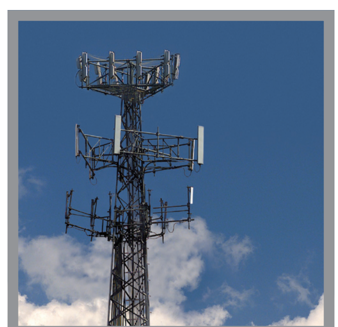

# 2007 Annual Report

# Shenandoah Telecommunications Company



SHENTEL®

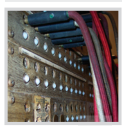
# Contents

# Shentel:

## A Retrospective


In 1960, The Farmers' Mutual Telephone System of Shenandoah County became known as Shenandoah Telephone Company, starting an era of remarkable advancements in telephone, cable, Internet and wireless services. In the pages that follow, we offer you, our Shareholders, an unprecedented view of our history and a look at how historical accomplishments have laid a foundation for the successes of this past year. Whether you are a long-standing investor or you just invested in the last few years, we hope the following pages not only inform you of our recent successes, but also familiarize you with some important events that have shaped our history.

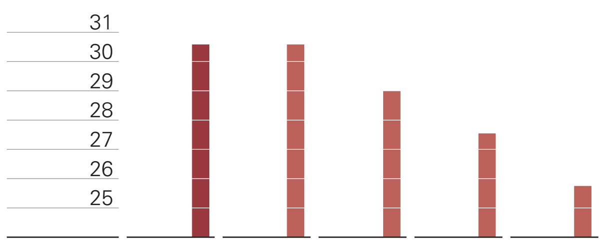
# Telephone



At the turn of the 20th century, the future of a telephone company was very much an uncertainty. In order to survive, a company like The Farmers' Mutual Telephone System of Shenandoah County (FMTS), now known as Shentel, had to withstand layoffs caused by the Great Depression, uncertainty of world wars, and rapid technology changes. But Shentel saw great opportunity in serving the local community, connecting people, and distributing information – regardless of the underlying technology.

With this outlook, Shentel thrived and continually led a rapidly changing industry. Shentel's growth paralleled Shenandoah County's – access lines increased from 4,336 in 1957 to 24,536 in 2007

**Operating Revenue - Telephone**
in millions



| | 2007 | 06 | 05 | 04 | 03 |
|---|---|---|---|---|---|
| $ | 30.5 | 30.5 | 29.0 | 27.4 | 25.8 |

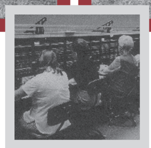
SCC grants FMTS a license to operate as public utility

Warren B. French, Jr. named General Manager of FMTS

Shareholders approve borrowing $2.5 million from REA

1950

1955



while the County's population doubled. Capitalizing on this growth, Shentel's customer-focused outlook served as the catalyst for several milestones, including starting to bury telephone cable in 1965 and converting from party lines to one-party service in 1976. By 1987, with the conversion to digital switching technology, Shentel continued its role as an inudstry leader.

Combined with the foresight to enter the cable industry in 1983, remaining technologically advanced exemplifies how Shentel has minimized access line losses, at a time when most telephone companies are losing up to 5% of their access lines annually.

Today, Shentel is aggressively investing in the future through Fiber-to-the-Home (FTTH) and Voice over Internet Protocol (VoIP) technologies. We look forward to the future with the same enthusiasm we have always demonstrated for our most important assets – our customers, shareholders and employees.

Cutover from manual switchboards to dial

Name changed to Shenandoah Telephone Company

First cash dividend issued

Installation of direct-distance dialing equipment [first in Virginia]

Net income exceeds $100,000

Crews begin burying telephone cable

1960

1965

# Cable

Shentel's desire to supply cable television service or Cable TV in Shenandoah County began in the 1960's but was initially thwarted by FCC regulations. Nearly twenty years later, on December 19, 1980, Shentel's perseverance paid off when the FCC granted the company the ability to offer twenty-one channels to Edinburg, VA residents. At the time, Shentel was one of the first telephone companies to offer cable service.

The FCC approval made possible one of the many forward-thinking decisions in the company's history. By the mid-1990's, it was increasingly evident that Cable TV would ultimately prove to be an essential element of a telephone, cable and Internet "bundle" and in 1996, Shentel made an acquisition of an adjacent cable provider. In 2004, Shentel pushed outside Shenandoah County when it acquired NTC, known today as Shentel Converged Services, providing more than 150 channels of digital video to thousands of customers in the southeast.

Mobile telephone service launched

Gross revenue exceeds $1,000,000

10,000th telephone line installed

Paging service launched

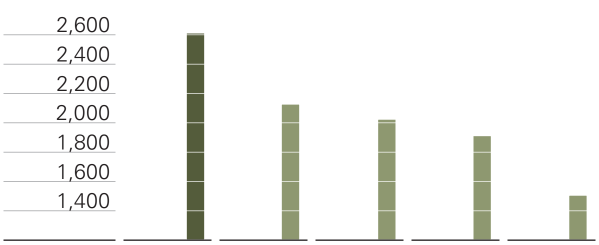
1965

1970

Two decades of perseverance by a telephone company with an integrated approach to voice, video and data have produced remarkable results in customer and service growth. Early in 2007, the company successfully launched High-Definition and DVR service to Shenandoah County residents.

Today, the cable industry is in a period of dynamic change. Content expenses continue to be a significant challenge, but consumers continue to demand more diverse and premium services.

**Digital Cable Subscribers**




| 2007 | 06 | 05 | 04 | 03 |
|---|---|---|---|---|
| **2,608** | **2,105** | **2,079** | **1,896** | **1,570** |

Gross revenue exceeds $2,000,000

15,000th telephone line installed

Conversion to one-party telephone service complete

Approval granted by FCC to provide Cable TV

1975

1980

# Internet

In the early 1990's, the Internet took the world by storm – at dial-up speeds – and Shentel was at the forefront of the revolution when it launched local Internet access on September 1, 1994. The Internet represented another opportunity for Shentel to focus on connecting consumers with information. The northern Shenandoah Valley lacked an Internet service provider, a situation which clashed with Shentel's strong belief that service availability and quality should never be substandard. Shentel spent nearly five generations building the foundation for this service through continuing investments in its telephone operations. In just a few years, the Internet has become the third essential piece of the "bundle".

Shenandoah Telecommunications Company established

Shenandoah Cable established

First fiber cable laid in Shenandoah County

Shenandoah Mobile Company established

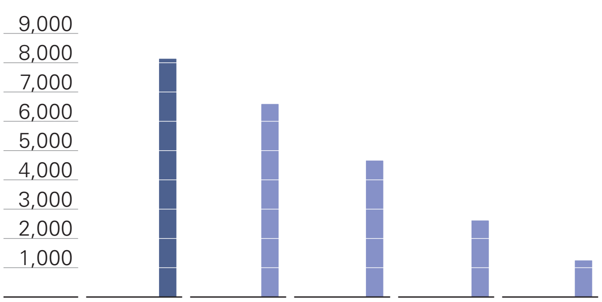
Gross revenue exceeds $10,000,000

1980

1985

In 1994, Shentel began introducing dial-up service to Shenandoah County and the surrounding localities. By 1999, demand for Internet access was rapidly growing and applications were requiring faster connections. Shentel quickly began upgrading its telephone network for high-speed Digital Subscriber Line (DSL) access, which delivers speeds up to 340 times faster than dial-up. In 2005, just six years later, Shentel announced 100% DSL availability to all of its telephone customers. Shentel was one of the first service providers to reach this service level.

**DSL Subscribers**




| | | | | |
|---|---|---|---|---|
| 2007 | 06 | 05 | 04 | 03 |
| **8,136** | **6,599** | **4,748** | **2,646** | **1,298** |

In addition to DSL, Shentel proudly boasts high-speed Internet access with new fiber technologies for consumers and businesses. Including Converged Services, Shentel has over 40,000 Internet customers in the mid-Atlantic and southeast. Shentel's customers will continue to demand higher capacity service as Internet applications such as Podcasts and other video content continue to evolve. Welcoming this challenge, the company is planning a significant upgrade in 2008 to greatly enhance its Internet speeds.

Chris French appointed President

Conversion to digital switching

Shentel Foundation established

Shenandoah Cellular established

First pay-per-view options available

Interactive video installed in county schools

Local Internet access launched

PCS service launched

Caller ID launched

1990

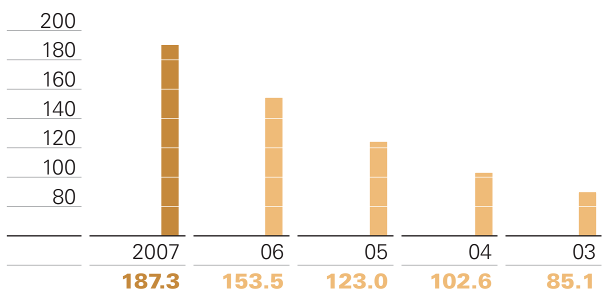
1995

# Wireless

Known today as cellular phone service, Shentel launched an earlier form of wireless communication called mobile radiotelephone service in 1966. The service was accessible to most of Shenandoah County and was furnished by one channel of communication to a mere four customers. These four customers would mark the beginning of a transformation leading to one of the most prosperous decisions ever made by Shentel.

In 1972, when there were only 13 mobile phone subscribers, Shentel announced the launch of its first paging service quickly realizing the potential of mobile services to connect people in new ways. Created in 1984, Shenandoah Mobile Company positioned Shentel for future decisions that would help grow wireless service into Shentel's largest subsidiary.

**PCS Subscribers**
in thousands




20,000th telephone line installed

Purchase of C-4 Media systems

Conversion from GSM technology to CDMA

Cable TV expanded to provide digital packages

1995

2000

In 1990, to fulfill the increasing desire for mobile communication, Shentel launched Shenandoah Cellular, the first company in Virginia to offer cellular service to a rural area. By 1999, Shentel's PCS subsidiary became an affiliate of Sprint, and continued building its customer base into one that today exceeds 187,000 customers. Since that time, Shentel has consistently ranked among the top affiliates for service quality and network performance and its customer growth rates continue to lead the industry.

Shentel has come a long way from servicing four mobile radiotelephone customers in 1966, but the company continues to look to the future of wireless. Customers use Shentel's network to talk, send text messages, and access the Internet. With the launch of Evolution-Data Optimized (EV-DO) service in 2007, Shentel's subscribers have the ability to use the wireless network at broadband speeds. Shentel will continue to search for new and innovative services, always with a constant focus on customers and a zealous entrepreneurial spirit.

Gross revenue exceeds $100,000,000

Acquisition of NTC

DSL availability reaches 100%

Latest stock split results in one original FMTS share equaling 8,640 SHEN

Launch of EV-DO service

2005

2010

# Letter to the Shareholders

**Christopher E. French**
President

March 28, 2008

Dear Shareholder:

Your company had an outstanding year in 2007. Net income for the year was $18.8 million, an increase of 4.9% over 2006. When excluding the one-time, net of tax gain of $6.4 million the Telephone Company recorded in 2006 related to the liquidation of the Rural Telephone Bank, net income experienced a significant increase of 63.7%. Driving the greatly improved income performance was our strong customer growth over the past two years, and the full-year of PCS results under last year's negotiated amendments to our management agreement with Sprint Nextel.

The net effect was very positive financially, with operating income for 2007 being $31.2 million, a record increase of $10.0 million or 47.3% from 2006. Both revenues and operating expenses decreased in 2007 over 2006, as a result of the change in presentation resulting from the new terms of the agreement with Sprint Nextel. The Company's total revenues for 2007 were $141.2 million, compared to $169.2 million in 2006, a decrease of $28.0 million or 16.6%. Operating expenses were $110.0 million and $148.0 million for the same periods, a decrease of $38.0 million or 25.7%. Included in 2007's operating expenses was $2.6 million in additional expenses related to the early retirement program announced at the end of 2006, and an increase of $2.0 million for non-cash share-based compensation awards made during 2007.

