Independent Telephone Alliance and ValleyNet at rates comparable to those charged to other customers. Other equity method investees are investment limited partnerships, in each of which the Company had an ownership interest ranging from approximately 0.7% to 4% at December 31, 2006.

Note 4. Plant in Service

Plant in service consists of the following at December 31, 2006, 2005 and 2004:

(in thousands)	Estimated Useful Lives	***2006***	*2005*	*2004*
Land		$ **1,165**	$ 1,141	$ 802
Buildings and structures	15 – 40.0 years	**44,740**	40,511	36,626
Cable and wire	15 – 40.0 years	**65,326**	61,986	61,674
Equipment and software	3 – 16.6 years	**156,391**	144,683	127,902
		$ **267,622**	$ 248,321	$ 227,004

Note 5. Long-Term Debt and Revolving Lines of Credit

Total debt consists of the following at December 31, 2006, 2005 and 2004:

(in thousands)		Weighted Average Interest Rate	2006	2005	2004
Rural Telephone Bank ("RTB")	Fixed	-	$ -	$ 4,613	$ 5,120
Rural Utilities Service ("RUS")	Fixed	-	-	134	142
CoBank (term loan)	Fixed	7.58%	**25,816**	29,794	33,652
CoBank revolving credit facility	Variable	-	-	1,177	13,177
RUS Development Loan		Interest free	**200**	200	200
			26,016	35,918	52,291
Current maturities			**4,109**	4,526	4,372
Total long-term debt			$ **21,907**	$ 31,392	$ 47,919

On November 30, 2004, the Company amended the terms of its Master Loan Agreement with CoBank, ACB to provide for a $15 million revolving reducing credit facility. Under the terms of the amended credit facility, the Company can borrow up to $12.5 million as of December 31, 2006. The revolving credit facility has a 12-year term with quarterly payments and reductions in the amount available. Borrowings under the facility have an adjustable rate, less patronage credits, that can be converted to a fixed rate at the Company's option. The loan is secured by a pledge of the stock of all of the subsidiaries of the Company as well as all of the outstanding membership interests in NTC.

The CoBank term loan requires monthly payments of $322 thousand plus interest. The final maturity of the CoBank term loan is in 2013. The Company paid off the RTB and RUS fixed rate debt during 2006.

The CoBank term loan is secured by a pledge of the stock of the Company's subsidiaries. The outstanding balance of the CoBank term loan at December 31, 2006 is $25.8 million, which is at fixed rates ranging from approximately 6.67% to 8.05%. The stated rate excludes patronage credits that are received from CoBank. These patronage credits are a distribution of profits of CoBank, which is a cooperative required to distribute its profits to its members. During the first quarter of 2006 and 2005, the Company received patronage credits of approximately 100 and 100 basis points, respectively, on its outstanding CoBank debt balance. The Company accrued 100 basis points in the year ended December 31, 2006, in anticipation of the early 2007 distribution of the credits by CoBank.

The Company is required to meet financial covenants for the CoBank debt measured at the end of each quarter, based on a trailing 12-month basis and calculated on continuing operations. The Company was in compliance with all covenants related to its debt agreements at December 31, 2006.

On April 19, 2006, the Company renewed its line of credit with SunTrust Bank, originally issued May 26, 2004, effective through May 31, 2007. Interest is payable at the one month LIBOR rate plus 1.25%, updated on the first of each month. No borrowings have been made under this line of credit during 2006, and no balances were outstanding as of December 31, 2006, 2005 or 2004 under this line of credit.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2006 are as set forth in the adjacent table:

Year Ending	*Amount* (in thousands)
2007	$ 4,109
2008	4,248
2009	4,399
2010	4,561
2011	3,975
Later years	4,524
	$ 25,816

The estimated fair value of fixed rate debt instruments as of December 31, 2006, 2005 and 2004 was $28.3 million, $33.6 million and $37.9 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.

Note 6. Income Taxes

Total income taxes for the years ended December 31, 2006, 2005 and 2004 were allocated as set forth in the adjacent table:

Years Ended December 31, (in thousands)	2006	2005	2004
Income tax expense	$ **12,370**	$ 6,716	$ 5,921
Income tax from cumulative effect of an accounting change	**(48)**	-	-
Accumulated other comprehensive income for unrecognized actuarial losses on pensions	**(1,157)**	-	-
Accumulated other comprehensive income for unrealized holding gains (losses) on equity securities	**-**	(40)	21
	$ **11,165**	$ 6,676	$ 5,942

The Company and its subsidiaries file income tax returns in several jurisdictions. The provision for the federal and state income taxes attributable to income from continuing operations consists of the components as set forth in the adjacent table:

Years Ended December 31, (in thousands)	2006	2005	2004
Current expense			
Federal taxes	$ **12,077**	$ 7,356	$ (323)
State taxes	**1,938**	868	442
Total current provision	**14,015**	8,224	119
Deferred expense (benefit)			
Federal taxes	**(2,026)**	(851)	5,402
State taxes	**381**	(657)	400
Total deferred provision (benefit)	**(1,645)**	(1,508)	5,802
Income tax expense	$ **12,370**	$ 6,716	$ 5,921

A reconciliation of income taxes determined by applying the Federal and state tax rates to income from continuing operations is as follows for the years ended December 31, 2006, 2005 and 2004:

Years Ended December 31, (in thousands)	2006	2005	2004
Computed "expected" tax expense (35% for 2006 and 2005, and 34% for 2004)	$ **10,629**	$ 6,107	$ 5,426
State income taxes, net of federal tax effect	**1,507**	137	556
Effect of change of tax rates on deferred taxes	**-**	671	-
Other, net	**234**	(199)	(61)
Income tax provision	$ **12,370**	$ 6,716	$ 5,921

Net deferred tax assets and liabilities at December 31, 2006, 2005 and 2004 consists of the following:

Deferred tax assets: (in thousands)	2006	2005	2004
State net operating loss carryforwards, net of federal	$ **1,016**	$ 1,310	$ 1,583
Lease obligations	**936**	843	690
Deferred revenues	**106**	154	212
Accrued pension/ERO costs	**2,363**	166	175
Allowance for doubtful accounts	**233**	228	129
Accrued compensation costs	**52**	380	61
Other, net	**351**	306	128
Total gross deferred tax assets	**5,057**	3,387	2,978
Less valuation allowance	**-**	-	754
Net deferred tax assets	$ **5,057**	$ 3,387	$ 2,224
Deferred tax liabilities:			
Plant-in-service	$ **25,900**	$ 27,204	$ 25,844
Escrowed gain on sale of discontinued operations	**-**	-	1,859
Unrealized gain on investments	**-**	-	38
Gain on investments, net	**375**	250	98
Total gross deferred tax liabilities	**26,275**	27,454	27,839
Net deferred tax liabilities	$ **21,218**	$ 24,067	$ 25,615

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 generating 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 for which the deferred tax assets are deductible, management believed it more likely than not that the Company would realize the benefits of the deferred tax assets and eliminated the

Note 6. (cont.)
valuation allowance at December 31, 2005. The Company has generated net operating loss carryforwards of approximately $16.7 million from its PCS operations in several states. These carryforwards expire at varying dates beginning in the year 2018 and ending in 2023.

Note 7. Significant Contractual Relationship

In 1999, the Company executed a Management Agreement (the "Agreement") with Sprint Nextel whereby the Company committed to construct and operate a PCS network using CDMA air interface technology. Under the Agreement, the Company is the exclusive PCS Affiliate of Sprint Nextel providing wireless mobility communications network products and services on the 1900 MHz band in its territory which extends from Altoona, York and Harrisburg, Pennsylvania, and south along the Interstate 81 corridor through Western Maryland, the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is authorized to use the Sprint brand in its territory, and operate its network under the Sprint Nextel radio spectrum license. As an exclusive PCS Affiliate of Sprint Nextel, the Company has the exclusive right to build, own and maintain its portion of Sprint Nextel's nationwide PCS network, in the aforementioned areas, to Sprint Nextel'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.

Under the Sprint Nextel agreements, Sprint Nextel provides the Company significant support services such as customer service, billing, collections, long distance, national network operations support, inventory logistics support, use of the Sprint Nextel brand names, national advertising, national distribution and product development. In addition, the Company derives substantial travel revenue and incurs substantial travel expenses when Sprint Nextel and Sprint Nextel's PCS Affiliate partners' subscribers incur minutes of use in the Company's territory and when the Company's subscribers incur minutes of use in Sprint Nextel and Sprint Nextel's PCS Affiliate partners' territories. These transactions are recorded as travel revenue, travel cost, cost of equipment and selling and marketing expense in the Company's consolidated statements of income. Cost of service related to access to the nationwide network, including travel transactions and long distance expenses, are recorded in cost of goods sold. The costs of services such as billing, collections and customer service are included in selling, general and administrative costs. Cost of equipment transactions between the Company and Sprint Nextel relate to inventory purchased and subsidized costs of handsets. These costs also include transactions related to subsidized costs on handsets and commissions paid to Sprint Nextel for sales of handsets through Sprint Nextel's national distribution programs.

The Company receives and pays travel fees for inter-market usage of the network by Sprint Nextel wireless subscribers not homed in a market in which they may use the service. Sprint Nextel and its PCS Affiliates pay the Company for the use of its network by their wireless subscribers, while the Company pays Sprint Nextel and its PCS 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 to $0.058 per minute since January 1, 2003. This rate remained in effect through December 31, 2006.

Sprint Nextel provides back-office and other services including travel clearing-house functions, to the Company. For periods before January 1, 2004, there was no prescribed formula defined in the agreements with Sprint Nextel for the calculation of the fee charged to the Company for these services. Sprint Nextel adjusted these fees at least annually. This situation changed with the execution of an amendment to the Agreement which occurred on January 31, 2004, retroactive to January 1, 2004 (the "Amended Agreement"). By simplifying the formulas used and fixing certain fees, the Amended Agreement provided greater certainty to the Company for certain expenses and revenues through December 31, 2006, and simplified the methods used to settle revenue and expenses between the Company and Sprint Nextel.

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

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

As a result of the amendments to the existing management and affiliation agreements with Sprint Nextel (the 2007 Amendments), the basis upon which the Company and Sprint Nextel settle revenue and expenses, including travel and roaming, and upon which the Company compensates Sprint Nextel for support services, such as customer service, billing, collections, long distance, national network operations support, inventory logistics support, use of the Sprint Nextel brand names, national advertising, national distribution and product development, has been simplified. As a result of the amendments, the Company and Sprint Nextel will no longer settle such amounts; nor will the Company pay Sprint Nextel a fee per subscriber or a fee for each new subscriber added.

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

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

The Company's PCS subsidiary is dependent upon Sprint Nextel's ability to execute certain functions such as billing, customer care, collections and other operating activities under the Company's agreements with Sprint Nextel. Due to the high degree of integration within many of the Sprint Nextel systems, and the Company's dependency on these systems, in many cases it would be difficult for the Company to perform these services in-house or to outsource the services to another provider. If Sprint Nextel is unable to perform any such service, the change could result in increased operating expenses and have an adverse impact on the Company's operating results and cash flow. In addition, the Company's ability to attract and maintain a sufficient customer base is critical to generating positive cash flow from operations and profits for its PCS operation. Changes in technology, increased competition, or economic conditions in the wireless industry or the economy in general, individually and/or collectively, could have an adverse effect on the Company's financial position and results of operations.

The Sprint Nextel agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all material respects with these requirements as of December 31, 2006.