During 2007, the Board of Directors declared a cash dividend of twenty-seven cents per share which was an increase of two cents over the total dividend paid in 2006, which included a special dividend of nine cents per share. Also during 2007, the Board of Directors declared a three-for-one stock split. The split, which was distributed to shareholders of record as of August 2, 2007, resulted in shareholders receiving two additional shares for every one share held on the record date. As a result of the Board's action, the Company now has approximately 23.5 million shares outstanding, out of a total 48.0 million authorized shares. Institutional investors such as index and other mutual funds, insurance companies, investment advisors and pension funds, have continued to accumulate our stock, collectively owning approximately twenty-seven percent of our total shares outstanding at the end of the year.

Despite the great overall financial results, we were not satisfied with the Converged Services results. We experienced a 10.4% increase in the operating loss for Converged Services, in part from our late 2006 decision to shorten the depreciation life of certain assets, but also due to revenue growth falling short of our goals. With about a third of the U.S. population living in apartments and other multiple dwelling unit (MDU) locations, we believe there is great revenue potential for our Converged Services business unit. The MDU market has historically been served by a very fragmented mix of inexperienced and under-capitalized private cable operators (PCOs), many of whom lack the ability to meet the long-term service needs of the property owners and their tenants. As we have worked to develop the Converged Services business over the past few years, it was very clear that the stability and reputation of Shentel, along with our traditional approach to providing quality service, were viewed as key factors allowing us to differentiate our offerings. We have begun to see some success with this message, and with establishing Shentel as a viable provider to the MDU community. Due to unsatisfactory experiences with previous providers, it is taking longer than initially anticipated to develop the relationships necessary to convince MDU property owners to make long-term contract commitments with us.

Another factor that constrained Converged Services' revenue growth was a rule-making initiated by the Federal Communications Commission (FCC) in March 2007 to evaluate access to MDUs for video providers. The notice raised the question of whether exclusive contracts tended to reduce competition for video providers to enter the MDU market. Shentel has made use of exclusive contracts as a way to ensure we have an opportunity to earn a return on the investment necessary for us to compete with the larger incumbent cable television providers. While the initial focus of the FCC's rulemaking was on the use of exclusive contracts by the incumbent cable television providers, the process has added uncertainty and confusion to the negotiation process between providers and the property owners. While we believe there are valid reasons that our Converged Services business should not be constrained by the FCC's final ruling, at this time it is unclear what the ultimate impact will be.

When we announced early last year that we had reached a new agreement with Sprint Nextel, we expected the changes in our agreement to make positive contributions to our financial results. We have exceeded our expectations in this area, in large part due to the continued efforts of our PCS sales teams who have produced record growth and to our employees who have continued to do an outstanding job of taking care of our customers. Our PCS segment contributed $28.8 million of our operating income during 2007, an increase of $13.2 million or 84.1% over 2006. We ended the year with 187,303 retail PCS customers, an increase of 33,800 or 22.0% over the total at the end of 2006. While our financial results were significantly improved, we experienced an unfavorable increase in retail churn in the later part of the year. Monthly churn averaged 2.0% for 2007, compared to 1.9% for the prior year, but was 2.3% during the fourth quarter of 2007. Reducing churn is one of our areas of focus for the current year, and we believe it will return to the historically lower levels.

**"The fundamentals of our business are very strong, and our company continues to grow profitably."**

Our PCS business has become successful in large part due to our ongoing efforts to improve service, both with expansion of our network capacity and coverage, and with the customer care delivered by our numerous retail stores located throughout our service area, including the 13 new locations purchased from Sprint Nextel in spring of 2007. While we control a large part of the customer experience necessary to successfully compete in the wireless business, we are not immune to the overall results experienced by Sprint Nextel. There has been much written in the trade press concerning the post-merger performance of Sprint Nextel. How successfully they compete against their larger national rivals and the quality of customer service they provide, will have an impact on our growth; but, we believe we can still differentiate our PCS service by continuing to improve service so we can increasingly be the preferred choice of customers within our markets.

There are currently two major initiatives underway to improve service. First is our plan to construct sixty new sites to extend coverage into areas adjacent to our existing wireless footprint, and to the un-served areas with the highest population densities and traffic counts. The second area of focus is the continued rollout of wireless high-speed data, or Evolution-Data Optimized (EV-DO) services. During 2007 we installed EV-DO capabilities at fifty-two of our base stations, and have an additional fifty installations planned for 2008. EV-DO enables users to experience DSL-like data speeds on their handsets or with wireless data cards used in laptops or PCs.

Higher speeds for data usage continue to be in great demand, not just on our wireless network, but also with our DSL service within our telephone service area. Our past decision to make the investment necessary to offer DSL to all of our telephone company's customers has continued to be well accepted. At the end of 2007, our number of DSL customers was 8,136, or 33.2% of our 24,536 access lines and an increase of 23.3% from the end of 2006. In addition to increasing our penetration of DSL services, we have also continued to invest in upgrading the network to offer increasingly higher speeds. Our most popular DSL rate is 1.5 Mbits/second, with speeds up to 5.0 Mbits/second being available to most of our customers.

Another area in which we have made service improvements was by deploying high-definition television service on our CATV system. This service, along with digital video recorder capabilities, was first made available to our CATV customers in January 2007, and we have since added additional high-definition channels. We expect there will be increasing demand for this programming as consumers buy more and more high-definition television sets and additional programming becomes available.

As we have invested in our networks and service improvements for our customers, we also took steps to address changes needed in our staffing levels and compensation structure. In early 2007, primarily through early retirements and attrition, we met our goal of resizing our staffing levels to better match the needs of each of our business segments, and also implemented various changes to the structure of our compensation program. One of the more significant changes was our decision to freeze the defined benefit pension plan and distribute the assets to plan participants, while at the same time enhancing our defined contribution 401(k) plan by making additional contributions to employee accounts. Another area addressed was the use of equity compensation to provide the proper long-term incentives for employees, primarily to the members of our management team.

Because of the uncertainties in 2006 concerning our relationship with Sprint Nextel, there were no grants of equity compensation made during that year. After reviewing the level of past equity awards, the Board made significant grants in 2007. These grants served both as a reward for our team's improvement in our financial and business results, and provided them an incentive to maximize long-term shareholder value while better aligning their financial interests with those of our shareholders. The company recognized $2.1 million in compensation expense in 2007 for equity grants, whereas no grants were made in 2006. The 165.9 thousand shares awarded to all eligible employees during 2007 were authorized under the Equity Compensation Plan approved by shareholders in 2005, and represented less than 0.71% of the total 23.5 million shares outstanding as of the end of the year.

Your company's management team, dedicated employees, and Board of Directors, have delivered excellent long-term shareholder returns. Through the end of 2007, the total return to shareholders over the previous five year period greatly exceeded the benchmark returns of both the NASDAQ National Market and the NASDAQ Telecommunications indices. The graph of these returns is included in our Form 10-K filed with the Securities and Exchange Commission. That graph shows that if $100 had been invested in Shentel stock on the last day of 2002, and all dividends had been reinvested in Shentel stock, the original $100 would have grown to $317 by the end of 2007, which is a 26.0% compounded annual rate of return.

Although our stock price ended the year at $23.98 per share, there has unfortunately been a steep downward trend since then, with the price recently closing at levels last reached late summer 2006. While no investors (except short-sellers) like to see a decline in their stock's value, we know our stock has previously experienced periods with large up and down movements in price. A similar drop occurred with our stock after the end of 2002, which was at a time when we had sold our cellular partnership interest, there were problems with PCS affiliates, and there was a lot of financial and regulatory uncertainty for our industry. The beginning of 2008 is again a period of uncertainty. Sprint Nextel is undergoing a leadership change as it tries to recover from its merger. There are also concerns about the overall economy, with the possibility that the country may be heading into, or is already in, a recession, and a continuation of the subprime loan problems and further declines in housing sales and prices. All are causes of concern that may have an impact on our short-term growth prospects. Telecommunication stocks in general, as well as the broader market indices, have all experienced significant declines. Although drops in share price can be compounded by emotional reactions, our role as managers must remain focused on creating long-term growth in our Company's earnings, and not on short-term variations of our stock price. Over our company's modern history, we have seen that earnings growth ultimately drives the increasing value of our stock, and therefore our shareholders' investment. The fundamentals of our business are very strong, and our company continues to grow profitably. While we have much work to do, our growth in operating income provides comfort that we are taking the steps necessary to continue creating shareholder value; and, doing this over the long-term remains our primary goal.

For the Board of Directors,

Christopher E. French
President

# Board & Executives

## Board of Directors

**Dale S. Lam**
CFO
Comsonics, Inc.

**Richard L. Koontz, Jr.**
Vice President
Holtzman Oil Corp

**Douglas C. Arthur**
Board Vice Chairman
Attorney
Arthur & Allamong

**William A. Truban, Jr.**
Attorney
Owen and Truban, PLC

**Ken L. Burch**
Farmer

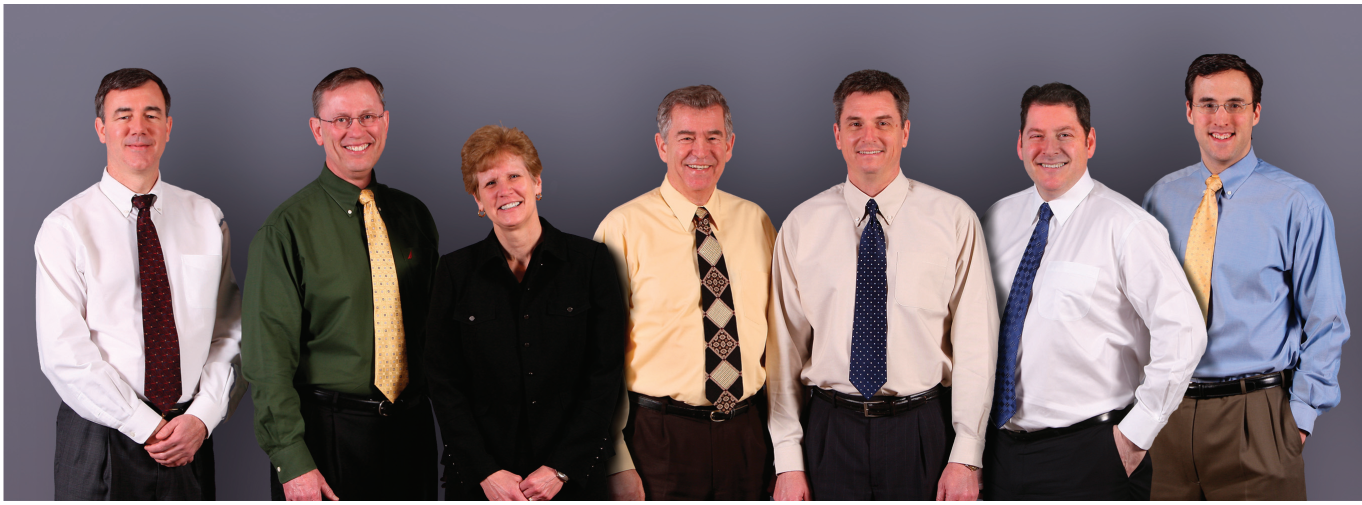
**Jonelle St. John**
Financial Systems Expert
and Consultant
Pace Harmon, LLC

**Christopher E. French**
Board Chairman
President & CEO
Shentel

**Tracy Fitzsimmons**
Senior VP & VP,
Academic Affairs
Shenandoah University

**James E. Zerkel II**
Vice President
James E. Zerkel, Inc.

## Executive Officers & Directors



**Chris French**
President & CEO

**Adele Skolits**
CFO & Treasurer

**Willy Pirtle**
Vice President
Sales

**Chris Kyle**
Director
Marketing &
Business Development

**Earle MacKenzie**
Executive VP & COO

**David Ferguson**
Vice President
Customer Service

**Jonathan Spencer**
VP Legal, General Counsel &
Secretary

## Special Thanks

We would like to take a moment to thank the following employees with more than 20 years of service for their combined 627 years of dedicated service to our company.

**Ron Bankert**
Network Technician
Operations
21 years

**David Brock**
Manager, Network
Operations
20 years

**Daniel Burner**
Sr. Wireline Technician
Operations
36 years

**Jerry "Butch" Cooper**
Network Technician
Operations
21 years

**Norma Copeland**
Secretary
Executive Department
33 years

**Jane DeCourcy**
Network Engineer
Operations
27 years

**Kenneth Fadely**
Cable Splicer
Operations
32 years

**David Ferguson**
Vice President
Customer Service
40 years

**Christopher French**
President
Executive
26 years

**Ruth Hoffman**
Business Customer
Service Representative
Customer Service
21 years

**Thomas Keeler**
Project Coordinator
Operations
38 years

**Gary Kronk**
Cable Locator
Operations
36 years

**Pamela Martz**
Dispatcher
Operations
23 years

**Lisa Mauck**
Supervisor
Customer Service
20 years

**Doug McIlwee**
Supervisor, Outside
Plant Engineering
Operations
24 years

**Vickie Mumaw**
Accounting Associate
Finance
29 years

**Gail Payne**
Project Coordinator
Information Technology
35 years

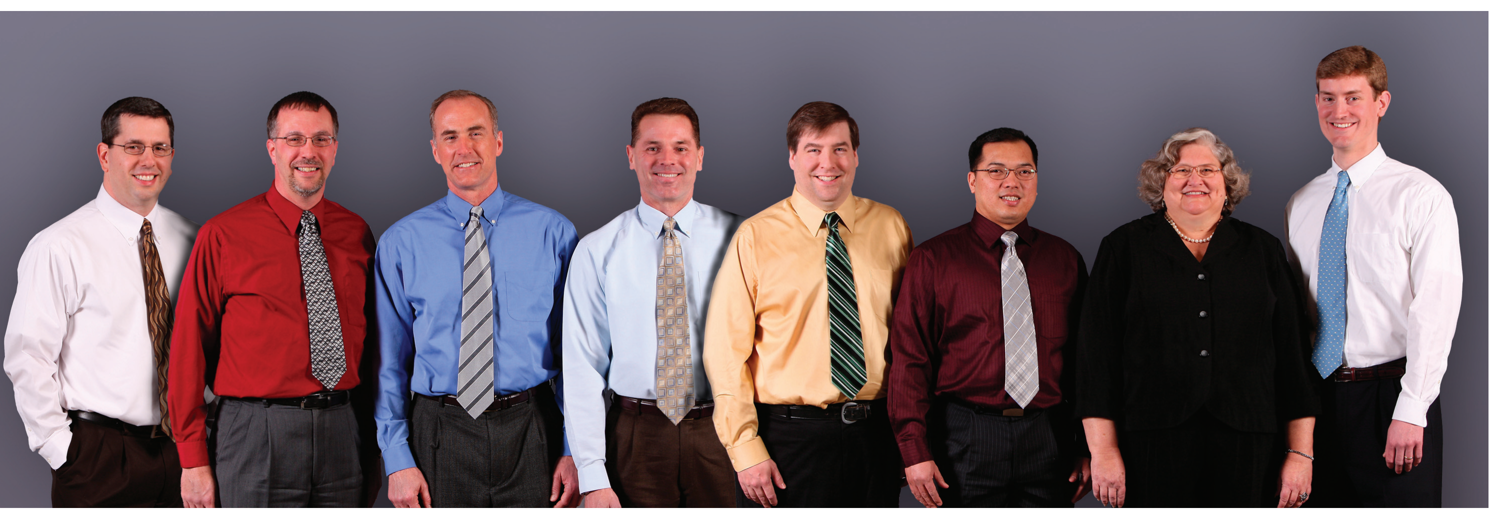
**Christina Price**
Analyst
Customer Service
21 years

**William Raynor**
Sr. Wireline Technician
Operations
35 years

**Dwayne Ryman**
Cable Splicer
Operations
22 years

**William Sibert**
Manager, Outside Plant
Engineering & Construction
Operations
32 years

**Ann Wetzel**
Secretary
Customer Service
35 years



**Brian Brooks**
Director
Sales

**Tom Whitaker**
Director
Operations

**Rich Baughman**
Director
Information Technology

**Marlene Willams**
Controller

**Dan Detamore-Hunsberger**
Director
Compliance

**Bobby Gadams**
Director
Human Resources

**Dexter Torculas**
Director
Engineering

**Ed McKay**
Director
Technology

# Selected Statistics (unaudited)

The following table shows selected operating statistics of the Company as of the most recent three year ends.

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Telephone Access Lines | 24,536 | 24,830 | 24,740 |
| Cable Television Subscribers | 8,303 | 8,440 | 8,684 |
| Dial-Up Internet Subscribers | 7,547 | 9,869 | 12,498 |
| DSL Subscribers | 8,136 | 6,599 | 4,748 |
| Retail PCS Subscribers | 187,303 | 153,503 | 122,975 |
| Long Distance Subscribers | 10,689 | 10,499 | 10,418 |
| Fiber Route Miles | 647 | 625 | 616 |
| Total Fiber Miles | 35,872 | 33,764 | 33,201 |
| Long Distance Calls (in thousands)[1] | 31,243 | 28,028 | 26,628 |
| Total Switched Access Minutes (in thousands) | 352,032 | 308,815 | 287,967 |
| Originating Switched Access Minutes (in thousands) | 101,736 | 92,441 | 81,380 |
| Employees (full time equivalents) | 411 | 376 | 387 |
| CDMA Base Stations (sites) | 346 | 332 | 311 |
| Towers (100 ft. and over) | 101 | 100 | 85 |
| Towers (under 100 ft.) | 14 | 13 | 13 |
| PCS Market POPS (in thousands)[2] | 2,297 | 2,268 | 2,236 |
| PCS Covered POPS (in thousands)[2] | 1,814 | 1,752 | 1,704 |
| PCS Average Monthly Churn % | 2.0% | 1.9% | 2.0% |
| Converged Services (NTC) Properties Served[3] | 112 | 102 | 109 |
| Converged Services (NTC) Video Service Users | 11,240 | 8,989 | 8,461 |
| Converged Services (NTC) Telephone Service Users | 4,035 | 4,492 | 9,914 |
| Converged Services (NTC) Network/Internet Users | 25,979 | 21,943 | 22,901 |

**Notes**

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

2] 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.

3] Indicates MDU complexes where Converged Services provides service.

| **Plant Facility Statistics at Dec. 31, 2007** Excludes information for Converged Services (NTC) | Telephone | CATV |
|---|---|---|
| Route Miles | 2,256 | 574 |
| Miles of Distribution Wire | 638 | 191 |
| Utility Poles | 7,549 | 38 |
| Miles of Aerial Copper Cable | 314 | 162 |
| Miles of Buried Copper Cable | 1,393 | 377 |
| Miles of Underground Copper Cable | 39 | 2 |
| Fiber Miles Regulated | 310 | - |
| Fiber Miles Unregulated | 249 | - |
| Fiber Miles Network | 94 | - |

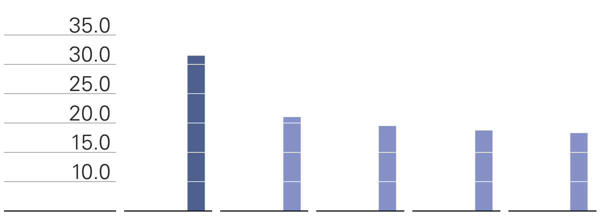
## Five-Year Summary of Selected Financial Data

in thousands, except per share data

| | 2007 | 2006 | 2005 | 2004 | 2003 |
|---|---|---|---|---|---|
| Operating revenues | $ 141,183 | $ 169,195 | $ 146,391 | $ 120,994 | $ 105,661 |
| Operating expenses | 109,998 | 148,021 | 127,015 | 102,983 | 87,740 |
| Operating income | 31,185 | 21,174 | 19,376 | 18,011 | 17,921 |
| Interest expense | 1,873 | 2,362 | 3,076 | 3,129 | 3,510 |
| Income taxes | 12,971 | 12,370 | 6,716 | 5,921 | 5,166 |
| Net income (loss) from continuing operations[1] | $ 18,803 | $ 17,999 | $ 10,735 | $ 10,038 | $ 9,539 |
| Discontinued operations, net of tax | - | - | - | - | 22,389 |
| Cumulative effect of a change in accounting, net of tax | - | (77) | - | - | (76) |
| Net income | $ 18,803 | $ 17,922 | $ 10,735 | $ 10,038 | $ 31,852 |
| Total assets | 221,524 | 207,720 | 204,921 | 211,421 | 185,520 |
| Total debt – including current maturities | 21,907 | 26,016 | 35,918 | 52,291 | 43,346 |
| **Shareholder Information** | | | | | |
| Shares outstanding | 23,509 | 23,284 | 23,061 | 22,889 | 22,778 |
| Income (loss) per share from continuing operations-diluted[2] | $ 0.80 | $ 0.77 | $ 0.46 | $ 0.44 | $ 0.42 |
| Income per share from discontinued operations-diluted[2] | - | - | - | - | 0.98 |
| Loss per share from cumulative effect of a change in accounting[2] | - | - | - | - | - |
| Net income per share-diluted[2] | 0.80 | 0.77 | 0.46 | 0.44 | 1.39 |
| Cash dividends per share[2] | $ 0.27 | $ 0.25 | $ 0.15 | $ 0.14 | $ 0.13 |

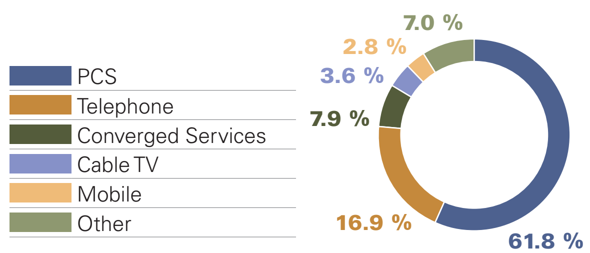
### Operating Income

in millions



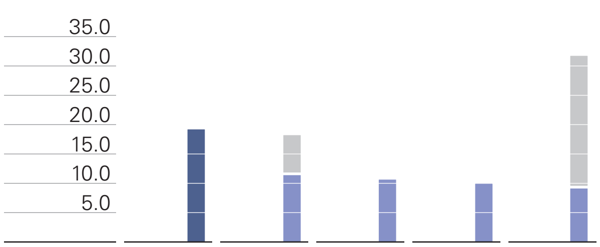

| | 2007 | 06 | 05 | 04 | 03 |
|---|---|---|---|---|---|
| $ | 31.2 | 21.2 | 19.4 | 18.0 | 17.9 |

### External Revenue by Segment for 2007




### Net Income

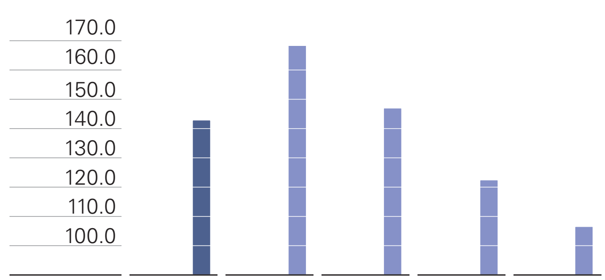
in millions




| | 2007 | 06 | 05 | 04 | 03 |
|---|---|---|---|---|---|
| $ | 18.8 | 17.9[3] | 10.7 | 10.0 | 31.9[4] |

### Revenue

in millions




| | 2007 | 06 | 05 | 04 | 03 |
|---|---|---|---|---|---|
| $ | 141.2[5] | 169.2 | 146.4 | 121.0 | 105.6 |

### Notes

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

2] All share and per share figures reflect the two for one stock split effected February 23, 2004, and the three for one stock split effected August 2, 2007.

3] The gray portion shown represents a gain of $6.4 million, net of tax, relating to the disposition of the RTB stock.

4] The gray portion shown represents operating net income and after tax gain on sale of the Company's investment in the Virginia 10 RSA Limited Partnership.

5] Reduction in revenues is a result of the change in presentation resulting from the new terms of the agreement with Sprint Nextel.

# Financial Summary

# 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, 2007, based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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, 2007.