Note 8. 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 $3.7 million, $3.8 million and $2.7 million in the years ended December 31, 2006, 2005 and 2004, respectively. At December 31, 2006, 2005 and 2004, the Company had accounts receivable from ValleyNet of approximately $0.3 million, $0.3 million and $0.3 million, respectively. The Company's PCS operating subsidiary leases capacity through ValleyNet fiber facilities. Payment for usage of these facilities was $1.0 million, $1.0 million and $0.8 million in the years ended December 31, 2006, 2005 and 2004, respectively.

Virginia Independent Telephone Alliance, an equity method investee of the Company, provides SS7 signaling services to the Company. These transactions are recorded as expense on the Company's books and were less than $30 thousand in each of the years ended December 31, 2006, 2005 and 2004.

Two then current directors of the Company, along with their family members, collectively held 2.1% of the outstanding membership units of NTC which were acquired by the Company on November 30, 2004, when the Company purchased the remaining 83.9% of NTC that it did not already own. See Note 14 for additional information about the purchase of NTC.

Note 9. Retirement Plans

The Company maintains a noncontributory defined benefit pension plan and a separate defined contribution 401(k) plan. On November 30, 2006, the Company announced its intention to offer early retirement benefits for certain employees (up to five years of additional age and service for those employees 50 years of age and older with 10 or more years of service); to freeze the defined benefit pension plan as of January 31, 2007; and subsequently, to settle benefits earned under the plan and terminate the plan. Settlement and termination are expected to be finalized during the third quarter of 2007. The Company reflected the effects of freezing the plan during 2006, and recognized costs of the special termination benefits in 2006 for those seven employees who elected to accept the early retirement offer as of December 31, 2006. The Company expects to recognize additional special termination benefits during 2007 as additional employees elect to accept the early retirement offer, as well as recognizing other costs associated with settling benefits and terminating the plan. Unrecognized net losses shown in the tables below, totaling $3.0 million as of December 31, 2006, will be amortized to expense during 2007, largely at the time of the settlement of the plans.

As of December 31, 2006, the Company implemented the reporting and disclosure requirements of SFAS 158. SFAS 158 requires the funded status of retirement plans to be reflected in the Company's statement of financial position, and requires that certain effects of pension transactions be reflected in other comprehensive income. SFAS 158 does not impact the reported cost associated with retirement plans, nor does it require that prior period amounts be restated to conform to the current presentation. After recognizing the effects of the curtailment of the pension plans at November 30, 2006, the implementation of SFAS 158 had no effect upon the Company's statement of financial condition at December 31, 2006, other than the inclusion of the qualified pension plan's funded status shortfall of $377,000 as a current liability rather than a non-current liability.

Note 9. (cont.)

The following table presents the defined benefit plan's funded status and amounts recognized in the Company's consolidated financial statements.

Change in benefit obligation: (in thousands)	***2006***	*2005*	*2004*
Benefit obligation, beginning	**$ 16,422**	$ 13,594	$ 11,650
Service cost	**953**	744	604
Interest cost	**876**	774	691
Actuarial loss	**1,704**	1,467	910
Benefits paid	**(312)**	(305)	(261)
Special termination benefits	**369**	-	-
Curtailment	**(5,873)**	-	-
Change in plan provisions	**-**	148	-
Benefit obligation, ending	**14,139**	16,422	13,594
Change in plan assets:			
Fair value of plan assets, beginning	**12,655**	10,717	7,853
Actual return on plan assets	**419**	1,024	1,154
Benefits paid	**(312)**	(305)	(261)
Contributions made	**1,000**	1,219	1,971
Fair value of plan assets, ending	**13,762**	12,655	10,717
Funded status	**(377)**	(3,767)	(2,876)
Unrecognized net loss	**1,701**	3,667	2,501
Unrecognized prior service cost	**-**	337	220
Prepaid (accrued) benefit cost	**$ 1,324**	$ 237	$ (155)
Amounts recognized in the consolidated balance sheets:			
Deferred charges and other assets, net	**$ -**	$ 237	$ -
Accrued liabilities and other	**(377)**	-	-
Pension and other	**-**	-	(155)
Accumulated other comprehensive income (loss)	**1,701**	-	-
Net amount recognized	**$ 1,324**	$ 237	$ (155)
Components of net periodic benefit costs:			
Service cost	**$ 953**	$ 744	$ 604
Interest cost	**876**	774	691
Expected return on plan assets	**(940)**	(793)	(579)
Amortization of prior service costs	**337**	31	31
Amortization of net loss	**109**	71	62
Amortization of net transition asset	**-**	-	(9)
Curtailment gain	**(1,791)**	-	-
Special termination benefits	**369**	-	-
Net periodic benefit cost	**$ (87)**	$ 827	$ 800
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss for the period	**1,701**		
Total recognized in net periodic benefit cost and other comprehensive income	**$ 1,614**		

The accumulated benefit obligation for the qualified retirement plan was $14.1 million, $10.8 million and $9.1 million at December 31, 2006, 2005 and 2004, respectively.

Weighted average assumptions used by the Company in the determination of benefit obligations at December 31, 2006, 2005 and 2004 were as set forth in the adjacent table:

	2006	*2005*	*2004*
Discount rate	**5.00%**	5.50%	5.75%
Rate of increase in compensation levels	**4.50%**	4.50%	4.50%

Weighted average assumptions used by the Company in the determination of net pension cost for the years ended December 31, 2006, 2005, and 2004 were as set forth in the adjacent table:

	2006	*2005*	*2004*
Discount rate	**5.50%**	5.75%	6.00%
Rate of increase in compensation level	**4.50%**	4.50%	4.50%
Expected long-term rate of return on plan assets	**7.50%**	7.50%	7.50%

The Company's pension plan asset allocations based on market value at December 31, 2006 and 2005, by asset category were as set forth in the adjacent table:

Asset Category	**2006**	2005
Equity securities	**44%**	64%
Debt securities	**53%**	34%
Cash and cash equivalents	**3%**	2%
	100%	100%

Investment Policy

The investment policy of the Company's Pension Plan has been for assets to be invested in a manner consistent with the fiduciary standards of the Employee Retirement Income Security Act of 1974, as amended. This investment policy has been to preserve capital, which included the investment objectives of inflationary protection and protection of the principal amounts contributed to the Pension Plan. Of lesser importance was the consistency of growth, which would tend to minimize the annual fluctuations in the normal cost. It was anticipated that growth of the fund would result from both capital appreciation and the re-investment of current income. As a result of the Company's decision in 2006 to freeze, settle and terminate the plan during 2007, the Company has begun to increase the liquidity of the pension plan assets to accommodate the expected distribution of accrued benefits to participants.

Contributions

As a result of the freeze and expected settlement of benefits under the plan, the Company expects to contribute $0.4 million to the plan during 2007, and anticipates distributing approximately $14.7 million to participants. These amounts are subject to change, and will increase based upon the number of eligible employees electing to accept the early retirement offer announced in November 2006. The Company contributed $1.0 million and $1.2 million to the plan during the years ended December 31, 2006 and 2005, respectively.

The Company's matching contributions to the defined contribution 401(k) plan were approximately $370 thousand, $305 thousand and $254 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

In May 2003, the Company adopted an unfunded nonqualified Supplemental Executive Retirement Plan (the "SERP") for named executives. The plan was established to provide retirement benefits in addition to those provided under the Retirement Plan that covers all employees. This plan is also being frozen as of January 31, 2007, and the Company anticipates replacing this plan with a new defined contribution SERP plan to be established during 2007. Three participants in this plan were eligible for the early retirement offer described above, and one accepted the offer in January 2007.

The following table presents the actuarial information for the SERP at December 31, 2006, 2005 and 2004.

Change in benefit obligation: (in thousands)	**2006**	2005	2004
Benefit obligation, beginning	$ **1,955**	$ 1,235	$ 869
Service cost	**189**	152	113
Interest cost	**110**	71	52
Actuarial loss	**425**	497	201
Curtailment	**(37)**	-	-
Benefit obligation, ending	**2,642**	1,955	1,235
Funded status	$ **(2,642)**	$ (1,955)	$ (1,235)
Unrecognized net loss	**1,279**	942	465
Additional minimum liability	**-**	(553)	(387)
Intangible asset	**-**	449	387
Unrecognized prior service cost	**-**	449	485
Accumulated other comprehensive income	**-**	104	-
Accrued benefit cost	$ **(1,363)**	$ (564)	$ (285)
Amounts recognized in the consolidated balance sheets:			
Deferred charges and other assets, net	$ **-**	$ 449	$ 387
Pension and other	**(2,642)**	(1,117)	(672)
Accumulated other comprehensive income (loss)	**1,279**	104	-
Net amount recognized	$ **(1,363)**	$ (564)	$ (285)
Components of net periodic benefit costs:			
Service cost	$ **189**	$ 152	$ 113
Interest cost	**110**	71	52
Amortization of prior service costs	**449**	36	36
Amortization of net loss	**50**	20	14
Net periodic benefit cost	$ **798**	$ 279	$ 215
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net loss for the period	**1,330**		
Amortization of net loss	**(51)**		
Total recognized in net periodic benefit cost and other comprehensive income	$ **1,279**		

Note 9. (cont.)

Assumptions used by the Company in the determination of benefit obligations for the SERP consisted of the rates found at right at December 31, 2006, 2005 and 2004:

	2006	*2005*	*2004*
Discount rate	**5.50%**	5.50%	5.75%
Rate of increase in compensation levels	**4.50%**	4.50%	4.50%

The Company anticipates that it will transfer participants' account balances to the new defined contribution SERP plan during 2007. The Company expects to transfer approximately $2.7 million in connection with the change in plans. To the extent that balances are transferred to the new defined contribution SERP, no cash disbursements will be required.

Note 10. Stock Incentive Plan

The Company maintains a shareholder-approved Company Stock Incentive Plan approved in 1996 (the "1996 Plan"), providing for the grant of incentive compensation to essentially all employees in the form of stock options. The 1996 Plan authorized grants of options to purchase up to 480,000 shares of common stock over a ten-year period beginning in 1996. The term of the 1996 Plan expired in February of 2006. During 2005, a new Company Stock Incentive Plan was approved, the "2005 Plan," under which 480,000 shares may be issued over a ten-year period beginning in 2005. The option price for all grants has been at the current market price at the time of the grant. Grants have generally provided that one-half of the options vest and become exercisable on each of the first and second anniversaries of the grant date, with the options expiring on the fifth anniversary of the grant date. In the year ended December 31, 2003, the Company also issued a grant pursuant to which the options are vested over a five-year period beginning on the third anniversary of the grant date. The participant may exercise 20% of the total grant after each anniversary date from the third through the seventh year, with the options expiring on the tenth anniversary of the grant date. In the years ended December 31, 2005 and 2004, the Company also made grants pursuant to which the options are vested over a four-year period beginning on the third anniversary of the grant date; all of these grants were cancelled during 2006 due to the grantees' termination of employment. The Company did not grant any options during 2006.

In 2004, the Company issued tandem awards of stock options and stock appreciation rights ("SARs"). Because the employee had the choice of receiving cash or shares of stock, this plan resulted in the Company recording a liability, which was adjusted each period to reflect the vested portion of the intrinsic value of the award. If employees subsequently chose to receive shares of stock rather than cash, the liability was settled by issuing stock. During 2005, the Company issued tandem awards of stock options and SARs with a net-share settlement feature. Due to the net-share settlement feature, the Company accounted for these awards as SARs and recognized compensation expense over the vesting period to the extent the current stock price exceeded the exercise price of the options.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard No. 123, "Share-Based Payment (Revised 2004)" ("SFAS 123(R)") using the modified prospective application transition method, which establishes accounting for stock-based awards exchanged for employee services. Accordingly, for equity classified awards, stock-based compensation cost is measured at the grant date, based on the fair value of the award, and is recognized over the requisite service period. For those tandem awards of stock options and SARs which are liability classified awards, fair value is calculated at the grant date and each subsequent reporting date during both the requisite service period and each subsequent period until settlement.

In periods prior to the adoption of SFAS 123(R), the Company accounted for its stock options by applying 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 was recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. 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. The Company provided the disclosures required under SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosures." No compensation expense was recognized in years prior to 2004 since all such options were granted with an exercise price equal to the market price at the date of the grant. For the tandem awards granted during 2004 and 2005, the Company recognized compensation expense for the vested portion of the awards of $1.3 million and $0.2 million for the years ended December 31, 2005 and 2004. For both the 2004 and 2005 SARs grants, the adoption of SFAS 123(R) resulted in a change in the measurement of compensation expense from an intrinsic method to a fair value method.

Effective July 1, 2006, certain holders of 2004 SARs voluntarily relinquished their right to receive cash from the Company upon exercise. The fair value of these awards calculated as of the date of modification was transferred from liability to equity. These awards will, going forward, be accounted for as equity options.

The adjustments to net income in the table below reflect the impact of compensation related to the 2005 equity classified stock appreciation rights and the impact of the pro forma compensation expense, both net of the income tax effect. No adjustments to net income have been made for the 2004 liability classified stock appreciation rights since there are no differences between APB Opinion No. 25 and SFAS No. 123 pro forma compensation expense. Had compensation expense been recorded for the options based on fair values of the awards at the grant date (the method prescribed in SFAS No. 123), reported net income and earnings per share would have been reduced to the pro forma amounts shown in the following table for the years ended December 31, 2005 and 2004:

Net income (in thousands, except per share amounts)	*2005*	*2004*
As reported	$ 10,735	$ 10,038
Add: Recorded stock based compensation expense included in reported net income, net of related income tax effects	211	-
Deduct: Pro forma compensation expense, net of related income tax effects	199	143
Pro forma	$ 10,747	$ 9,895
Earnings per share, basic and diluted		
As reported, basic	$ 1.40	$ 1.32
As reported, diluted	1.39	1.31
Pro forma, basic	1.40	1.30
Pro forma, diluted	1.40	1.29

Disclosures for 2006 are not presented in the table above because stock-based payments were accounted for under SFAS 123(R)'s fair-value method during this period.

The impact of initially applying SFAS 123(R) was recognized as of the effective date using the modified prospective method. Under the modified prospective method the Company recognized stock-based compensation expense from January 1, 2006, as if the fair value based accounting method had been used to account for all outstanding unvested employee awards granted in prior years. Results of prior periods have not been restated.

For outstanding options previously classified as a liability and which continue to be classified as a liability under SFAS 123(R), the Company recognized the effect of initially re-measuring the liability from its intrinsic value to its fair value as a cumulative effect of a change in accounting principle. The cumulative effect was $77 thousand, net of taxes.

The fair value of each grant was estimated at the grant date using a Black-Scholes option-pricing model with the weighted average assumptions set forth in the adjacent table:

	2006	*2005*	*2004*
Dividend rate	1.02%	1.42%	1.77%
Risk-free interest rate	4.88%	4.30%	2.74%
Expected lives of options	2.7 years	3.5 years	5 years
Price volatility	39.06%	45.73%	49.68%

For 2006, the assumptions were used to calculate the fair value of the options classified as a liability. The fair value of options classified as a liability is calculated at the grant date and each subsequent reporting date until the options are settled. As of December 31, 2006, 5,178 options were classified as liability-type options.

Volatility is based on the historical volatility of the price of the Company's stock over the expected term of the options. The expected term represents the period of time that the options granted are expected to be outstanding. The risk free rate is based on the U.S. Treasury yield curve, in effect at the date the fair value of the options is calculated, with an equivalent term.

As required by SFAS 123(R), management has made an estimate of expected forfeitures and is recognizing compensation costs only for those awards expected to vest. Compensation cost recognized in 2006 totaled $350 thousand, and the income tax benefit for share-based compensation arrangements recognized in 2006 was $105 thousand.

Note 10. (cont.)

A summary of the status of the Plans at December 31, 2006, 2005 and 2004 and changes during the years ended on those dates is as follows:

	Options	*Weighted Average Grant Price Per Option*	*Fair Value Per Option*
Outstanding December 31, 2003	172,220	$ 16.92	
Granted	108,178	24.56	$ 9.66
Cancelled	(4,368)	12.66	
Exercised	(37,219)	15.80	
Outstanding December 31, 2004	238,811	20.97	
Granted	79,031	31.59	$ 10.51 to 18.11
Cancelled	(20,262)	25.32	
Exercised	(56,717)	18.23	
Outstanding December 31, 2005	240,863	24.73	
Granted	-	-	n/a
Cancelled	(51,150)	28.23	
Exercised	(67,059)	21.42	
Outstanding December 31, 2006	122,654	$ 25.09	

There were options for 122,654 shares outstanding at December 31, 2006 at a weighted average exercise price of $25.09 per share, an aggregate intrinsic value of $2.4 million and a weighted-average remaining contractual life of 3.1 years. There were options for 76,966 shares exercisable at December 31, 2006 at a weighted average exercise price of $23.72 per share, an aggregate intrinsic value of $1.6 million and a weighted-average remaining contractual life of 2.3 years. The aggregate intrinsic value represents the total pretax intrinsic value, based on the Company's average closing stock price of $44.32 during the year ended December 31, 2006.

During 2006, the total fair value of options vested was $1.0 million; the total intrinsic value of options exercised was $1.5 million; and the options-based liabilities paid were $43 thousand. During 2006, the total cash received as a result of employee stock option exercises was $1.4 million, and the actual tax benefit realized for the tax deductions was $332 thousand.

As of December 31, 2006, the total compensation cost related to nonvested options not yet recognized is $87 thousand, which will be recognized over a weighted-average period of 2.1 years.

Note 11. Major Customer

The Company has one major customer relationship that is a significant source of revenue. During the year ended December 31, 2006, as during the past number of years, the Company's relationship with Sprint Nextel continued to increase, due to growth in the PCS business segment. Approximately 68% of total operating revenues for the year ended December 31, 2006, 65% of total operating revenues for the year ended December 31, 2005, and 63.5% of total operating revenues for the year ended December 31, 2004 were generated by or through Sprint Nextel and its customers using the Company's portion of Sprint Nextel's nationwide PCS network. No other customer relationship generated more than 2.5% of the Company's total operating revenues for the years ended December 31, 2006, 2005 or 2004.

Note 12. Shareholder Rights Plan

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 common 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 Shareholder Rights Plan, such a person or group would not be entitled to the benefits of the rights.

Note 13. Lease Commitments

The Company leases land, buildings and tower space under various non-cancelable agreements, which expire between the years 2007 and 2046 and require various minimum annual rental payments. These leases typically include renewal options and escalation clauses. In general, tower leases have five or ten year initial terms with four renewal terms of five years. The other leases generally contain certain renewal options for periods ranging from five to twenty years.

Future minimum lease payments under non-cancelable operating leases, including renewals that are reasonably assured at the inception of the lease, with initial variable lease terms in excess of one year as of December 31, 2006 are as set forth in the adjacent table:

Year Ending	*Amount* (in thousands)
2007	$ 5,078
2008	5,052
2009	4,935
2010	4,247
2011	3,511
2012 and beyond	20,684
	$ 43,507

The Company's total rent expense was $5.9 million in the year ended December 31, 2006, $5.3 million in the year ended December 31, 2005, and $4.8 million in the year ended December 31, 2004.

As lessor, the Company has leased buildings, tower space and telecommunications equipment to other entities under various non-cancelable agreements, which require various minimum annual payments. The total minimum rental receipts at December 31, 2006 are as set forth in the adjacent table:

Year Ending	*Amount* (in thousands)
2007	$ 3,462
2008	2,941
2009	2,536
2010	2,122
2011	672
2012 and beyond	460
	$ 12,193

The Company's total rent income was $9.3 million in the year ended December 31, 2006, $8.5 million in the year ended December 31, 2005, and $8.0 million in the year ended December 31, 2004.

Note 14. Acquisitions

Broadband Metro Communications

In September 2005, the Company purchased the assets of Broadband Metro Communications, which marketed wireless broadband services, for $0.6 million in cash (see Note 1). The results of Broadband Metro Communication's operations (operating under the name Shentel Wireless) have been included in the consolidated financial statements since that date. During 2006, the Company terminated all but one of the contracts acquired in this acquisition, transferred that contract and its related assets to NTC, and terminated operations at Shentel Wireless. The Company took impairment charges of approximately $430,000 in connection with the terminated contracts and termination of operations, including the write-off of $251,000 of goodwill recorded in the acquisition.

NTC

On November 30, 2004, the Company purchased the 83.9% of NTC that it did not currently own for $10 million, of which $1 million was held in escrow for payment of specified potential liabilities, and the assumption of NTC's existing debt and other liabilities. For 2005, goodwill was reduced by approximately $0.5 million as a result of settling the escrow funds dispute (Note 1). The results of NTC's operations have been included in the consolidated financial statements since that date. NTC provides local and long distance voice, video, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities primarily located near colleges and universities.

The Company recorded the purchase of NTC as a step acquisition, and as a result, the step-up in basis of the net assets was limited to 83.9% of the fair market value. The adjacent table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of the acquisition (in thousands):

	At November 30, 2004
Current Assets	$ 1,532
Property and Equipment	14,736
Intangible Assets	3,436
Goodwill	5,550
Total assets acquired	25,254
Current liabilities	(3,103)
Long-term debt	(11,838)
Total liabilities assumed	(14,941)
Pre-acquisition ownership	(718)
Net assets acquired	$ 9,595

The $3.4 million of acquired intangible assets has a weighted-average useful life of approximately 11 years. The intangible assets that make up that amount include business contracts of $2.4 million (useful life of 13.7 years), trade name of $168 thousand (useful life of 5.0 years) and a non-compete agreement of $835 thousand (useful life of 4.0 years). The $5.6 million of goodwill at December 31, 2004, was assigned to the Shentel Converged Services segment. The goodwill recorded in the acquisition is deductible for income tax purposes.

Pursuant to the NTC Interest Purchase Agreement, $1.0 million of the purchase price was placed in escrow to satisfy any post-closing adjustments to the purchase price and any indemnification obligations of the Interest holders for a period of six months after the November 30, 2004 closing date. On January 23, 2006, the Company received $0.9 million of the escrow.

The adjacent table reflects the unaudited pro forma results of the Company and NTC for the year ended December 31, 2004, as if the acquisition had taken place at the beginning of the calendar year:

	2004
Operating revenue	$ 129,884
Income from operations	9,165
Net income	$ 9,165
Diluted net income per share	$ 1.20

The pro forma adjustments include amortization of the acquired intangible assets, depreciation of the incremental fair value of the acquired fixed assets, interest expense and income taxes.

Note 15. Segment Reporting

SFAS Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information", establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The Company has six reportable segments, which the Company operates and manages as strategic business units organized geographically and by lines of business: (1) PCS, (2) Telephone, (3) Converged Services (NTC), (4) Mobile, (5) Holding and (6) Other.

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

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

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

The Mobile segment provides tower rental space to affiliates and non-affiliates in the Company's PCS markets and paging services throughout the northern Shenandoah Valley.

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

Other includes ShenTel Service Company, Shenandoah Cable Television, Shenandoah Network Company, Shenandoah Long Distance Company, ShenTel Communications Company, Shentel Wireless Company and Converged Services of West Virginia. During the third quarter of 2005, Shenandoah Valley Leasing Company changed its name to Shentel Wireless Company; during the fourth quarter of 2006, Shentel Wireless Company terminated most of its contracts, transferred its last remaining contract and associated assets to Converged Services, and ceased operations.