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

# Reports of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Shenandoah Telecommunications Company:

We have audited Shenandoah Telecommunications Company and subsidiaries' (the Company's) internal control over financial reporting as of December 31, 2007, 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, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on 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, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included 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, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated March 12, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Richmond, Virginia
March 12, 2008

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, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. 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 Telecommunications Company and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, 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 Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control–Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 12, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Richmond, Virginia
March 12, 2008

## Shenandoah Telecommunications Company & Subsidiaries
## Consolidated Balance Sheets
December 31, 2007 and 2006

| **ASSETS** in thousands | 2007 | 2006 |
|---|---|---|
| **Current Assets** | | |
| Cash and cash equivalents | $ 17,245 | $ 13,440 |
| Accounts receivable, net | 12,338 | 11,611 |
| Income taxes receivable | 3,762 | - |
| Materials and supplies | 4,664 | 2,499 |
| Prepaid expenses and other | 2,221 | 2,016 |
| Deferred income taxes | 906 | 1,297 |
| **Total current assets** | **41,136** | **30,863** |
| **Investments** | | |
| Investments carried at fair value | 2,602 | - |
| Other investments | 7,334 | 7,075 |
| **Total investments** | **9,936** | **7,075** |
| **Property, Plant and Equipment** | | |
| Plant in service | 289,279 | 267,622 |
| Plant under construction | 11,343 | 6,439 |
| | **300,622** | **274,061** |
| Less accumulated amortization and depreciation | 145,198 | 118,417 |
| **Net property, plant and equipment** | **155,424** | **155,644** |
| **Other Assets** | | |
| Intangible assets, net | 2,331 | 2,799 |
| Cost in excess of net assets of businesses acquired | 9,852 | 9,852 |
| Deferred charges and other assets, net | 2,845 | 1,487 |
| **Other assets, net** | **15,028** | **14,138** |
| **Total assets** | **$ 221,524** | **$ 207,720** |

(continued)

See accompanying notes to consolidated financial statements.

# Shenandoah Telecommunications Company & Subsidiaries
## Consolidated Balance Sheets
December 31, 2007 and 2006

| **LIABILITIES AND SHAREHOLDERS' EQUITY** in thousands | 2007 | 2006 |
|---|---|---|
| **Current Liabilities** | | |
| Current maturities of long-term debt | $ 4,248 | $ 4,109 |
| Accounts payable | 6,073 | 7,364 |
| Advanced billings and customer deposits | 5,455 | 4,975 |
| Accrued compensation | 3,098 | 1,974 |
| Income taxes payable | - | 23 |
| Accrued liabilities and other | 5,182 | 2,835 |
| **Total current liabilities** | **24,056** | **21,280** |
| | | |
| **Long-term debt, less current maturities** | **17,659** | **21,907** |
| | | |
| **Other Long-Term Liabilities** | | |
| Deferred income taxes | 20,970 | 22,515 |
| Pension and other | 5,000 | 4,303 |
| Deferred lease payable | 2,715 | 2,526 |
| **Total other liabilities** | **28,685** | **29,344** |
| | | |
| Commitments and Contingencies | | |
| | | |
| **Shareholders' Equity** | | |
| Common stock, no par value, authorized 48,000 shares; issued and outstanding 23,509 shares in 2007 and 23,284 shares in 2006 | 14,691 | 11,322 |
| Retained earnings | 138,172 | 125,690 |
| Accumulated other comprehensive loss, net of tax | (1,739) | (1,823) |
| **Total shareholders' equity** | **151,124** | **135,189** |
| | | |
| **Total liabilities and shareholders' equity** | **$ 221,524** | **$ 207,720** |

See accompanying notes to consolidated financial statements.

# Shenandoah Telecommunications Company & Subsidiaries
## Consolidated Statements of Income
Years Ended December 31, 2007, 2006 and 2005

| in thousands, except per share amounts | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Operating revenues** | **$ 141,183** | **$ 169,195** | **$ 146,391** |
| **Operating expenses:** | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 48,210 | 72,075 | 60,791 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 32,590 | 48,656 | 43,842 |
| Depreciation and amortization | 29,198 | 27,290 | 22,382 |
| **Total operating expenses** | **109,998** | **148,021** | **127,015** |
| **Operating income** | **31,185** | **21,174** | **19,376** |
| **Other income (expense):** | | | |
| Interest expense | (1,873) | (2,362) | (3,076) |
| Gain (loss) on investments, net | 839 | 10,644 | (152) |
| Non-operating income, net | 1,623 | 913 | 1,303 |
| **Income before income taxes and cumulative effect of a change in accounting** | **31,774** | **30,369** | **17,451** |
| Income tax expense | 12,971 | 12,370 | 6,716 |
| **Net income before cumulative effect of a change in accounting** | **18,803** | **17,999** | **10,735** |
| Cumulative effect of a change in accounting, net of income taxes | - | (77) | - |
| **Net income** | **$ 18,803** | **$ 17,922** | **$ 10,735** |
| **Income per share:** | | | |
| **Basic net income per share:** | | | |
| Net income before cumulative effect of a change in accounting | $ 0.80 | $ 0.77 | $ 0.47 |
| Cumulative effect of a change in accounting, net of income taxes | - | - | - |
| | **$ 0.80** | **$ 0.77** | **$ 0.47** |
| **Weighted average shares outstanding, basic** | **23,365** | **23,157** | **22,977** |
| **Diluted net income per share:** | | | |
| Net income before cumulative effect of a change in accounting | $ 0.80 | $ 0.77 | $ 0.46 |
| Cumulative effect of a change in accounting, net of income taxes | - | - | - |
| | **$ 0.80** | **$ 0.77** | **$ 0.46** |
| **Weighted average shares outstanding, diluted** | **23,497** | **23,331** | **23,109** |

See accompanying notes to consolidated financial statements.

# Shenandoah Telecommunications Company & Subsidiaries
## Consolidated Statements of Shareholders' Equity & Comprehensive Income
Years Ended December 31, 2007, 2006 and 2005

| in thousands, except per share amounts | Shares | Common Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total |
|---|---|---|---|---|---|
| **Balance, December 31, 2004** | **22,890** | **$ 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 ($0.15 per share) | - | - | (3,532) | - | (3,532) |
| Stock based compensation | - | 347 | - | - | 347 |
| Common stock issued through exercise of incentive stock options | 171 | 1,169 | - | - | 1,169 |
| Excess tax benefit from stock options exercised | - | 293 | - | - | 293 |
| **Balance, December 31, 2005** | **23,061** | **$ 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 ($0.25 per share) | - | - | (5,808) | - | (5,808) |
| Dividends reinvested in common stock | 31 | 474 | - | - | 474 |
| Common stock repurchased from dividend reinvestment plan participants | - | (6) | - | - | (6) |
| Stock based compensation | - | 94 | - | - | 94 |
| Conversion of liability classified awards to equity classified awards | - | 1,037 | - | - | 1,037 |
| Common stock issued through exercise of incentive stock options | 192 | 1,368 | - | - | 1,368 |
| Net excess tax benefit from stock options exercised | - | 227 | - | - | 227 |
| **Balance, December 31, 2006** | **23,284** | **$ 11,322** | **$ 125,690** | **$ (1,823)** | **$ 135,189** |
| **Comprehensive income:** | | | | | |
| Net income | - | - | 18,803 | - | 18,803 |
| Reclassification adjustment for unrealized loss from pensioin plans included in net income, net of tax | - | - | - | 476 | 476 |
| Net unrealized loss from pension plans, net of tax | - | - | - | (392) | (392) |
| **Total comprehensive income** | | | | | **18,887** |
| Dividends declared ($0.27 per share) | - | - | (6,321) | - | (6,321) |
| Dividends reinvested in common stock | 23 | 518 | - | - | 518 |
| Common stock repurchased | (26) | (636) | - | - | (636) |
| Stock based compensation | - | 153 | - | - | 153 |
| Common stock issued for share awards | 98 | 2,075 | - | - | 2,075 |
| Conversion of liability classified awards to equity classified awards | - | 55 | - | - | 55 |
| Common stock issued through exercise of incentive stock options | 130 | 1,048 | - | - | 1,048 |
| Net excess tax benefit from stock options exercised | - | 156 | - | - | 156 |
| **Balance, December 31, 2007** | **23,509** | **$ 14,691** | **$ 138,172** | **$ (1,739)** | **$ 151,124** |

See accompanying notes to consolidated financial statements.

# Shenandoah Telecommunications Company & Subsidiaries
# Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005

| in thousands | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Cash Flows from Operating Activities from Continuing Operations** | | | |
| Net income | $ 18,803 | $ 17,922 | $ 10,735 |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: | | | |
| Cumulative effect of change in accounting principle | - | 77 | - |
| Depreciation | 28,603 | 26,459 | 21,920 |
| Amortization | 595 | 831 | 462 |
| Stock based compensation expense | 2,321 | 350 | 347 |
| Excess tax benefits on stock option exercises | (156) | (228) | - |
| Deferred income taxes | (1,208) | (1,693) | (1,511) |
| Loss on disposal of equipment | 704 | 1,396 | 383 |
| Unrealized loss on investments carried at fair value | 90 | - | - |
| Net gain on disposal of investments | - | (10,542) | (74) |
| Net gain from patronage and equity investments | (1,038) | (206) | (8) |
| Other | (1,195) | 915 | (962) |
| Changes in assets and liabilities, exclusive of acquired businesses: | | | |
| (Increase) decrease in: | | | |
| Accounts receivable | (727) | 254 | (2,374) |
| Materials and supplies | (2,165) | 203 | (589) |
| Increase (decrease) in: | | | |
| Accounts payable | (995) | 436 | 925 |
| Deferred lease payable | 189 | 296 | 353 |
| Other prepaids, deferrals and accruals | (78) | (2,120) | 2,642 |
| **Net cash provided by operating activities from continuing operations** | **$ 43,743** | **$ 34,350** | **$ 32,249** |
| **Cash Flows from Investing Activities** | | | |
| Purchase and construction of plant and equipment | $ (29,084) | $ (21,195) | $ (29,527) |
| Proceeds from sale of equipment | 403 | 323 | 147 |
| Acquisition of businesses, net of cash acquired | - | - | (600) |
| Purchase of investment securities | (2,872) | (453) | (536) |
| Proceeds from investment activities | 959 | 11,489 | 403 |
| **Net cash used in investing activities from continuing operations** | **$ (30,594)** | **$ (9,836)** | **$ (30,113)** |

(continued)

See accompanying notes to consolidated financial statements.

# Shenandoah Telecommunications Company & Subsidiaries
## Consolidated Statements of Cash Flows
Years Ended December 31, 2007, 2006 and 2005

| in thousands | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Cash Flows from Financing Activities** | | | |
| Principal payments on long-term debt | $ (4,109) | $ (8,725) | $ (4,373) |
| Payments on lines of credit | - | (1,177) | (12,000) |
| Dividends paid | (5,803) | (5,334) | (3,532) |
| Repurchase of stock | (636) | (6) | - |
| Excess tax benefits on stock option exercises | 156 | 228 | - |
| Proceeds from exercise of incentive stock options | 1,048 | 1,368 | 1,169 |
| **Net cash used in financing activities from continuing operations** | **$ (9,344)** | **$ (13,646)** | **$ (18,736)** |
| Net cash provided by (used in) continuing operations | $ 3,805 | $ 10,868 | $ (16,600) |
| Net cash provided by operating activities from discontinued operations | - | - | 5,000 |
| **Net increase (decrease) in cash and cash equivalents** | **$ 3,805** | **$ 10,868** | **$ (11,600)** |
| **Cash and cash equivalents:** | | | |
| Beginning | 13,440 | 2,572 | 14,172 |
| **Ending** | **$ 17,245** | **$ 13,440** | **$ 2,572** |
| **Supplemental Disclosures of Cash Flow Information** | | | |
| Cash payments for: | | | |
| Interest, net of capitalized interest of $20 in 2007, $19 in 2006, and $20 in 2005 | $ 1,912 | $ 2,362 | $ 3,072 |
| Income taxes | $ 17,782 | $ 12,960 | $ 6,296 |

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. 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, Mississippi and Delaware. 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.