Income (loss) recognized from equity method nonaffiliated investees by segment is as set forth in the adjacent table:

(in thousands)	*Holding*	*Telephone*	*Consolidated Totals*
2006	$ (65)	$ 164	$ 99
2005	(283)	57	(226)
2004	(179)	148	(31)

Selected financial data for each segment is as follows:

Year Ended December 31, 2006 (In thousands)	PCS	Telephone	Converged Services (NTC)	Mobile	Holding	Other	Eliminations	Consolidated Totals
External Revenues								
Service revenues	$ 75,509	$ 6,440	$ 9,976	$ -	$ -	$ 11,220	$ -	$ 103,145
Access charges	-	11,319	-	-	-	-	-	11,319
Travel/roaming revenue	34,048	-	-	-	-	-	-	34,048
Facilities and tower lease	-	3,791	2	3,412	-	1,899	-	9,104
Equipment	4,210	28	146	-	-	582	-	4,966
Other	1,688	3,099	543	183	-	1,100	-	6,613
Total external revenues	115,455	24,677	10,667	3,595	-	14,801	-	169,195
Internal Revenues	-	5,793	-	1,656	-	2,589	(10,038)	-
Total operating revenues	115,455	30,470	10,667	5,251	-	17,390	(10,038)	169,195
Operating expenses								
Costs of goods and services, exclusive of depreciation and amortization shown separately below	52,511	6,868	8,243	1,595	9	11,151	(8,721)	71,656
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	32,958	4,491	4,766	686	2,660	4,831	(1,317)	49,075
Depreciation and amortization	14,326	4,755	5,103	878	64	2,164	-	27,290
Total operating expenses	99,795	16,114	18,112	3,159	2,733	18,146	(10,038)	148,021
Operating income (loss)	15,660	14,356	(7,445)	2,092	(2,733)	(756)	-	21,174
Non-operating income (expense)	262	11,144	6	11	3,611	32	(3,509)	11,557
Interest (expense)	(1,250)	(180)	(1,067)	(392)	(2,363)	(619)	3,509	(2,362)
Income taxes	(5,908)	(10,005)	2,762	(662)	1,059	384	-	(12,370)
Cumulative effect of a change in accounting, net of tax	(11)	(27)	(21)	(1)	(2)	(15)	-	(77)
Net income (loss)	$ 8,753	$ 15,288	$ (5,765)	$ 1,048	$ (428)	$ (974)	$ -	$ 17,922
Total assets	$ 78,637	$ 62,619	$ 25,226	$ 15,758	$ 147,020	$ 21,213	$ (142,753)	$ 207,720

Note 15. (cont.)

Year Ended December 31, 2005 (In thousands)	*PCS*	*Telephone*	*Converged Services (NTC)*	*Mobile*	*Holding*	*Other*	*Eliminations*	*Consolidated Totals*
External Revenues								
Service revenues	$ 61,606	$ 6,486	$ 9,631	$ -	$ -	$ 10,732	$ -	$ 88,455
Access charges	-	11,433	-	-	-	-	-	11,433
Travel/roaming revenue	27,220	-	-	-	-	-	-	27,220
Facilities and tower lease	-	3,920	-	3,147	-	1,307	-	8,374
Equipment	3,459	17	12	-	-	843	-	4,331
Other	2,133	2,882	179	146	-	1,238	-	6,578
Total external revenues	94,418	24,738	9,822	3,293	-	14,120	-	146,391
Internal Revenues	1	4,256	-	1,386	-	2,584	(8,227)	-
Total operating revenues	94,419	28,994	9,822	4,679	-	16,704	(8,227)	146,391
Operating expenses								
Costs of goods and services, exclusive of depreciation and amortization shown separately below	43,149	6,620	6,783	1,414	-	9,292	(6,959)	60,299
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	28,848	5,313	4,378	559	1,872	4,632	(1,268)	44,334
Depreciation and amortization	12,693	4,430	2,575	713	64	1,907	-	22,382
Total operating expenses	84,690	16,363	13,736	2,686	1,936	15,831	(8,227)	127,015
Operating income (loss)	9,729	12,631	(3,914)	1,993	(1,936)	873	-	19,376
Non-operating income (expense)	11	687	38	166	3,710	40	(3,501)	1,151
Interest (expense)	(1,720)	(320)	(982)	(273)	(2,746)	(536)	3,501	(3,076)
Income taxes	(2,658)	(5,148)	1,557	(750)	895	(612)	-	(6,716)
Net income (loss)	$ 5,362	$ 7,850	$ (3,301)	$ 1,136	$ (77)	$ (235)	$ -	$ 10,735
Total assets	$ 81,796	$ 59,873	$ 27,107	$ 20,039	$ 143,308	$ 23,154	$ (150,356)	$ 204,921

Year Ended December 31, 2004 (In thousands)	PCS	Telephone	Converged Services (NTC)	Mobile	Holding	Other	Eliminations	Consolidated Totals
External Revenues								
Service revenues	$ 52,724	$ 6,403	$ 731	$ -	$ -	$ 9,589	$ -	$ 69,447
Access charges	-	10,960	-	-	-	-	-	10,960
Travel/roaming revenue	22,863	-	-	-	-	-	-	22,863
Facilities and tower lease	-	3,944	-	2,915	-	1,149	-	8,008
Equipment	3,190	25	(1)	-	-	361	-	3,575
Other	1,388	2,408	6	178	-	2,161	-	6,141
Total external revenues	80,165	23,740	736	3,093	-	13,260	-	120,994
Internal Revenues	1	3,635	-	1,298	-	1,991	(6,925)	-
Total operating revenues	80,166	27,375	736	4,391	-	15,251	(6,925)	120,994
Operating expenses								
Costs of goods and services, exclusive of depreciation and amortization shown separately below	39,112	4,098	352	1,114	9	7,837	(6,675)	45,847
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	22,952	8,129	319	632	2,059	4,275	(250)	38,116
Depreciation and amortization	11,915	4,633	232	611	95	1,534	-	19,020
Total operating expenses	73,979	16,860	903	2,357	2,163	13,646	(6,925)	102,983
Operating income (loss)	6,187	10,515	(167)	2,034	(2,163)	1,605	-	18,011
Non-operating income (expense)	2	355	-	82	2,982	26	(2,370)	1,077
Interest (expense)	(1,626)	(305)	(19)	(254)	(2,804)	(491)	2,370	(3,129)
Income taxes	(1,799)	(3,858)	69	(714)	802	(421)	-	(5,921)
Net income (loss)	$ 2,764	$ 6,707	$ (117)	$ 1,148	$ (1,183)	$ 719	$ -	$ 10,038
Total assets	$ 81,090	$ 59,507	$ 24,423	$ 17,509	$ 152,002	$ 23,256	$ (146,366)	$ 211,421

Note 16. Quarterly Results (unaudited)

The following table shows selected quarterly results for the Company.

(in thousands except per share data)

For the year ended December 31, 2006	First	Second	Third	Fourth	Total
Operating revenues	$ 39,799	$ 41,427	$ 42,594	$ 45,375	$ 169,195
Operating income	4,151	4,773	5,927	6,323	21,174
Net income	8,545	2,784	3,381	3,212	17,922
Net income per share – basic	$ 1.11	$ 0.36	$ 0.44	$ 0.41	$ 2.32
Net income per share – diluted	1.10	0.36	0.43	0.41	2.30

For the year ended December 31, 2005	First	Second	Third	Fourth	Total
Operating revenues	$ 34,395	$ 35,457	$ 37,314	$ 39,225	$ 146,391
Operating income	4,505	4,471	5,656	4,744	19,376
Net income	2,341	2,454	3,101	2,839	10,735
Net income per share – basic	$ 0.31	$ 0.32	$ 0.40	$ 0.37	$ 1.40
Net income per share – diluted	0.30	0.32	0.40	0.37	1.39

Note 17. Verizon Settlement

In September 2005, the Company settled a claim against Verizon, with respect to overcharges for completing local calls from Shenandoah PCS customers to Verizon customers, for $750,000, which was received by the Company in September 2005. In connection with the settlement, the Company recorded a third quarter reduction in PCS costs of goods and services of $750,000.

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our expectations, hopes, intentions, or strategies regarding the future. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include those discussed in this report under "Business-Recent Developments" and "Risk Factors." The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by law.

General

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

- wireless personal communications services, or PCS, as a Sprint PCS affiliate, through Shenandoah Personal Communications Company;
- telephone, which involves the provision of regulated and non-regulated telephone services, through Shenandoah Telephone Company;
- converged services, which involves the provision of data, video, voice and long-distance services, through Shentel Converged Services, Inc.;
- mobile, which involves the provision of tower leases and paging services, through Shenandoah Mobile Company;
- holding, which involves the provision of investments and management services to its subsidiaries, through Shenandoah Telecommunications Company; and
- other, which involves the provision of Internet, cable television, network facility leasing, long-distance, CLEC, and wireless broadband services, through ShenTel Service Company, Shenandoah Cable Television, Shenandoah Network Company, Shenandoah Long Distance Company and ShenTel Communications Company.

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

The Company is the exclusive provider of wireless mobility communications network products and services on the 1900 MHz band under the Sprint brand from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company's primary service area for the telephone, cable television and long-distance business is Shenandoah County, Virginia. The county is a rural area in northwestern Virginia, with a population of approximately 39,000 inhabitants, which has increased by approximately 4,000 since 2000. While a number of new housing developments are being planned for Shenandoah County, the Company believes that the potential for significant numbers of additional wireline customers in the Shenandoah County operating area is limited. In 2002, the Company established a competitive local exchange carrier in Virginia to provide services outside of its regulated telephone service area on a limited basis.

As a result of the November 30, 2004, acquisition of the 83.9% of NTC Communications, L.L.C. ("NTC") that the Company did not already own, the Company, through its subsidiary Shentel Converged Services, provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to MDU communities, consisting primarily of off-campus college student housing throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi.

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

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

Significant Transactions

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

On November 30, 2006, the Company announced that it would freeze benefit accruals for all participants in the Company's defined benefit pension plans as of January 31, 2007, and that it would replace the frozen benefits by increasing the Company's contributions to the existing 401(k) Supplemental Retirement Plan, as well as a new non-qualified defined contribution plan to be established for selected employees, going forward. The Company also announced that it intends to terminate and settle the defined benefit pension plans during 2007. Included in net pension costs for 2006 was a gain on the curtailment of the pension plans of $1.8 million, offset by $0.8 million of accelerated amortization of prior unrecognized pension costs.

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

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

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

In September 2005, the Company settled a claim against Verizon, with respect to overcharges for completing local calls from Shenandoah PCS customers to Verizon customers, for $750,000, which was received by the Company in September 2005. In connection with the settlement, the Company recorded a reduction in PCS network costs of $750,000 during the third quarter of 2005.

Critical Accounting Policies

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

Allowance for Doubtful Accounts

Estimates are used in determining the allowance for doubtful accounts and are based on historical collection and write-off experience, current trends, credit policies, and the analysis of the accounts receivable by aging category. In determining these estimates, the Company compares historical write-offs in relation to the estimated period in which the subscriber was originally billed. The Company also looks at the historical average length of time that elapses between the original billing date and the date of write-off and the financial position of its larger customers in determining the adequacy of the allowance for doubtful accounts. From this information, the Company assigns specific amounts to the aging categories. The Company provides an allowance for substantially all receivables over 90 days old.

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

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

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

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

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

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

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, services have been rendered or products have been delivered, the price to the buyer is fixed and determinable and collectibility is reasonably assured. Revenues are recognized by the Company based on the various types of transactions generating the revenue. For services, revenue is recognized as the services are performed. For equipment sales, revenue is recognized when the sales transaction is complete.

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

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the recoverability of deferred tax assets generated on a state-by-state basis from net operating losses apportioned to that state. Management uses a more likely than not threshold to make the determination if a valuation allowance is warranted for tax assets in each state. As a result of the evaluation of the deferred tax assets, the Company had established a valuation allowance against the deferred tax assets. The valuation allowance of $0.7 million was eliminated during 2005 due to the improved operating performance of the Company's PCS segment. Management will evaluate the effective rate of taxes based on apportionment factors, the Company's operating results, and the various state income tax rates. Currently, management anticipates that the future effective income tax rate will be approximately 40%.

Leases

The Company accounts for operating leases following the guidance of SFAS No. 13, "Accounting for Leases," and FASB Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases." In light of the Company's investment in each site, including acquisition costs and leasehold improvements, the Company includes the exercise of certain renewal options in the recording of operating leases. The Company recognizes rent expense on a straight-line basis over the initial lease term and renewal periods that are reasonably assured at the inception of the lease. Where the Company is the lessor, the Company recognizes revenue on a straight line basis over the non-cancelable term of the lease.

Other

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

Results of Continuing Operations

2006 Compared to 2005

Consolidated Results

The Company's consolidated results for the years ended December 31, 2006 and 2005 are summarized as set forth in the adjacent table:

	Year Ended December 31,		*Change*	
(in thousands)	***2006***	*2005*	*$*	*%*
Operating revenues	$ **169,195**	$ 146,391	$ 22,804	15.6
Operating expenses	**148,021**	127,015	21,006	16.5
Operating income	**21,174**	19,376	1,798	9.3
Other income (expense)	**9,195**	(1,925)	11,120	n/m
Income tax provision	**12,370**	6,716	5,654	84.2
Net income	$ **17,922**	$ 10,735	$ 7,187	66.9

Operating revenues

For the year ended December 31, 2006, operating revenue increased $22.8 million, or 15.6%, primarily due to the growth in the Company's PCS and Telephone segments. For the year ended December 31, 2006, PCS operating revenues increased $21.0 million, or 22.3%, and Telephone operating revenues increased $1.5 million, or 5.1%, compared to 2005.

As a result of the 2007 Amendments to the management agreement between Sprint Nextel and PCS, the Company expects to report lower revenue and lower expenses in 2007 compared to 2006. The impact on operating income is not expected to be significant. Travel revenue and travel expenses, reported and settled on a gross basis in the past, will be settled net as a component of a Net Service Fee to be paid subsequent to January 1, 2007. The Net Service Fee will, in addition to replacing the net travel settlements, also replace several other fees and pass through costs historically recognized by PCS. See the PCS Segment Results section below for additional details of these changes.

Operating expenses

For the year ended December 31, 2006, operating expenses increased $21.0 million, or 16.5%, primarily due to the growth in the Company's PCS and Converged Services segments. For the year ended December 31, 2006, PCS operating expenses increased $15.1 million, or 17.8%, and Converged Services operating expenses increased $4.4 million, or 31.9%, compared to 2005.

Looking forward to 2007, the Company anticipates incremental costs of $1.6 million relating to the early retirement offer; $3 million in pension costs relating to the settlement of the plans; $1.0 million in additional 401(k) contributions; and $0.1 million in severance costs for seven terminated employees. These costs will be offset by estimated savings of $1.6 million in salaries and benefits from early retirees and terminated employees; and approximately $0.3 million in lower pension expense, exclusive of the effects of the early retirement and settlement of the pension plans. Thus, before any other impacts of on-going activities or new initiatives, 2007 operating expenses are anticipated to be approximately $3.8 million higher in 2007 compared to 2006.

Other income (expense)

For the year ended December 31, 2006, other income (expense) increased $11.1 million, primarily due to a $10.5 million pre-tax gain on the sale of RTB stock recorded in the first quarter of 2006.

Income tax provision

The Company's effective tax rate increased from 38.5% in 2005 to 40.7% in 2006, due to the tax treatment of the incentive stock options awarded by the Company to its employees, including the effect on deferred taxes of the reclassification of certain option awards from liability classified awards to equity classified awards during 2006.

Segment Results

PCS

(in thousands)	Year Ended December 31, 2006	2005	Change $	%
Segment operating revenues				
Wireless service revenue	$ **75,509**	$ 61,606	$ 13,903	22.6
Travel and roaming revenue	**34,048**	27,220	6,828	25.1
Equipment revenue	**4,210**	3,459	751	21.7
Other revenue	**1,688**	2,134	(446)	(20.9)
Total segment operating revenues	**115,455**	94,419	21,036	22.3
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	**52,511**	43,149	9,362	21.7
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	**32,958**	28,848	4,110	14.2
Depreciation and amortization	**14,326**	12,693	1,633	12.9
Total segment operating expenses	**99,795**	84,690	15,105	17.8
Segment operating income	$ **15,660**	$ 9,729	$ 5,931	61.0

Shenandoah PCS Company, as a Sprint PCS affiliate, provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia.

The Company receives revenues from Sprint Nextel for subscribers that obtain service in the Company's network coverage area and other Sprint Nextel CDMA subscribers that use the Company's network when they use PCS service within the Company's service area. The Company relies on Sprint Nextel to provide timely, accurate and complete information for the Company to record the appropriate revenue and expenses for each financial period.

On March 13, 2007, the Company's PCS Subsidiary and Sprint Nextel entered into a series of agreements (collectively, the "2007 Amendments"), the primary operational effects of which were to:

- Amend, as of January 1, 2007, the existing management and services agreements with Sprint Nextel to further simplify the methods used to settle revenue and expenses between the Company and Sprint Nextel; and
- Upon receipt of any required landlord consent, transfer all Sprint Nextel operated Nextel store locations within the Company's PCS service area to the Company's PCS Subsidiary, with the Company to sell both Sprint PCS and Sprint Nextel iDEN phones and provide local customer service support for Sprint Nextel iDEN customers in the Company's service area.

As a result of the 2007 Amendments, the basis upon which the Company and Sprint Nextel settle revenue and expenses, including travel, wholesale usage and roaming, and upon which the Company compensates Sprint Nextel for support services, such as customer service, billing, collections, long distance, national network operations support, inventory logistics support, use of the Sprint Nextel brand names, national advertising, national distribution and product development, has been simplified. As a result of the amendments, the Company and Sprint Nextel will no longer settle such amounts; nor will the Company pay Sprint Nextel a fee per subscriber or a fee for each new subscriber added.

In 2006, the Company paid Sprint Nextel approximately $12.5 million in such fees, received approximately $34.0 million in travel, wholesale and roaming revenue, and paid approximately $29.2 million in travel and related expenses, resulting in a net charge to operating income of approximately $7.7 million. In lieu of such fees and the settling of revenues and expenses for use on each other's networks, the Company will pay Sprint Nextel a Net Service Fee equal to 8.8% of billed revenue (net of customer credits, account write offs and other billing adjustments). Had this Net Service Fee been applied to 2006 billed revenue, the charge would have been approximately $7.0 million. This 8.8% Net Service Fee is in addition to the 8.0% of billed revenue (net of customer credits, account write-offs and other billing adjustments) currently retained by Sprint Nextel under the existing management agreement. The Net Service Fee is designed to approximate the current settlements adjusted to reflect new pricing for travel, CCPU (cash cost per user), and CPGA (cost per gross activation). The Company will incur additional expenses as a result of acquiring the Sprint Nextel owned stores, but the Net Service Fee is net of the expected annual cost to provide local customer service support to Sprint Nextel iDEN customers in our service area.

The Company had 332 PCS base stations in service at December 31, 2006, compared to 311 base stations in service at December 31, 2005. The increase in base stations was primarily the result of supplementing network capacity and further extending coverage along more heavily traveled secondary roads in the Company's market areas.

Through Sprint Nextel, the Company receives revenue from wholesale resellers of wireless PCS service. These resellers pay a flat rate per minute of use for all traffic their subscribers generate on the Company's network. The Company's cost to handle this traffic is the incremental cost to provide the necessary network capacity.

The Company's average PCS retail customer turnover, or churn rate, was 1.9% in 2006, compared to 2.0% in 2005. In 2006, there was an increase in PCS bad debt expense to 4.2% of PCS service revenues compared to 4.0% in 2005. Management continues to monitor receivables, collection efforts and new subscriber credit ratings.

Operating Revenues

As of December 31, 2006, the Company had 153,503 retail PCS subscribers compared to 122,975 subscribers at December 31, 2005. The PCS operation added 30,528 net retail customers in 2006 compared to 20,362 net retail subscribers added in 2005. In addition, net wholesale users increased by 10,652 in 2006 compared to 11,389 added in 2005. In 2006, wireless service revenues from retail customers increased $13.9 million, or 22.6%.

PCS travel and roaming revenues increased $6.8 million, or 25.1% in 2006. The travel and roaming revenue increase resulted from an increase in travel data usage, which increased $4.3 million to $7.7 million in 2006, and to a $2.4 million increase in travel usage primarily from the increase in customers, as rates did not change during 2006 compared to 2005.

PCS equipment revenue increased $0.8 million, or 21.7%. The increase was primarily due to the addition of new PCS subscribers in 2006 and more subscribers upgrading their handsets to access new features provided with the service. The effect of these factors was offset in part by a lower average price received for telephone equipment in 2006. During 2006, as a result of adding new subscribers, the Company sold 44,386 handsets compared to 36,179 in 2005. In addition, as a result of upgrades, the Company sold 15,766 handsets in 2006 compared to 13,999 in 2005.

Other revenue decreased $0.4 million, or 20.9%, primarily due to a decrease in Universal Service Fund revenues from $0.9 million recognized in 2005 to $0.3 million in 2006.

Cost of goods and services

Cost of PCS goods and services increased $9.4 million, or 21.7% in 2006. PCS travel costs increased $5.8 million, or 32.7%, to $23.4 million. The travel costs increased due to additional data costs (up $3.5 million to $4.9 million in 2006) and an increase in the Company's subscribers, partially offset by a decrease in the average travel minutes used by the Company's subscribers on the Sprint Nextel or Sprint Nextel affiliate networks not operated by the Company.

Cost of goods and services experienced additional increases due to the cost of the PCS phones sold to new and existing customers. The cost of end user equipment increased $1.5 million from 2005. During 2006, the Company added 14,731 more gross new PCS subscribers than in 2005. Network costs increased $2.1 million in 2006 to expand capacity and support the growth in subscribers.

The increase in cost of goods and services was offset in part by the Company's receipt in 2005 of $0.8 million for the settlement of a claim from Verizon. See Note 17 to the consolidated financial statements appearing elsewhere in this report for additional information.

Selling, general and administrative

Selling, general and administrative costs increased $4.1 million, or 14.2%, compared to 2005. The increase was primarily attributable to growth in the subscriber base, due to an increase in the amount paid to Sprint Nextel for the administration of the customer base of $1.6 million, an increase in commissions of $1.2 million to our employees, and an increase of $3.3 million for commissions paid to national and local third-party retailers; as well as an increase in bad debt expense of $0.9 million. These increases were offset, in part, by reductions in allocated overhead of $2.8 million, reflecting the change in emphasis to NTC's activities during 2006.

Depreciation and amortization

Depreciation and amortization expense increased $1.6 million, or 12.9%, over 2005, due to spending in 2005 and 2006 to maintain our network and expand capacity.