**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 (comprised entirely of institutional cash management funds at December 31, 2007) were $14.8 million and $12.6 million at December 31, 2007 and 2006, 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. As of December 31, 2006, the Company's allowance for doubtful accounts included $0.5 million related to PCS. Due to the changes in the Sprint Nextel agreement described below, the Company reversed this balance during 2007. Changes in the allowance for doubtful accounts for trade accounts receivable for the years ended December 31, 2007, 2006 and 2005 are summarized below (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Balance at beginning of year | $ 583 | $ 573 | $ 351 |
| Bad debt expense | (439) | 3,553 | 2,780 |
| Losses charged to allowance | (148) | (3,753) | (2,839) |
| Recoveries added to allowance | 164 | 210 | 281 |
| **Balance at end of year** | **$ 160** | **$ 583** | **$ 573** |

**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 periodically 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:

*Investments Carried at Fair Value:* Investments in stock and bond mutual funds and investment trusts held within the Company's rabbi trust, which is related to the Company's unfunded Supplemental Executive Retirement Plan, are reported at fair value. The Company adopted SFAS 159, "Fair Value Option for Financial Assets and Financial Liabilities", during 2007, and in accordance with its terms, elected to value these securities at market value, and reflect unrealized gains and losses in earnings (rather than in equity as a component of other comprehensive income).

Other Investments:
*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 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 "Cost 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, 2007, 2006 and 2005, 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 additional depreciation of $0.5 million, $0.2 million and $0.4 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, investments carried at fair value, 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 tangible long-lived 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. Changes in the liability for asset removal obligations for the years ended December 31, 2007, 2006 and 2005 are summarized below (in thousands):

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Balance at beginning of year | $ 928 | $ 374 | $ 334 |
| Additional liabilities accrued | 218 | 181 | 4 |
| Estimate revisions accrued | - | 317 | - |
| Disposition of assets | - | (6) | - |
| Accretion expense | 70 | 62 | 36 |
| **Balance at end of year** | **$ 1,216** | **$ 928** | **$ 374** |

**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, 2007 or 2005. Goodwill is allocated to the reporting segment responsible for the acquisition that gave rise to the goodwill. The following table presents the goodwill balance allocated by segment and changes in the balances for the years ended December 31, 2007, 2006 and 2005 (in thousands):

| | CATV Segment | Converged Services Segment | Shentel Wireless Segment | Total |
|---|---|---|---|---|
| **Balance as of December 31, 2004** | **$ 3,313** | **$ 5,550** | **$ -** | **$ 8,863** |
| NTC purchase price adjustment[1] | - | 989 | - | 989 |
| Acquisition[2] | - | - | 251 | 251 |
| **Balance as of December 31, 2005** | **3,313** | **6,539** | **251** | **10,103** |
| Impairment charge[3] | - | - | (251) | (251) |
| **Balance as of December 31, 2006 and 2007** | **$ 3,313** | **$ 6,539** | **$ -** | **$ 9,852** |

1] 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.

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

3] 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 Converged Services.

Intangible assets consist of the following at December 31, 2007 and 2006 (in thousands):

| | 2007 | | | 2006 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Business contracts | $ 2,739 | $ (702) | $ 2,037 | $ 2,823 | $ (578) | $ 2,245 |
| Non-compete agreement | 898 | (680) | 218 | 898 | (459) | 439 |
| Trade name | 168 | (103) | 65 | 168 | (69) | 99 |
| Other | 28 | (17) | 11 | 28 | (12) | 16 |
| | **$ 3,833** | **$ (1,502)** | **$ 2,331** | **$ 3,917** | **$ (1,118)** | **$ 2,799** |

For each of the years ended December 31, 2007, 2006 and 2005, amortization expense related to intangible assets was $0.5 million. 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 follows:

| Year Ending December 31, | Amount in thousands |
|---|---|
| 2008 | $ 459 |
| 2009 | 251 |
| 2010 | 201 |
| 2011 | 185 |
| 2012 | 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. Effective January 31, 2007, the Company has frozen benefits payable under this plan, and will settle accumulated benefits for participants and terminate the plan in accordance with Department of Labor and ERISA regulations and requirements.

The Company also maintains an Executive Supplemental Retirement Plan for selected employees. This is an unfunded plan and is maintained primarily for the purpose of providing additional retirement benefits for a select group of management employees. During 2007, this plan was amended from a defined benefit to a defined contribution plan. The Company created and funded a rabbi trust to hold assets equal to the liabilities under this plan.

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 directly 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, 2007, a valuation allowance against the deferred tax assets is not necessary.

**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.

Under the Sprint Nextel Management Agreement, wireless service revenues are reported net of the 8% Management Fee and, since its imposition effective January 1, 2007, the 8.8% Net Service Fee retained by Sprint Nextel, in accordance with EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." See Note 7 for additional information about the Management Fee and Net Service Fee.

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 required evaluation of each arrangement entered into by the Company for each sales channel. The Company continues to monitor arrangements with its sales channels to determine if any changes in revenue recognition need to be made. The adoption of EITF 00-21 resulted in substantially all of the activation fee revenue being recognized at the time the related wireless handset is sold and classified as equipment revenue.

Nonrefundable Converged Services' activation fees are deferred and recognized ratably over the estimated life of the customer relationship in accordance with Staff Accounting Bulletin 104, ("SAB 104"), typically 12 months. The amount of deferred revenue under SAB 104 was $0.2 million at both December 31, 2007 and 2006.

Converged Services 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 $0.1 million and $0.2 million at December 31, 2007 and 2006, respectively.

**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. For the year ended December 31, 2007, 66,806 contingently issuable performance shares did not meet the test to be considered issuable for purposes of the earnings per share computation, and so were excluded. For the year ended December 31, 2006, all options were dilutive. For the year ended December 31, 2005, the dilutive net income per share was exclusive of approximately 480,000 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 Company issued a three for one stock split in August, 2007. All prior years' share and per share amounts have been restated to reflect the effect of this stock split.

The following tables show the computation of basic and diluted earnings per share for the years ended December 31, 2007, 2006 and 2005:

| in thousands, except per share amounts | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Basic income per share** | | | |
| Net income | $ 18,803 | $ 17,922 | $ 10,735 |
| Weighted average shares outstanding | 23,365 | 23,157 | 22,977 |
| **Basic income per share** | **$ 0.80** | **$ 0.77** | **$ 0.47** |
| **Effect of stock options outstanding:** | | | |
| Weighted average shares outstanding | 23,365 | 23,157 | 22,977 |
| Assumed exercise, at the strike price at the beginning of year | 306 | 510 | 288 |
| Assumed repurchase of options under treasury stock method | (175) | (336) | (156) |
| Diluted weighted average shares | 23,497 | 23,331 | 23,109 |
| **Diluted income per share** | **$ 0.80** | **$ 0.77** | **$ 0.46** |

**Recently Issued Accounting Standards:** In December 2007, the Financial Accounting Standards Board ("FASB") issued two statements, SFAS 141 (Revised 2007), Business Combinations ("SFAS 141 Revised"), and SFAS 160, Non-Controlling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51 ("SFAS 160"). These two statements, which become effective January 1, 2009, change the accounting for transactions where one entity acquires all, or a substantial portion of, the ownership interests in another entity. SFAS 160 will also change the accounting for and presentation of those ownership interests not acquired in prior business combinations (formerly, minority interests). As the Company currently has no non-controlling interests subject to SFAS 160, and as SFAS 141 Revised does not change the accounting for any prior acquisitions, these statements have no impact upon the Company's historical financial statements.

## 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. In February 2005, the Company received the $5.0 million from the escrow agent.

## NOTE 3. INVESTMENTS

The Company has three classifications of investments: investments carried at fair value, investments carried at cost, and equity method investments. See Note 1 for definitions of each classification of investment.

At December 31, 2007, investments carried at fair value consisted of:

| **2007** in thousands | |
|---|---|
| Cash management trust | $ 172 |
| Taxable bond funds | 207 |
| Domestic equity funds | 1,884 |
| International equity funds | 339 |
| | **$ 2,602** |

Investments carried at fair value were acquired under a rabbi trust arrangement related to the Company's SERP. The Company purchases investments in the trust to mirror the investment elections of participants in the SERP; gains and losses on the investments in the trust are reflected as increases or decreases in the liability owed to the participants. During 2007, the Company purchased $2.5 million of investments, recognized interest and dividend income of $160,000, and unrealized losses of $90,000, for a total fair value change of $70,000. No sales of investments were recorded during 2007. Fair values for these investments are determined by quoted market prices for the underlying mutual funds. Quoted market prices are level 1 fair values as defined in FAS 157.

At December 31, 2007 and 2006, other investments, comprised of equity securities which do not have readily determinable fair values, consist of the following:

| in thousands | 2007 | 2006 |
|---|---|---|
| **Cost method:** | | |
| NECA Services, Inc. | $ 500 | $ 500 |
| CoBank | 1,938 | 1,817 |
| Other | 185 | 187 |
| | **2,623** | **2,504** |
| **Equity method:** | | |
| South Atlantic Private Equity Fund IV L.P. | 160 | 506 |
| Magnolia Holding Company, LLC | 11 | 18 |
| Dolphin Communications Parallel Fund, L.P. | 325 | 206 |
| Dolphin Communications Fund II, L.P. | 2,151 | 2,012 |
| Burton Partnership | 1,809 | 1,596 |
| Virginia Independent Telephone Alliance | 208 | 191 |
| ValleyNet | 47 | 42 |
| | **4,711** | **4,571** |
| **Total other investments** | **$ 7,334** | **$ 7,075** |

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. During 2007, the Company received a final distribution of $0.1 million from the RTB.

The Company's investment in CoBank increased $121 thousand and $101 thousand in the years ended December 31, 2007 and 2006, 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, 2007, the Company received distributions from its equity investments totaling $1.2 million in cash and securities, and invested $390 thousand in two equity investments, Dolphin Communications Parallel Fund, LP and Dolphin Communications Fund II, LP. These two investments recorded a net gain of approximately $538 thousand in the year ended December 31, 2007. Other equity investments had a net gain of $393 thousand in the year ended December 31, 2007.

As of December 31, 2007, the Company is committed to invest an additional $0.5 million 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, 2007 were approximately 22% and 20%, respectively, which is consistent with the Company's ownership interests at December 31, 2006. 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 of less than 4% at December 31, 2007.

## NOTE 4. PLANT IN SERVICE

Plant in service consists of the following at December 31, 2007 and 2006:

| in thousands | Estimated Useful Lives | 2007 | 2006 |
|---|---|---|---|
| Land | | $ 1,161 | $ 1,165 |
| Buildings and structures | 15 – 40 years | 46,777 | 44,740 |
| Cable and wire | 15 – 40 years | 61,914 | 65,326 |
| Equipment and software | 3 – 16.6 years | 179,427 | 156,391 |
| | | **$ 289,279** | **$ 267,622** |

## NOTE 5. LONG-TERM DEBT AND REVOLVING LINES OF CREDIT

Total debt consists of the following at December 31, 2007 and 2006:

| in thousands | | Weighted Average Interest Rate | 2007 | 2006 |
|---|---|---|---|---|
| CoBank (term loan) | Fixed | 7.58% | $ 21,707 | $ 25,816 |
| RUS Development Loan | | Interest free | 200 | 200 |
| | | | **21,907** | **26,016** |
| Current maturities | | | 4,248 | 4,109 |
| **Total long-term debt** | | | **$ 17,659** | **$ 21,907** |

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 $11.3 million as of December 31, 2007. 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.

The CoBank term loan requires monthly payments of approximately $350 thousand plus interest. The final maturity of the CoBank term loan is in 2013.