Telephone

(in thousands)	Year Ended December 31, 2006	2005	Change $	%
Segment operating revenues				
Service revenue - wireline	$ **6,856**	$ 6,850	$ 6	0.1
Access revenue	**13,163**	12,801	362	2.8
Facilities lease revenue	**6,838**	6,155	683	11.1
Equipment revenue	**28**	17	11	64.7
Other revenue	**3,585**	3,171	414	13.1
Total segment operating revenues	**30,470**	28,994	1,476	5.1
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	**6,868**	6,620	248	3.7
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	**4,491**	5,313	(822)	(15.5)
Depreciation and amortization	**4,755**	4,430	325	(7.3)
Total segment operating expenses	**16,114**	16,363	(249)	(1.5)
Segment operating income	$ **14,356**	$ 12,631	$ 1,725	13.7

Shenandoah Telephone Company provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the northern Shenandoah Valley.

During 2006, new housing starts in the Company's local telephone area resulted in a net increase of 90 access lines, although the trend over past periods has been a decline in subscribers, principally due to consumer migration to wireless and DSL services from traditional telephone services. Based on industry experience, the Company anticipates that the long-term trend toward declining telephone subscriber counts may dominate for the foreseeable future.

Operating Revenues

Total switched minutes of use on the local telephone network increased by 7.2% compared to 2005. The increase in minutes was primarily attributable to the increase in wireless traffic transiting the Company's telephone network. The mix of minutes that terminate to wireless carriers compared to total minutes shifted from 50.8% to 51.4%.

DSL revenue, included in "access revenue," increased $0.4 million to $1.2 million for 2006.

Facility lease revenue increased $0.7 million to $6.8 million in 2006 due to a circuit lease contract initiated in late 2005.

Other revenue increased $0.4 million to $3.6 million in 2006, due to increases of approximately $0.2 million each in directory revenue and building rent.

Cost of goods and services

Cost of goods and services increased in 2006 by $0.2 million, or 3.7%, due to increased maintenance and repair costs (up $0.6 million), offset by lower network costs (down $0.3 million) largely due to a reduction in allocated costs.

Selling, general and administrative

Selling, general and administrative expense decreased in 2006 by $0.8 million, or 15.5%, due to lower allocated overhead costs.

Converged Services

(in thousands)	Year Ended December 31, 2006	2005	Change $	%
Segment operating revenues				
Service revenue - wireline	$ 9,976	$ 9,631	$ 345	3.6
Equipment revenue	146	12	134	n/m
Other revenue	545	179	366	204.5
Total segment operating revenues	10,667	9,822	845	8.6
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	8,243	6,783	1,460	21.5
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	4,766	4,378	388	8.9
Depreciation and amortization	5,103	2,575	2,528	98.2
Total segment operating expenses	18,112	13,736	4,376	31.9
Segment operating (loss)	$ (7,445)	$ (3,914)	$ (3,531)	90.2

The Converged Services segment primarily consists of the operations of NTC, which provides local and long distance voice, data and video services on an exclusive and non-exclusive basis to MDU communities throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. The Company purchased the remaining 83.9% of NTC that it did not previously own on November 30, 2004. Effective January 1, 2007, NTC was merged into Shentel Converged Services.

The number of NTC properties served declined by seven during 2006 to 102 at December 31, 2006. The Company continues to focus on integrating NTC's operations by eliminating smaller unprofitable properties, while signing new contracts for properties that offer a better profit potential. Four properties that the Company had expected to renew their expiring contracts chose not to do so during second quarter of 2006. The Company also capitalized approximately $0.9 million during 2006 in connection with capital projects to improve its customer service interface and billing systems to support future growth in the Converged Services segment.

Operating Revenues

Service revenues consist of voice, video and data services at MDU properties in the southeastern United States. Average monthly revenue increased $70 thousand or 8.6% in 2006, compared to 2005. While data service increased $0.8 million, or 19.3% in 2006 over 2005, voice service decreased $0.5 million, or 30.6%, over the same time period, reflecting a decline in wireline telephone service use amongst college students due to increased wireless telephone usage.

Operating Expenses

The Company records its employee costs and other shared expenses in a subsidiary, Shentel Management Company. These costs and expenses are then allocated to each of the respective subsidiaries under an arrangement approved by the Virginia State Corporation Commission (see Note 1 for additional information). Between 2005 and 2006, due to semi-annual changes in the allocation formulas; additional direct labor allocated to Converged Services projects (such as the customer interface/billing system project, roll-out of new properties, and equipment upgrades and maintenance issues); and additional management focus on the Converged Services segment, $1.0 million in additional expenses have been allocated to Converged Services in 2006 compared to 2005. Total allocated costs declined by $1.1 million in 2006 from 2005. The PCS segment was the largest beneficiary of this change in allocation, as it has been allocated $2.4 million less in 2006 than 2005. These costs are reflected in cost of goods and services and selling, general and administrative expenses in the table above.

Cost of goods and services

Cost of goods and services reflects the cost of purchasing video and voice services, the network costs to provide Internet services to customers and network maintenance and repair. Costs of goods and services increased $1.5 million, or 21.5%, in 2006 compared to 2005. Major components of the increase included $0.4 million in losses on asset disposals; allocated costs of $0.4 million; and $0.4 million in other network costs.

Selling, general and administrative

Selling, general and administrative expenses increased $0.4 million, or 8.9%, in 2006 over 2005, primarily reflecting increased allocated costs, offset by a reduction of $0.1 million in net bad debt expenses.

Depreciation and amortization

Depreciation and amortization expense increased $2.5 million, or 98.2%, in 2006 over 2005. The Company shortened the depreciable lives of certain assets in the fourth quarter of 2005, increasing depreciation in 2006 and future years compared to 2005 amounts; shortened the lives of certain phone system assets in the third quarter of 2006, significantly increasing depreciation expense in the second half of 2006; and during the second quarter of 2006, accelerated depreciation expense of $820,000 for four MDU's that elected not to renew their contracts for service.

Mobile

	Year Ended December 31,		Change	
(in thousands)	***2006***	*2005*	*$*	*%*
Segment operating revenues				
Tower lease revenue - affiliate	$ **1,656**	$ 1,386	$ 270	19.5
Tower lease revenue - non-affiliate	**3,412**	3,147	265	8.4
Other revenue	**183**	146	37	25.3
Total segment operating revenues	**5,251**	4,679	572	12.2
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	**1,595**	1,414	181	12.8
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	**686**	559	127	22.7
Depreciation and amortization	**878**	713	165	23.1
Total segment operating expenses	**3,159**	2,686	473	17.6
Segment operating income	$ **2,092**	$ 1,993	$ 99	5.0

The Mobile segment provides tower rental space to affiliated and non-affiliated companies in the Company's PCS service area and paging services throughout the northern Shenandoah Valley.

At December 31, 2006, the Mobile segment had 113 towers and 152 non-affiliate tenants compared to 99 towers and 151 non-affiliate tenants at December 31, 2005. Changes in revenue and expenses are directly related to changes in the number of towers and tenants.

2005 Compared to 2004

Consolidated Results

The Company's consolidated results for the years ended December 31, 2005 and 2004 are summarized as follows:

	Year Ended December 31,		Change	
(in thousands)	*2005*	*2004*	*$*	*%*
Operating revenues	$ 146,391	$ 120,994	$ 25,397	21.0
Operating expenses	127,015	102,983	24,032	23.3
Operating income	19,376	18,011	1,365	7.6
Other income (expense)	(1,925)	(2,052)	(127)	(6.2)
Income tax provision	6,716	5,921	795	13.4
Net income	$ 10,735	$ 10,038	$ 697	6.9

Operating revenues

For the year ended December 31, 2005, operating revenue increased $25.4 million, or 21.0%, primarily due to the growth in the Company's PCS and Converged Services segments. For the year ended December 31, 2005, PCS operating revenues increased $14.3 million, or 17.8%, and Converged Services operating revenues increased $9.0 million, compared to 2004. One month of Converged Services results were included in 2004 following the Company's acquisition of NTC Communications on November 30, 2004.

Operating expenses

For the year ended December 31, 2005, operating expenses increased $24.0 million, or 23.3%, primarily due to the growth in the Company's PCS and Converged Services segments. For the year ended December 31, 2005, PCS operating expenses increased $10.7 million, or 14.5%, and Converged Services operating expenses increased $12.8 million, compared to 2004, which only included one month of Converged Services operating expenses. Due to the significant increase in the share price of the Company's common stock in 2005, the Company recorded an increase of $1.1 million in compensation expense related to the Stock Appreciation Rights ("SARs") held by employees. The increase in operating expenses was offset in part by the Company's receipt of $0.8 million for the settlement of a claim against Verizon. See Note 17 to the consolidated financial statements appearing elsewhere in this report for additional information.

Segment Results

PCS

(in thousands)	Year Ended December 31, 2005	2004	Change $	%
Segment operating revenues				
Wireless service revenue	$ 61,606	$ 52,724	$ 8,882	16.8
Travel and roaming revenue	27,220	22,863	4,357	19.1
Equipment revenue	3,459	3,190	269	8.4
Other revenue	2,134	1,389	745	53.6
Total segment operating revenues	94,419	80,166	14,253	17.8
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	43,149	39,112	4,037	10.3
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	28,848	22,952	5,896	25.7
Depreciation and amortization	12,693	11,915	778	6.5
Total segment operating expenses	84,690	73,979	10,711	14.5
Segment operating income	$ 9,729	$ 6,187	$ 3,542	57.2

The Company had 311 PCS base stations in service at December 31, 2005, compared to 271 base stations in service at December 31, 2004. The increase in base stations was primarily the result of supplementing network capacity and further extending coverage along more heavily traveled secondary roads in the Company's market areas.

Through Sprint Nextel, the Company began receiving revenue from wholesale resellers of wireless PCS service in late 2002. These resellers pay a flat rate per minute of use for all traffic their subscribers generate on the Company's network. The Company's cost to handle this traffic is the incremental cost to provide the necessary network capacity.

The Company's net travel and wholesale roaming, including the long distance and 3G data portions of that traffic, increased to a $12.3 million net contribution to operating income in 2005, compared to a $10.2 million net contribution to operating income in 2004. The Company's travel receivable minutes increased 17.3% to 333.6 million and the travel payable minutes increased by 20.1% to 242.3 million. The increases in travel minutes receivable and payable are primarily the result of an increase in usage of the Company's network facilities by subscribers based in other markets and growth in subscribers in the Company's markets using PCS service outside of the Company's service area.

On a per-subscriber basis, the Company's average of travel payable minutes increased to 180 minutes per month in 2005, which represented an increase of one minute per month from 2004. A continuation of this trend could negatively affect the results of the PCS operation and overall results of the Company absent any changes in the Company's arrangements with Sprint Nextel.

The Company's average PCS retail customer turnover, or churn rate, was 2.0% in 2005, compared to 2.1% in 2004. In 2005, there was an increase in PCS bad debt expense to 4.0% of PCS service revenues compared to 3.0% in 2004.

Operating Revenues

As of December 31, 2005, the Company had 122,975 retail PCS subscribers compared to 102,613 subscribers at December 31, 2004. The PCS operation added 20,362 net retail customers in 2005 compared to 17,474 net retail subscribers added in 2004. In addition, net wholesale users increased by 11,389 in 2005 compared to 14,479 added in 2004. In 2005, wireless service revenues from retail customers increased $8.9 million, or 16.9%.

PCS travel and roaming revenues increased $4.4 million, or 19.1% in 2005. The travel and roaming revenue increase resulted from an increase in travel usage. For 2005, the travel rate the Company received from Sprint Nextel was $0.058 per minute, which was the same rate as in 2004. Roaming revenue declined $0.4 million, or 14%, due to decreasing roaming rates and a decrease in volume as other carriers continue to expand their networks in the Company's service area.

During 2005, the Company's PCS segment recorded Universal Service Fund revenues, covering the period from late 2004 to December 31, 2005, of $0.5 million.

PCS equipment revenue increased $0.3 million, or 8.4%. The increase was primarily due to the addition of new PCS subscribers in 2005 and more subscribers upgrading their handsets to access new features provided with the service. The effect of these factors was offset in part by a lower average price received for telephone equipment in 2005. During 2005, as a result of adding new subscribers, the Company sold 36,338 handsets compared to 24,039 in 2004. In addition, as a result of warranties and upgrades, the Company sold 14,336 handsets in 2005 compared to 12,168 in 2004.

Cost of goods and services

Cost of PCS goods and services increased $4.0 million, or 10.3% in 2005. PCS travel costs increased $3.1 million, or 22.6%, to $17.0 million. The travel costs increased due to an increase in the Company's subscribers and an increase in the average travel minutes used by the Company's subscribers on the Sprint Nextel CDMA or Sprint PCS Affiliate networks not operated by the Company.

Cost of goods and services experienced additional increases due to the cost of the PCS phones sold to new and existing customers. The cost of end user equipment increased $1.7 million from 2004. During 2005, the Company added 5,130 more gross new PCS subscribers than in 2004.

The increase in cost of goods and services was offset in part by the Company's receipt of $0.8 million for the settlement of a claim from Verizon. See Note 17 to the consolidated financial statements appearing elsewhere in this report for additional information.

Selling, general and administrative

Selling, general and administrative costs increased $5.9 million, or 25.7%, compared to 2004. The increase was primarily attributable to an increase in the amount paid to Sprint Nextel for the administration of the customer base of $1.0 million due to an increase in customers, (which was partially offset by a reduction in the cost per customer totaling $0.3 million), an increase in commissions paid to Radio Shack of $1.0 million, an increase of $0.7 million for commissions paid to national and local third-party retailers, and an increase in bad debt expense of $0.7 million. The remaining $2.4 million increase primarily reflected additional employee expenses and allocated overhead.

Telephone

	Year Ended December 31,		*Change*	
(in thousands)	*2005*	*2004*	*$*	*%*
Segment operating revenues				
Service revenue - wireline	$ 6,850	$ 6,817	$ 33	0.5
Access revenue	12,801	11,928	873	7.3
Facilities lease revenue	6,155	5,941	214	3.6
Equipment revenue	17	26	(9)	(34.6)
Other revenue	3,171	2,663	508	19.1
Total segment operating revenues	28,994	27,375	1,619	5.9
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	6,620	4,098	2,522	61.5
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	5,313	8,129	(2,816)	(34.6)
Depreciation and amortization	4,430	4,633	(203)	(4.4)
Total segment operating expenses	16,363	16,860	(497)	(2.9)
Segment operating income	$ 12,631	$ 10,515	$ 2,116	20.1

Although growth in new housing starts in the Company's local telephone area resulted in a net increase of 49 access lines during 2005, the trend over past periods has been a decline in subscribers, principally due to consumer migration to wireless and DSL services from traditional telephone services.

Operating Revenues

Total switched minutes of use on the local telephone network increased by 16.2% compared to 2004 and access revenues increased $0.9 million, or 7.3%. The mix of minutes that terminate to wireless carriers compared to total minutes shifted from 46.6% to 50.8%. The increase in minutes was primarily attributable to the increase in wireless traffic transiting the Company's telephone network.

DSL revenue, included in "access revenue," increased $0.3 million to $0.8 million for 2005. Directory revenue, included in "other revenues," increased by $0.3 million, or 17.9%, to $2.1 million for 2005.

Cost of goods and services

Cost of goods and services increased in 2005 by $2.5 million, or 61.5%, due primarily to the new allocation methodology adopted by the Company in 2005. The Company filed a new affiliate agreement with the Virginia State Corporation Commission to change the approach of allocating shared resources and costs between the Company's subsidiaries. The change pooled all employees into a single subsidiary and now allocates shared costs to the appropriate subsidiary, at loaded labor rates. This change in allocation methodology more accurately reflects costs related to labor, in the proper subsidiary and on the proper expense line with the cost of goods and services line increasing, while selling, general and administrative expenses often decreased by similar amounts. See Note 1 to the consolidated financial statements appearing elsewhere in this report for additional information.

Selling, general and administrative

Selling, general and administrative expense decreased in 2005 by $2.8 million, or 34.6% due primarily to the new allocation methodology adopted by the Company in 2005. This reduction was nearly offset by the increase in cost of goods and services mentioned above. See Note 1 to the consolidated financial statements appearing elsewhere in this report for additional information.

Converged Services

(in thousands)	Year Ended December 31, 2005	2004	Change $
Segment operating revenues			
Service revenue - wireline	$ 9,631	$ 731	$ 8,900
Equipment revenue	12	(1)	13
Other revenue	179	6	173
Total segment operating revenues	9,822	736	9,086
Segment operating expenses			
Cost of goods and services, exclusive of depreciation and amortization shown separately below	6,783	352	6,431
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	4,378	319	4,059
Depreciation and amortization	2,575	232	2,343
Total segment operating expenses	13,736	903	12,833
Segment operating (loss)	$ (3,914)	$ (167)	$ (3,747)

The Converged Services segment primarily consists of the operations of NTC, which provides local and long distance voice, data and video services on an exclusive and non-exclusive basis to MDU communities throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi.

The Company purchased the remaining 83.9% of NTC that it did not previously own on November 30, 2004, and prior to that date had no other activities in this segment. Accordingly, 2004 operating results include one month of operating activity for NTC while the 2005 operating results include a full year of NTC's operations.

Operating Revenues

Service revenues consist of voice, video and data services at MDU properties in the southeastern United States. Average monthly revenue increased $32 thousand or 4.1% in 2005, compared to 2004.

Cost of goods and services

Cost of goods and services reflects the cost of purchasing video and voice services, the network costs to provide Internet services to customers and network maintenance and repair. Total average monthly operating expenses increased $202 thousand to $1.1 million, or 21.5% compared to 2004. The Company was focused on eliminating redundant processes and integrating the operation to reduce costs of operation.

Mobile

(in thousands)	Year Ended December 31, 2005	2004	Change $	%
Segment operating revenues				
Tower lease revenue - affiliate	$ 1,386	$ 1,298	$ 88	6.8
Tower lease revenue - non-affiliate	3,147	2,915	232	8.0
Other revenue	146	178	(32)	(18.0)
Total segment operating revenues	4,679	4,391	288	6.6
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	1,414	1,114	300	26.9
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	559	632	(73)	(11.6)
Depreciation and amortization	713	611	102	16.7
Total segment operating expenses	2,686	2,357	329	14.0
Segment operating income	$ 1,993	$ 2,034	$ (41)	(2.0)

At December 31, 2005, the Mobile segment had 99 towers and 151 non-affiliate tenants compared to 91 towers and 143 non-affiliate tenants at December 31, 2004.

Operating Revenues

The segment's operating revenues increased due to the increased number of non-affiliate tenants leasing space on the towers compared to 2004.

Cost of goods and services

The cost of goods and services increased due to additional towers in place, which increased 8.8% compared to 2004. The remaining cost increase was due primarily to the new allocation methodology adopted by the Company in 2005. See Note 1 to the consolidated financial statements appearing elsewhere in this report for additional information.

Selling, general and administrative

Selling, general and administrative costs decreased primarily due to the new allocation methodology adopted by the Company in 2005. See Note 1 to the consolidated financial statements appearing elsewhere in this report for additional information.

Depreciation and amortization

The depreciation and amortization expense increased due to the addition of new towers and the additional leasehold improvements being amortized.

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, investments and potential dividends. These sources include cash flows from operations, cash and cash equivalents, the liquidation of investments and borrowings. Management routinely considers the alternatives available to determine what mix of sources are best suited for the long-term benefit of the Company.

Sources and Uses of Cash. The Company generated $34.4 million of net cash from operations in 2006, a $2.1 million increase from $32.2 million generated in 2005. The primary changes in cash from operations were a $4.9 million increase in non-cash depreciation and amortization, offset by taxes on the gain from the sale of the RTB stock. Accounts receivable growth slowed as increased receivables at PCS were offset by declines at Converged Services and Telephone. Changes in prepaids, deferrals and accruals relate to increases in pension liabilities offset by decreases in accrued compensation and the change in deferred taxes from a net deferred liability at December 31, 2004, to a small net deferred asset at December 31, 2005.

In 2006, the Company used $9.8 million in investing activities, including $21.2 million used for the purchase and construction of plant and equipment for the operation of the Company's businesses, offset by $10.7 million received on the sale of the RTB stock. Capital spending was $8.9 million lower than 2005 spending of $30.1 million, which included $29.5 million for the purchase and construction of plant and equipment. The Company reduced certain capital expenditures in the PCS segment during 2006 due to uncertainty as to any potential changes in the status of the PCS subsidiary.

Net cash used in financing was $13.6 million in 2006, compared to $18.7 million in 2005. In 2005, the Company made an unscheduled payment on the revolving debt facility of $12 million, in addition to the scheduled principal payments of $4.4 million on the term debt facilities. In 2006, the Company paid down the remaining $1.2 million outstanding balance of the revolving debt facility, paid off $4.7 million in borrowings with the RTB and RUS, and made approximately $4.0 million in scheduled principal payments on the outstanding CoBank debt as well. The dividend increased by $1.8 million as the Company paid a special dividend from the gain on the sale of the RTB stock.

In 2006, the Company received $1.4 million in cash for the exercise of incentive stock options, compared to $1.2 million in 2005 and $0.6 million in 2004. The Company also recognized $228,000 in excess tax benefits on stock option exercises during 2006.

In 2004, the Company secured the CoBank revolver facility to purchase NTC. The Company borrowed $13.1 million for the purchase and to pay off the acquired debt, in addition to funding the scheduled debt payments.

Discontinued operations generated cash of $5.0 million in 2005, the result of the settlement of the escrow account established in 2003, in the sale of the Virginia 10 RSA Cellular Partnership interest.

Indebtedness. At December 31, 2006, the Company's indebtedness totaled $26.0 million and the annualized overall weighted average rate of such indebtedness was approximately 7.6%.

On November 30, 2004, the Company amended the terms of its Master Loan Agreement with CoBank, ACB to provide for a $15 million revolving reducing credit facility. Under the terms of the amended credit facility, the Company was able to borrow up to $15 million for use in connection with the acquisition of NTC Communications LLC and other corporate purposes. The revolving credit facility has a 12-year term with scheduled quarterly payments beginning June 2006. Availability under this facility decreased each quarter by $312,500 since December 31, 2004; as of December 31, 2006, availability totaled $12.5 million. Borrowings under the facility accrue interest at an adjustable rate that can be converted to a fixed rate at the Company's option. Repayment of the revolving credit facility is secured by a pledge of the stock of all of the subsidiaries of the Company and all of the outstanding membership interests in NTC. In May 2005, the Company made an unscheduled $12.0 million payment on the revolving debt facility, from funds invested in short-term cash investments, to reduce interest expense; the remaining balance of $1.2 million was re-paid in the first quarter of 2006.

The outstanding balance of the CoBank term loan is $25.8 million at December 31, 2006, all of which is at fixed rates ranging from approximately 6.67% to 8.05%. The stated rate excludes patronage credits that are received from CoBank. These patronage credits are a distribution of profits from CoBank, which is a cooperative required to distribute its profits to its members. During the first quarter of 2006 and 2005, the Company received patronage credits of approximately 100 basis points each on its outstanding CoBank debt balance. The CoBank term facility matures in 2013 and requires monthly payments of $322 thousand plus interest.

The CoBank loan agreements have three financial covenants that are measured on a trailing 12-month basis and are calculated on continuing operations. At December 31, 2006, the ratio of total debt to operating cash flow, which must be 2.5 or lower, was 0.5; the equity to total assets ratio, which must be 35% or higher, was 64.56%; and the ratio of operating cash flow to scheduled debt service, which must exceed 2.0, was 5.88. The Company was in compliance with all other covenants related to its debt agreements at December 31, 2006.