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, 2007 is $21.7 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 2007 and 2006, 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, 2007, in anticipation of the early 2008 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 at December 31, 2007.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2007 are as follows:

| Year | Amount in thousands |
|---|---|
| 2008 | $ 4,248 |
| 2009 | 4,399 |
| 2010 | 4,561 |
| 2011 | 3,975 |
| 2012 | 2,648 |
| Later years | 2,076 |
| | **$ 21,907** |

The estimated fair value of fixed rate debt instruments as of December 31, 2007 and 2006 was $22.5 million and $28.3 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, 2007, 2006 and 2005 were allocated as follows:

| in thousands | 2007 | 2006 | 2005 |
|---|---|---|---|
| Income tax expense | $ 12,971 | $ 12,370 | $ 6,716 |
| Income tax from cumulative effect of an accounting change | - | (48) | - |
| Accumulated other comprehensive income for unrecognized actuarial losses on pensions | 54 | (1,157) | - |
| Accumulated other comprehensive income for unrealized holding losses on equity securities | - | - | (40) |
| | **$ 13,025** | **$ 11,165** | **$ 6,676** |

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 following components:

| **Years Ended December 31,** in thousands | 2007 | 2006 | 2005 |
|---|---|---|---|
| **Current expense** | | | |
| Federal taxes | $ 11,812 | $ 12,077 | $ 7,356 |
| State taxes | 2,367 | 1,938 | 868 |
| **Total current provision** | **14,179** | **14,015** | **8,224** |
| **Deferred expense (benefit)** | | | |
| Federal taxes | (1,611) | (2,026) | (851) |
| State taxes | 403 | 381 | (657) |
| Total deferred provision (benefit) | (1,208) | (1,645) | (1,508) |
| **Income tax expense** | **$ 12,971** | **$ 12,370** | **$ 6,716** |

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, 2007, 2006 and 2005:

| **Years Ended December 31,** in thousands | 2007 | 2006 | 2005 |
|---|---|---|---|
| Computed "expected" tax expense (35%) | $ 11,121 | $ 10,629 | $ 6,107 |
| State income taxes, net of federal tax effect | 1,801 | 1,507 | 137 |
| Effect of change of tax rates on deferred taxes | - | - | 671 |
| Other, net | 49 | 234 | (199) |
| **Income tax provision** | **$ 12,971** | **$ 12,370** | **$ 6,716** |

Net deferred tax assets and liabilities consist of the following at December 31, 2007 and 2006:

| in thousands | 2007 | 2006 |
|---|---|---|
| **Deferred tax assets:** | | |
| State net operating loss carryforwards, net of federal | $ 809 | $ 1,016 |
| Lease obligations | 1,029 | 936 |
| Deferred revenues | 106 | 155 |
| Accrued pension/ERO costs | 1,396 | 2,363 |
| Allowance for doubtful accounts | 62 | 233 |
| Accrued compensation costs | 83 | 52 |
| Other, net | 250 | 351 |
| **Total gross deferred tax assets** | **3,735** | **5,106** |
| **Deferred tax liabilities:** | | |
| Plant-in-service | 23,463 | 25,900 |
| Deferred activation charges | 294 | 49 |
| Gain on investments, net | 42 | 375 |
| **Total gross deferred tax liabilities** | **23,799** | **26,324** |
| **Net deferred tax liabilities** | **$ 20,064** | **$ 21,218** |

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 valuation allowance at December 31, 2005. The Company has generated net operating loss carryforwards of approximately $13.8 million from its operations in several states. These carryforwards expire at varying dates beginning in the year 2019 and ending in 2027.

As of January 1, 2007 and December 31, 2007, the Company had no unrecognized tax benefits. Accordingly, there would be no effective tax rate impact from recognition of previously unrecognized tax benefits. The December 31, 2007 balance sheet includes no amounts for interest or penalties related to unrecognized tax benefits, and no such amounts were recognized as components of income tax expense.

The Company files U.S. federal income tax returns and various state and local income tax returns. With few exceptions, years prior to 2004 are no longer subject to examination. No state or federal income tax audits were in process as of December 31, 2007.

## 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, prior to 2007, the Company derived substantial travel revenue and incurred substantial travel expenses when Sprint Nextel and Sprint Nextel's PCS Affiliate partners' subscribers incurred minutes of use in the Company's territory and when the Company's subscribers incurred minutes of use in Sprint Nextel and Sprint Nextel's PCS Affiliate partners' territories. These transactions were 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, were recorded in cost of goods sold. The costs of services such as billing, collections and customer service were 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 included transactions related to subsidized costs on handsets and commissions paid to Sprint Nextel for sales of handsets through Sprint Nextel's national distribution programs.

Prior to 2007, the Company received and paid 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 paid the Company for the use of its network by their wireless subscribers, while the Company paid 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 first changed with the execution of an amendment to the Agreement which occurred on January 31, 2004, retroactive to January 1, 2004 (the "2004 Amendment"). By simplifying the formulas used and fixing certain fees, the 2004 Amendment 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;
- Transfer, effective May 2007, all Sprint Nextel operated Nextel store locations within the Company's PCS service area to the Company's PCS Subsidiary. The Company now sells Sprint Nextel iDEN (Integrated Digital Enhanced Network) phones and provides 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 pays 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) retained by Sprint Nextel under the previous 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, 2007.

## 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 $3.5 million, $3.7 million and $3.8 million in the years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007 and 2006, the Company had accounts receivable from ValleyNet of approximately $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 $1.3 million, $1.0 million and $1.0 million in the years ended December 31, 2007, 2006 and 2005, 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, 2007, 2006 and 2005.

## 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 2008. 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 recognized additional special termination benefits during 2007 as 25 additional employees elected to accept the early retirement offer.

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.

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

| in thousands | 2007 | 2006 |
|---|---|---|
| **Change in benefit obligation:** | | |
| Benefit obligation, beginning | $ 14,139 | $ 16,422 |
| Service cost | - | 953 |
| Interest cost | 588 | 876 |
| Actuarial loss | 640 | 1,704 |
| Benefits paid | (5,579) | (312) |
| Special termination benefits | 1,313 | 369 |
| Curtailment | - | (5,873) |
| Change in plan provisions | 280 | - |
| **Benefit obligation, ending** | **11,381** | **14,139** |
| **Change in plan assets:** | | |
| Fair value of plan assets, beginning | 13,762 | 12,655 |
| Actual return on plan assets | 774 | 419 |
| Benefits paid | (5,579) | (312) |
| Contributions made | - | 1,000 |
| **Fair value of plan assets, ending** | **8,957** | **13,762** |
| Funded status | (2,424) | (377) |
| Unrecognized net loss | 1,771 | 1,701 |
| **Prepaid (accrued) benefit cost** | **$ (653)** | **$ 1,324** |
| **Amounts recognized in the consolidated balance sheets:** | | |
| Accrued liabilities and other | $ (2,424) | $ (377) |
| Accumulated other comprehensive income | 1,771 | 1,701 |
| **Net amount recognized** | **$ (653)** | **$ 1,324** |

| **Components of net periodic benefit costs:** | 2007 | 2006 | 2005 |
|---|---|---|---|
| Service cost | $ - | $ 953 | $ 744 |
| Interest cost | 588 | 876 | 774 |
| Expected return on plan assets | (775) | (940) | (793) |
| Amortization of prior service costs | - | 337 | 31 |
| Amortization of net loss | 570 | 109 | 71 |
| Change in plan provisions | 280 | - | - |
| Curtailment gain | - | (1,791) | - |
| Special termination benefits | 1,313 | 369 | - |
| **Net periodic benefit cost** | **$ 1,976** | **$ (87)** | **$ 827** |
| **Other changes in plan assets and benefit obligations recognized in other comprehensive income:** | | | |
| Amortization of net loss | (570) | - | |
| Net loss for the period | 640 | 1,701 | |
| **Total recognized in net periodic benefit cost and other comprehensive income** | **$ 2,046** | **$ 1,614** | |

The Company recognized $560,000 of amortization of net loss in 2007 in connection with lump-sum payments disbursed by the qualified retirement plan to settle pension benefits with 31 of the 32 early retirement acceptees. The Company expects to recognize the remaining $1.8 million of unrecognized loss, recorded in accumulated other comprehensive loss as of December 31, 2007, as the qualified pension plan makes settlement disbursements to all other participants during 2008.

The accumulated benefit obligation for the qualified retirement plan was $11.4 million and $14.1 million at December 31, 2007 and 2006, respectively.

Weighted average assumptions used by the Company in the determination of benefit obligations at December 31, 2007, 2006 and 2005 were as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Discount rate | 4.52% | 5.00% | 5.50% |
| Rate of increase in compensation levels | -% | 4.50% | 4.50% |

Weighted average assumptions used by the Company in the determination of net pension cost for the years ended December 31, 2007, 2006, and 2005 were as follows:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Discount rate | 5.00% | 5.50% | 5.75% |
| Rate of increase in compensation levels | -% | 4.50% | 4.50% |
| Expected long-term rate of return on plan assets | 6.50% | 7.50% | 7.50% |

The Company's pension plan asset allocations based on market value at December 31, 2007 and 2006, by asset category were as follows:

| | 2007 | 2006 |
|---|---|---|
| **Asset Category:** | | |
| Equity securities | 17% | 44% |
| Debt securities | 83% | 53% |
| Cash and cash equivalents | -% | 3% |
| | **100%** | **100%** |

**Investment Policy**

The investment policy of the Company's Pension Plan has historically 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. As a result of the Company's decision in 2006 to freeze, settle and terminate the plan, the Company has increased 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 approximately $2.4 million to the plan, and anticipates distributing approximately $11.4 million to participants, during 2008. The Company contributed $1.0 million to the plan during the year ended December 31, 2006. No contribution was made during 2007.

The Company's matching (and beginning in 2007, employer discretionary) contributions to the defined contribution 401(k) plan were approximately $1.1 million, $370 thousand and $305 thousand for the years ended December 31, 2007, 2006 and 2005, respectively. The increase in expense for 2007 primarily reflects the employer discretionary contributions (up to 5% in the aggregate on qualified pay) in place of pension benefits following the freeze of the pension plan described above.

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. In conjunction with the changes in the qualified defined benefit pension plan at the end of 2006 as described above, the SERP was amended effective January 1, 2007 from a defined benefit plan to a defined contribution plan. Benefits were recalculated as of January 1, 2007, reflecting changes in benefits under the SERP from the change in the defined benefit plan; benefits so calculated became the opening participant balances of the defined contribution plan. The amended plan is non-contributory; the Company will credit each participant's account with a contribution of 7% of compensation (generally, base pay plus incentive pay), and 5% of a participant's compensation in excess of IRS or ERISA limitations on compensation under the 401(k) plan. One participant in this plan accepted the early retirement offer described above, and a lump sum distribution of his account balance was made in October 2007.

The following table presents the actuarial information for the SERP at December 31, 2006:

| in thousands | 2006 |
|---|---|
| **Change in benefit obligation:** | |
| Benefit obligation, beginning | $ 1,955 |
| Service cost | 189 |
| Interest cost | 110 |
| Actuarial loss | 425 |
| Curtailment | (37) |
| **Benefit obligation, ending** | **2,642** |
| | |
| Funded status | $ (2,642) |
| Unrecognized net loss | 1,279 |
| **Accrued benefit cost** | **$ (1,363)** |
| | |
| **Amounts recognized in the consolidated balance sheets:** | |
| Pension and other | $ (2,642) |
| Accumulated other comprehensive income | 1,279 |
| **Net amount recognized** | **$ (1,363)** |

| | 2006 | 2005 |
|---|---|---|
| **Components of net periodic benefit costs:** | | |
| Service cost | $ 189 | $ 152 |
| Interest cost | 110 | 71 |
| Amortization of prior service costs | 449 | 36 |
| Amortization of net loss | 50 | 20 |
| **Net periodic benefit cost** | **$ 798** | **$ 279** |

| | |
|---|---|
| **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** |

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

| | 2006 | 2005 |
|---|---|---|
| Discount rate | 5.50% | 5.50% |
| Rate of increase in compensation levels | 4.50% | 4.50% |

The Company contributed $120,000 to the participants' accounts under the SERP during 2007, and $70,000 in earnings on participants' balances were also credited to participants' accounts. At December 31, 2007, the total liability due to participants in the SERP was $2.6 million.

In order to provide some protection to the participants, the Company created a rabbi trust to hold assets sufficient to pay obligations under the SERP. The Company contributed the participants' opening balances, and Company contributions based on compensation, to the trust. Assets within the trust were invested to mirror participant elections as to investment options (a mix of stock and bond mutual funds); investment income, gains and losses in the trust were used to determine investment returns on the participants' balances in the SERP.

## NOTE 10. STOCK INCENTIVE PLANS

The Company maintains two shareholder-approved Company Stock Incentive Plans providing for the grant of equity based incentive compensation to essentially all employees. The 1996 Plan authorized grants of up to 1,440,000 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, the 2005 Plan was approved, under which 1,440,000 shares may be granted over a ten-year period beginning in 2005. Under both Plans, grants may take the form of stock awards, awards of options to acquire stock, stock appreciation rights, and other forms of equity based compensation. Prior to 2007, most awards were granted in the form of options to acquire stock as described more fully below; during 2007, both options to acquire stock and stock awards have been granted. Details about the stock grants will follow discussion of the Company's stock option grants.

The Company completed a three for one stock split in August 2007. All prior years' numbers of options and option prices per share have been adjusted to reflect the impact of the split.

### Options Awards

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 would have 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 also 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 for the year ended December 31, 2005. 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. Subsequently, certain holders of 2004 SARS who did not relinquish their right to receive cash elected, upon exercise, to take shares instead of cash. For such exercises, the fair value of the exercised options was transferred from liability to equity.

During 2007, the Company granted stock options to two recently hired officers. These grants consist of both incentive and non-qualified stock options, vest 25% annually on the third, fourth, fifth and sixth anniversaries of the grant date, and have a maximum seven year life.

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 were 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 year ended December 31, 2005:

| in thousands, except per share amounts | 2005 |
|---|---|
| **Net Income** | |
| As reported | $ 10,735 |
| 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) |
| **Pro forma** | **$ 10,747** |
| | |
| **Earnings per share, basic and diluted** | |
| As reported, basic | $ 0.47 |
| As reported, diluted | 0.46 |
| Pro forma, basic | 0.47 |
| Pro forma, diluted | 0.47 |

Disclosures for 2006 and 2007 are not presented in the table above because stock-based payments were accounted for under SFAS 123(R)'s fair-value method during these periods.

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 following weighted average assumptions:

| | 2007 | 2006 | 2005 |
|---|---|---|---|
| Dividend rate | 1.41% | 1.02% | 1.42% |
| Risk-free interest rate | 4.24% | 4.88% | 4.30% |
| Expected lives of options | 5 years | 2.7 years | 3.5 years |
| Price volatility | 42.03% | 39.06% | 45.73% |

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, 2007 and 2006, 10,656 and 15,534 options, respectively, were classified as liability-type options. For 2007, the assumptions shown were used to calculate the fair value of the options granted to recently-hired officers; for the remaining liability-type options, change in fair value over the year was essentially equal to the change in the stock price, as the remaining term of these options (15 months as of December 31, 2007) and its interaction with the other assumptions used in the option pricing model had little impact on the determination of fair value.

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 2007 and 2006 totaled $207 thousand and $350 thousand, respectively, and the income tax benefit for option-based compensation arrangements recognized in 2007 and 2006 was $110 thousand and $105 thousand, respectively.

A summary of outstanding options at December 31, 2007, 2006 and 2005 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, 2004** | **716,433** | **$ 6.99** | |
| Granted | 237,093 | 10.53 | $ 3.50 to 6.04 |
| Cancelled | (60,786) | 8.44 | |
| Exercised | (170,151) | 6.08 | |
| **Outstanding December 31, 2005** | **722,589** | **8.24** | |
| Granted | - | - | n/a |
| Cancelled | (153,450) | 9.41 | |
| Exercised | (201,177) | 7.14 | |
| **Outstanding December 31, 2006** | **367,962** | **8.36** | |
| Granted | 60,000 | 20.50 | $ 7.77 |
| Cancelled | (1,773) | 3.37 | |
| Exercised | (129,648) | 3.31 | |
| **Outstanding December 31, 2007** | **296,541** | **$ 10.97** | |

There were options for 296,541 shares outstanding at December 31, 2007 at a weighted average exercise price of $10.97 per share, an aggregate intrinsic value of $2.2 million and a weighted-average remaining contractual life of 3.5 years. There were options for 200,541 shares exercisable at December 31, 2007 at a weighted average exercise price of $8.78 per share, an aggregate intrinsic value of $1.9 million and a weighted-average remaining contractual life of 2.2 years. The aggregate intrinsic value represents the total pretax intrinsic value, based on the Company's average closing stock price of $18.42 during the year ended December 31, 2007.

During 2007, the total fair value of options vested was $0.4 million; the total intrinsic value of options exercised was $1.3 million; and no options-based liabilities were paid. During 2007, the total cash received as a result of employee stock option exercises was $1.0 million, and the actual tax benefit realized for the tax deductions was $160,000.

As of December 31, 2007, the total compensation cost related to nonvested options not yet recognized is $0.4 million which will be recognized over a weighted-average period of 4.0 years.

**Stock Awards**

During 2007, the Company made two grants of shares under the 2005 Plan. The Company granted 68,130 performance shares to all members of the Board of Directors and essentially all employees during 2007. Directors and senior management in the aggregate were granted 23,404 performance shares ("management shares"); all other employees in the aggregate were granted 44,726 performance shares ("employee shares"). Management shares can vest at the fifth, sixth, seventh or eighth anniversary of the grant date if, for the thirty day period ending on the day prior to the respective anniversary date, the average closing price of a share of the Company's common stock exceeds a defined target price. The target price for each anniversary date is equal to the grant date market price ($20.50 per share) plus $1.64 for each year since the grant date. Except for normal retirement, shares will vest only if the target price is achieved and the recipient has remained employed through the anniversary date that the target price is achieved on. Employee shares can vest at the fourth or fifth anniversary of the grant date on otherwise similar terms.

Due to the market condition of achieving a target stock price in order to vest, the Company determined the grant date fair value of the performance shares, as well as the expected term of the awards, using a Monte Carlo simulation. The following assumptions were used in deriving the grant date fair value and expected term:

| | Management Shares | Employee Shares |
|---|---|---|
| **Assumptions:** | | |
| Dividend rate | 1.5% | 1.5% |
| Risk free rate | 4.44% | 4.38% |
| Annual price volatility | 34% | 34% |
| **Derived values:** | | |
| Fair value per share | $13.20 | $12.20 |
| Expected term (years) | 5.81 | 5.38 |

The Company has estimated expected forfeitures of 40% for management shares and 35% for employee shares. Through

December 31, 2007, 1,324 employee shares were forfeited due to employees' termination of employment.

In December 2007, the Company made grants of fully vested shares to 26 management employees. The Company granted 97,730 shares, of which half were unrestricted and half carry a two year restriction on disposition of the shares. The unrestricted shares were valued at the market price of the Company's common stock on the date of grant ($23.59 per share); the Company determined that the value of the restricted shares was 20% less than the grant date market price, or $18.87 per share. The valuation utilized a Black-Scholes option pricing model methodology, utilizing a risk free rate of 3.1%, dividend yield of 1.5%, price volatility of 40%, and the two year restriction period as the term. Both restricted and unrestricted shares provide for full dividend and voting rights. Employees surrendered 26,076 of the unrestricted shares to pay witholding taxes due.

Compensation cost recognized in 2007 for all share awards totaled $2.1 million, and the income tax benefit recognized was $910 thousand.

## NOTE 11. MAJOR CUSTOMER

The Company has one major customer relationship that is a significant source of revenue. Approximately 62% of total operating revenues for the year ended December 31, 2007, 68% of total operating revenues for the year ended December 31, 2006, and 65% of total operating revenues for the year ended December 31, 2005 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, 2007, 2006 or 2005.

## NOTE 12. SHAREHOLDER RIGHTS PLAN

Effective as of February 8, 2008, the Board of Directors adopted a new Shareholder Rights Plan to replace an expiring plan which was adopted in 1998. Under certain circumstances, holders of each right (granted at one right per share of outstanding common stock) will be entitled to purchase for $40 one half a share of the Company's common stock (or, in certain circumstances, $80 worth of cash, property or other securities of the Company 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 both Shareholder Rights Plans, such a person or group would not be entitled to the benefits of the rights. The new Shareholder Rights Plan provides that the Board of Directors may redeem the outstanding rights at any time for $.001 per right, and except with respect to the redemption price of the rights, any of the provisions of the Rights Agreement may be amended by the Board of Directors of the Company. The new Shareholder Rights Plan provides for the Board of Directors to appoint a committee (the "TIDE Committee") that is comprised of independent directors of the Company to review and evaluate the Shareholder Rights Plan in order to consider whether it continues to be in the interest of the Company and its shareholders at least every three years. Following each such review, the TIDE Committee will communicate its conclusions to the full Board of Directors, including any recommendation as to whether the Shareholder Rights Plan should be modified or the Rights should be redeemed.

## NOTE 13. LEASE COMMITMENTS

The Company leases land, buildings and tower space under various non-cancelable agreements, which expire between the years 2008 and 2050 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, 2007 are as follows:

| in thousands | Amount |
|---|---|
| **Year Ending** | |
| 2008 | $ 6,358 |
| 2009 | 6,254 |
| 2010 | 5,458 |
| 2011 | 4,480 |
| 2012 | 3,270 |
| 2013 and beyond | 20,949 |
| | **$ 46,769** |

The Company's total rent expense was $6.5 million in the year ended December 31, 2007, $5.9 million in the year ended December 31, 2006, and $5.3 million in the year ended December 31, 2005.

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, 2007 are as follows:

| in thousands | Amount |
|---|---|
| **Year Ending** | |
| 2008 | $ 3,632 |
| 2009 | 3,240 |
| 2010 | 2,861 |
| 2011 | 1,442 |
| 2012 | 598 |
| 2013 and beyond | 355 |
| | **$ 12,128** |

The Company's total rent income was $9.5 million in the year ended December 31, 2007, $9.3 million in the year ended December 31, 2006, and $8.5 million in the year ended December 31, 2005.

## 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. 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 Converged Services, 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 (see Note 1).

**Converged Services (formerly NTC)**
On November 30, 2004, the Company purchased the 83.9% of NTC that it did not then 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. During 2005, goodwill was reduced by approximately $0.5 million as a result of settling the escrow funds dispute (see Note 1). The results of NTC's operations have been included in the consolidated financial statements since its acquisition. 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. Effective January 1, 2007, the Company changed the name of NTC to Converged Services, but continues to use the NTC brand.

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.

## 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) Cable TV and (6) Other. During 2007, Cable TV met a threshold for consideration as a reportable segment, and replaced Holding in the Company's segment reporting for 2007 and prior years.

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, Mississippi and Delaware.

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 Cable TV segment provides cable television services under various franchise agreements within the incorporated areas of Shenandoah County, Virginia, as well as in the unincorporated areas of Shenandoah County.

Other includes Shenandoah Telecommunications Inc. (previously reported as the Holding segment), ShenTel Service Company, 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 subsidiary is as follows:

| in thousands | Holding | Telephone | Consolidated Totals |
|---|---|---|---|
| **Year** | | | |
| 2007 | $ 840 | $ 93 | $ 933 |
| 2006 | (65) | 164 | 99 |
| 2005 | (283) | 57 | (226) |