As of December 31, 2005, the Company had loans from the Rural Telephone Bank and the Rural Utilities Service totaling $4.7 million at fixed rates ranging from 5.0% to 6.0%. During September 2006, the Company re-paid approximately $4.5 million of the outstanding RUS and RTB loans. The remaining RUS Economic Development loan does not bear interest and has no stated maturity.

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

Contractual Commitments. The Company is obligated to make future payments under various contracts it has entered into, including amounts pursuant to its various long-term debt facilities, and non-cancelable operating lease agreements for retail space, tower space and cell sites. Expected future minimum contractual cash obligations for the next five years and in the aggregate at December 31, 2006, are as follows:

Payments due by periods (in thousands)	*Total*	*Less than 1 year*	*1-3 years*	*4-5 years*	*After 5 years*
Long-term debt principal	$ 26,016	$ 4,109	$ 8,647	$ 8,536	$ 4,724
Interest on long–term debt	6,981	1,830	2,772	1,595	784
Retirement plan contributions[1]	391	391	-	-	-
Operating leases[2]	43,507	5,078	9,987	7,758	20,684
Marketing assistance payments[3]	443	71	135	95	142
Capital calls on investments	492	492	-	-	-
Purchase obligations[4]	1,537	1,537	-	-	-
Total obligations	$ 79,367	$ 13,508	$ 21,541	$ 17,984	$ 26,334

Notes

[1] Represents expected contributions to the qualified pension plan

[2] Amounts include payments over reasonably assured renewals. See Note 13 to the consolidated financial statements appearing elsewhere in this report for additional information.

[3] Represents required payments to property owners for NTC to provide services to certain MDU communities. Does not include variable revenue sharing amounts that could total up to approximately $400 thousand annually.

[4] Represents open purchase orders at December 31, 2006.

The Company intends to settle its defined benefit pension plans during 2007, most likely late in the third quarter. For the qualified pension plan, funds to settle the accumulated benefits will come from the assets of the plan; the Company expects that most of the benefits will be rolled over to the Company's defined contribution 401(k) plan. For the non-qualified SERP, the Company anticipates that much of the accumulated benefits to be settled will be transferred to a new defined contribution SERP plan to be established during 2007, which will not require a transfer of cash by the Company. To the extent other distribution options are available and utilized, the Company may be required to transfer cash to settle such obligations.

The Company has no other off-balance sheet arrangements and has not entered into any transactions involving unconsolidated, limited purpose entities or commodity contracts.

Capital Commitments. The Company spent $21.2 million on capital projects in 2006, or approximately $21 million less than the original 2006 budgeted amount. The variance was primarily due to delays in the start dates for various PCS related expenditures, due to uncertainty as to the potential change in the status of the PCS subsidiary.

Capital expenditures budgeted for 2007 total approximately $28.1 million. The increase over 2006 spending largely consists of $5 million to expand our fiber and IP networks and $1.4 million for fiber-to-the-home projects. The Company continues to budget for new MDU buildouts, various technology and systems upgrades, expanding our high definition cable capacity, and adding capacity to our PCS wireless network. The Company is also considering participating in a spectrum auction expected during the third quarter of 2007.

The Company believes that cash on hand, cash flow from operations and borrowings expected to be available under the Company's existing revolving credit facility will provide sufficient cash to enable the Company to fund its planned capital expenditures, make scheduled principal and interest payments, meet its other cash requirements and maintain compliance with the terms of its financing agreements for at least the next 12 months. Thereafter, capital expenditures will likely continue to be required to provide increased capacity to meet the Company's expected growth in demand for its products and services. The actual amount and timing of the Company's future capital requirements may differ materially from the Company's estimate depending on the demand for its products, new market developments and opportunities and general economic opportunities. The Company currently expects that it will fund its future capital expenditures primarily with cash from operations and with borrowings, although there are events outside the control of the Company that could have an adverse impact on cash flows from operations.

These events include, but are not limited to; changes in overall economic conditions, regulatory requirements, changes in technologies, availability of labor resources and capital, changes in the Company's relationship with Sprint Nextel, cancellations or non-renewal of Converged Services contracts and other conditions. The PCS subsidiary's operations are dependent upon Sprint Nextel's ability to execute certain functions such as billing, customer care, and collections; the subsidiary's ability to develop and implement successful marketing programs and new products and services, and the subsidiary's ability to effectively and economically manage other operating activities under the Company's agreements with Sprint Nextel. The Company's ability to attract and maintain a sufficient customer base is also critical to its ability to maintain a positive cash flow from operations. The foregoing events individually or collectively could affect the Company's results.

Recently Issued Accounting Standards

In July 2006, the FASB issued FIN 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109." FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the enterprise's financial statements in accordance with FASB Statement No. 109. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not anticipate a material impact from the adoption of FIN 48 in 2007.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the market in which the reporting entity transacts, based on the assumptions market participants would use when pricing the asset or liability. SFAS 157 establishes a fair value hierarchy with quoted market prices as the highest level and unobservable data (i.e., the reporting entity's own data) as the lowest level. SFAS 157 requires expanded disclosure for fair value measurements based on lower level data in the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect that applying SFAS 157 will have a material effect upon the Company's results of operations or financial condition.

Quantitative And Qualitative Disclosures About Market Risk

The Company's market risks relate primarily to changes in interest rates on instruments held for other than trading purposes. The Company's interest rate risk involves three components. The first component is outstanding debt with variable rates. As of December 31, 2006, the Company had no variable rate debt outstanding. All of the Company's outstanding debt has fixed rates through maturity. A 10.0% increase in interest rates would decrease the fair value of the Company's total debt by approximately $0.6 million, while the estimated fair value of the fixed rate debt was approximately $28.3 million as of December 31, 2006.

The second component of interest rate risk consists of temporary excess cash, which is primarily invested in overnight repurchase agreements and Treasury bills with a maturity of less than 90 days. The cash is currently invested in short-term investment vehicles that have limited interest rate risk. Management continues to evaluate the most beneficial use of these funds.

The third component of interest rate risk is marked increases in interest rates that may adversely affect the rate at which the Company may borrow funds for growth in the future. Management does not believe that this risk is currently significant because the Company's existing sources of liquidity are adequate to provide cash for operations, payment of debt and near-term capital projects.

Management does not view market risk as having a significant impact on the Company's results of operations, although future results could be adversely affected if interest rates were to increase significantly for an extended period and the Company were to require external financing. Since the Company has no investments in publicly traded stock as of December 31, 2006, there is currently no risk related to the Company's available for sale securities. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

As of December 31, 2006, the Company has $7.1 million invested in privately held companies directly or through investments with portfolio managers. Most of the companies are in an early stage of development and significant increases in interest rates could have an adverse impact on their results, ability to raise capital and viability. The Company's market risk is limited to the funds previously invested and an additional $0.5 million committed under contracts the Company has signed with portfolio managers.

Our Business

Shenandoah Telecommunications Company is a diversified telecommunications holding company that provides a broad range of telecommunications services through its operating subsidiaries. These services include: wireline 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 multi-state region surrounding the northern Shenandoah Valley of Virginia; paging services in the northern Shenandoah Valley; resale of long distance services; operation and maintenance of an interstate fiber optic network; wireless personal communications services (PCS); wireless broadband services; a tower network in a four-state region from Harrisonburg, Virginia, to the Harrisburg, York and Altoona, Pennsylvania, markets; Fiber-to-the-Home (FTTH) and Fiber-to-the-Premises (FTTP) solutions for builders and developers in the Middle Atlantic United States; and bundled video, voice and data services to multi-tenant unit housing and off-campus student housing in the Middle Atlantic and southeastern United States.

FORMS 10-K, 10-Q, and 8-K

The Company files periodic reports with the Securities and Exchange Commission. The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, along with any amendments to these reports, are available to shareholders through the Company's Web site, www.shentel.com. This Web site also has recent news releases and other information potentially of interest to shareholders.

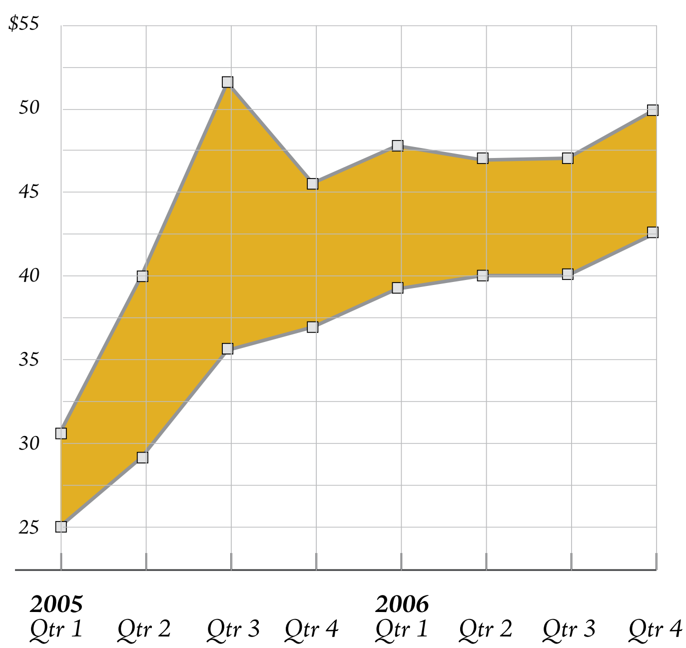
A copy of the Company's Annual Report on Form 10-K, without exhibits, may be obtained, without charge, by writing to Shenandoah Telecommunications Company, 500 Shentel Way, P.O. Box 459, Edinburg, Virginia, 22824, Attention: Secretary.

Market And Dividend Information

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

2006	***Qtr 1***	***Qtr 2***	***Qtr 3***	***Qtr 4***
High	**47.94**	**47.00**	**47.00**	**49.98**
Low	**39.84**	**40.25**	**40.65**	**42.54**

2005	*Qtr 1*	*Qtr 2*	*Qtr 3*	*Qtr 4*
High	31.00	40.00	52.66	46.60
Low	25.28	28.05	36.65	37.02



Shenandoah Telecommunications Company historically has paid annual cash dividends on or about December 1st of each year. The regular cash dividend was $0.48 per share in 2006 and $0.46 per share in 2005. In 2006, in conjunction with the payment of the annual cash dividend, the Company also paid a special cash dividend of $0.27 per share, representing a distribution of a portion of the gain on the liquidation of the RTB stock in the first quarter of 2006.

As of February 27, 2006, there were approximately 4,122 holders of record of the Company's common stock.

Corporate Headquarters
Shenandoah Telecommunications Company
500 Shentel Way
P.O. Box 459
Edinburg, Virginia 22824

Shareholders' Questions & Stock Transfers
CALL (540) 984-5200
Transfer Agent – Common Stock
Shenandoah Telecommunications Company
P.O. Box 459
Edinburg, Virginia 22824

Independent Auditor
KPMG LLP
1021 East Cary Street
Richmond, Virginia 23219

SHENANDOAH TELECOMMUNICATIONS
COMPANY & SUBSIDIARIES

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

Shenandoah Telephone Company
Shenandoah Cable Television Company
ShenTel Service Company
Shenandoah Long Distance Company
Shenandoah Mobile Company
Shenandoah Network Company
ShenTel Communications Company
Shenandoah Personal Communications Company
Shentel Management Company
Shentel Converged Services, Inc.
Shentel Converged Services of West Virginia, Inc.

SHENTEL®

We Must Serve Well to Prosper — We Must Prosper to Serve Well

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