Selected financial data for each segment is as follows:

| in thousands<br>**Year Ended December 31, 2007** | PCS | Telephone | Converged Services (NTC) | Mobile | Cable TV | Other | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|
| **External revenues** | | | | | | | | |
| Service revenues | $ 80,054 | $ 6,259 | $ 10,255 | $ - | $ 4,573 | $ 6,882 | $ - | $ 108,023 |
| Access charges | - | 10,765 | - | - | - | - | - | 10,765 |
| Travel/roaming revenue | 45 | - | - | - | - | - | - | 45 |
| Facilities and tower lease | - | 3,544 | 14 | 3,704 | - | 2,049 | - | 9,311 |
| Equipment | 5,015 | 28 | 325 | - | 33 | 313 | - | 5,714 |
| Other | 2,193 | 3,187 | 620 | 243 | 420 | 662 | - | 7,325 |
| **Total external revenues** | **87,307** | **23,783** | **11,214** | **3,947** | **5,026** | **9,906** | **-** | **141,183** |
| Internal revenues | - | 6,752 | - | 2,216 | 32 | 3,680 | (12,680) | - |
| **Total operating revenues** | **$ 87,307** | **$ 30,535** | **$ 11,214** | **$ 6,163** | **$ 5,058** | **$ 13,586** | **$ (12,680)** | **$ 141,183** |
| **Operating expenses** | | | | | | | | |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below | 28,150 | 7,753 | 8,712 | 1,867 | 4,161 | 8,519 | (10,952) | 48,210 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 15,226 | 6,258 | 4,802 | 762 | 1,659 | 5,611 | (1,728) | 32,590 |
| Depreciation and amortization | 15,107 | 5,217 | 5,923 | 923 | 1,050 | 978 | - | 29,198 |
| **Total operating expenses** | **58,483** | **19,228** | **19,437** | **3,552** | **6,870** | **15,108** | **(12,680)** | **109,998** |
| **Operating income (loss)** | **28,824** | **11,307** | **(8,223)** | **2,611** | **(1,812)** | **(1,522)** | **-** | **31,185** |
| Non-operating income (expense) | 650 | 723 | - | 5 | - | 3,907 | (2,823) | 2,462 |
| Interest (expense) | (221) | (4) | (1,092) | (388) | (273) | (2,718) | 2,823 | (1,873) |
| Income taxes | (12,296) | (4,402) | 3,624 | (964) | 826 | 241 | - | (12,971) |
| **Net income (loss)** | **$ 16,957** | **$ 7,624** | **$ (5,691)** | **$ 1,264** | **$ (1,259)** | **$ (92)** | **$ -** | **$ 18,803** |
| **Total assets** | **$ 78,278** | **$ 55,364** | **$ 27,535** | **$ 15,617** | **$ 7,903** | **$ 150,704** | **$ (113,877)** | **$ 221,524** |

| in thousands<br>**Year Ended December 31, 2006** | PCS | Telephone | Converged Services (NTC) | Mobile | Cable TV | Other | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|
| **External revenues** | | | | | | | | |
| Service revenues | $ 75,509 | $ 6,440 | $ 9,976 | $ - | $ 4,611 | $ 6,609 | $ - | $ 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 | - | 48 | 534 | - | 4,966 |
| Other | 1,688 | 3,099 | 543 | 183 | 306 | 794 | - | 6,613 |
| **Total external revenues** | **115,455** | **24,677** | **10,667** | **3,595** | **4,965** | **9,836** | **-** | **169,195** |
| Internal revenues | - | 5,793 | - | 1,656 | 32 | 2,557 | (10,038) | - |
| **Total operating revenues** | **$ 115,455** | **$ 30,470** | **$ 10,667** | **$ 5,251** | **$ 4,997** | **$ 12,393** | **$ (10,038)** | **$ 169,195** |
| **Operating expenses** | | | | | | | | |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below | 52,511 | 6,868 | 8,662 | 1,595 | 3,241 | 7,919 | (8,721) | 72,075 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 32,958 | 4,491 | 4,347 | 686 | 1,200 | 6,291 | (1,317) | 48,656 |
| Depreciation and amortization | 14,326 | 4,755 | 5,103 | 878 | 1,104 | 1,124 | - | 27,290 |
| **Total operating expenses** | **99,795** | **16,114** | **18,112** | **3,159** | **5,545** | **15,334** | **(10,038)** | **148,021** |
| **Operating income (loss)** | **15,660** | **14,356** | **(7,445)** | **2,092** | **(548)** | **(2,941)** | **-** | **21,174** |
| Non-operating income (expense) | 262 | 11,144 | 6 | 11 | 25 | 3,618 | (3,509) | 11,557 |
| Interest (expense) | (1,250) | (180) | (1,067) | (392) | (287) | (2,695) | 3,509 | (2,362) |
| Income taxes | (5,908) | (10,005) | 2,762 | (662) | 197 | 1,246 | - | (12,370) |
| Cumulative effect of a change in accounting, net of tax | (11) | (27) | (21) | (1) | (7) | (10) | - | (77) |
| **Net income (loss)** | **$ 8,753** | **$ 15,288** | **$ (5,765)** | **$ 1,048** | **$ (620)** | **$ (782)** | **$ -** | **$ 17,922** |
| **Total assets** | **$ 78,637** | **$ 62,619** | **$ 25,226** | **$ 15,758** | **$ 8,205** | **$ 160,028** | **$ (142,753)** | **$ 207,720** |

| in thousands<br>**Year Ended December 31, 2005** | PCS | Telephone | Converged Services (NTC) | Mobile | Cable TV | Other | Eliminations | Consolidated Totals |
|---|---|---|---|---|---|---|---|---|
| **External Revenues** | | | | | | | | |
| Service revenues | $ 61,606 | $ 6,486 | $ 9,631 | $ - | $ 4,675 | $ 6,057 | $ - | $ 88,455 |
| Access charges | - | 11,433 | - | - | - | - | - | 11,433 |
| Travel/roaming revenue | 27,220 | - | - | - | - | - | - | 27,220 |
| Facilities and tower lease | - | 3,921 | - | 3,147 | - | 1,306 | - | 8,374 |
| Equipment | 3,459 | 17 | 12 | - | 25 | 818 | - | 4,331 |
| Other | 2,133 | 2,881 | 179 | 146 | 301 | 938 | - | 6,578 |
| **Total external revenues** | **94,418** | **24,738** | **9,822** | **3,293** | **5,001** | **9,119** | **-** | **146,391** |
| Internal Revenues | 1 | 4,256 | - | 1,386 | 31 | 2,552 | (8,226) | - |
| **Total operating revenues** | **$ 94,419** | **$ 28,994** | **$ 9,822** | **$ 4,679** | **$ 5,032** | **$ 11,671** | **$ (8,226)** | **$ 146,391** |
| **Operating expenses** | | | | | | | | |
| Costs of goods and services, exclusive of depreciation and amortization shown separately below | 43,149 | 6,620 | 7,275 | 1,414 | 3,121 | 6,171 | (6,959) | 60,791 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 28,848 | 5,313 | 3,886 | 560 | 1,114 | 5,388 | (1,267) | 43,842 |
| Depreciation and amortization | 12,692 | 4,430 | 2,575 | 713 | 1,052 | 920 | - | 22,382 |
| **Total operating expenses** | **84,689** | **16,363** | **13,736** | **2,687** | **5,287** | **12,479** | **(8,226)** | **127,015** |
| **Operating income (loss)** | **9,730** | **12,631** | **(3,914)** | **1,992** | **(255)** | **(808)** | **-** | **19,376** |
| Non-operating income (expense) | 11 | 687 | 38 | 166 | 5 | 3,745 | (3,501) | 1,151 |
| Interest (expense) | (1,720) | (320) | (982) | (273) | (279) | (3,003) | 3,501 | (3,076) |
| Income taxes | (2,659) | (5,148) | 1,557 | (750) | (217) | 501 | - | (6,716) |
| **Net income (loss)** | **$ 5,362** | **$ 7,850** | **$ (3,301)** | **$ 1,135** | **$ (746)** | **$ 435** | **$ -** | **$ 10,735** |
| **Total assets** | **$ 81,796** | **$ 59,873** | **$ 27,107** | **$ 20,039** | **$ 9,414** | **$ 157,048** | **$ (150,356)** | **$ 204,921** |

## NOTE 16. QUARTERLY RESULTS (UNAUDITED)

The following table shows selected quarterly results for the Company.

| in thousands except per share data<br>**For the year ended December 31, 2007** | First | Second | Third | Fourth | Total |
|---|---|---|---|---|---|
| Operating revenues | $ 33,048 | $ 35,101 | $ 35,422 | $ 37,612 | $ 141,183 |
| Operating income | 7,084 | 9,738 | 8,129 | 6,234 | 31,185 |
| Net income | 4,071 | 5,947 | 5,107 | 3,678 | 18,803 |
| Net income per share – basic | $ 0.18 | $ 0.25 | $ 0.22 | $ 0.16 | $ 0.80 |
| Net income per share – diluted | 0.18 | 0.25 | 0.22 | 0.16 | 0.80 |

| **For the year ended December 31, 2006**<br>in thousands except per share data | 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 | $ 0.37 | $ 0.12 | $ 0.15 | $ 0.14 | $ 0.77 |
| Net income per share – diluted | 0.37 | 0.12 | 0.14 | 0.14 | 0.77 |

## 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 and recorded as a reduction in PCS costs of goods and services.

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, 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;
- cable television, which involves the provision of analog, digital and high-definition television services, through Shenandoah Cable Television;
- other, which involves the provision of Internet, network facility leasing, long-distance, CLEC, and wireless broadband services, through ShenTel Service Company, Shenandoah Network Company, Shenandoah Long Distance Company and ShenTel Communications Company, and the provision of investment and management services to its subsidiaries, through Shenandoah Telecommunications 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 an estimated population of approximately 41,000 inhabitants, which has increased by approximately 6,000 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.

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

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.

# Significant Transactions

The 2007, 2006 and 2005 financial results of the Company reflected several significant transactions, some of which are changes to the business reflected for the first time in these financial statements, and others considered non-recurring in nature or size. These transactions should be noted in understanding the financial results of the Company for 2007, 2006 and 2005. The following tables summarize the impact of these transactions, which are described in more detail in the subsequent paragraphs:

| **Significant Transactions**<br>in thousands | Effective Date | Income Statement Impact 2007 | 2006 | 2005 |
|---|---|---|---|---|
| Cost of share award | December 2007 | $ (2,074) | $ - | $ - |
| Net gain from curtailment of pension benefits | November 2006 | - | 1,022 | - |
| Cost of early retirement incentives | December 2006 | (2,675) | (389) | - |
| Gain on RTB dissolution | March 2006 | - | 10,540 | - |
| Recovery on settlement of Verizon overcharge | September 2005 | - | - | 750 |

| **Significant Transactions** | Diluted Earnings per Share Impact 2007 | 2006 | 2005 |
|---|---|---|---|
| Cost of share award | $ (0.05) | $ - | $ - |
| Net gain from curtailment of pension benefits | - | 0.03 | - |
| Cost of early retirement incentives | (0.07) | (0.01) | - |
| Gain on RTB dissolution | - | 0.27 | - |
| Recovery on settlement of Verizon overcharge | - | - | 0.02 |

The diluted earnings per share impact utilizes the annual effective tax rate applied to the income statement impact shown above, and divides by the weighted average diluted shares outstanding, for the year shown.

In March 2007 retroactive to January 1, 2007, the Company amended the Management Agreement with Sprint Nextel. As more fully described below, this amendment simplified the settlement process between the Company and Sprint Nextel primarily by combining the net effect of travel revenue and expense and certain costs charged by Sprint Nextel into a new net service fee of 8.8% of net billed revenue. The net effect of this change was a reduction in both revenues and expenses in our PCS segment. The amended agreement also provided for the Company to acquire the retail store locations described below, and to begin servicing the Sprint Nextel iDEN customer base.

In May 2007, the Company acquired 13 retail store locations from Sprint Nextel and began servicing Sprint Nextel's iDEN customers. The Company hired a number of Sprint Nextel employees upon acquisition of the stores, and added additional staff in the stores and to support the expanded retail effort.

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

On November 30, 2006, the Company announced that it would freeze benefit accruals for all participants in the Company's defined benefit pension plans as of January 31, 2007, and that it would replace the frozen benefits by increasing the Company's contributions to the existing 401(k) Supplemental Retirement Plan, as well as a new non-qualified defined contribution plan to be established for selected employees, going forward. The Company also announced that it intended to terminate and settle the defined benefit pension plan. 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 were 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 recorded approximately $2.0 million in costs associated with the additional early retirements during the first quarter of 2007, and during the fourth quarter of 2007, recognized $0.7 million in pension expense related to the settlement of pension liabilities for employees who took lump sum pension payments following their early retirement. At this time, the Company expects to complete the settlement of the defined benefit pension plan in 2008, and will record approximately $1.8 million in pension expense as settlements occur.

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. In the fourth quarter of 2007, the Company received an additional $0.1 million as a final distribution on the dissolution of the RTB.

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, 2007, 2006 and 2005 was $0.2 million, $0.6 million and $0.6 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 decrease in the reserve (above) and in net bad debt write-offs (below) during 2007 reflects changes in the handling of bad debt and related transactions under the amended Sprint Nextel management agreement.

The following table shows bad debt write-offs, net of recoveries, for the three-year period ended December 31, 2007:

| **Year Ended December 31,** in thousands | 2007 | 2006 | 2005 |
|---|---|---|---|
| PCS subscribers | $ - | $ 3,208 | $ 2,265 |
| Interexchange carriers | - | 106 | 20 |
| Other subscribers and entities | (16) | 229 | 273 |
| **Net bad debt write-offs** | **$ (16)** | **$ 3,543** | **$ 2,558** |

### 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.

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. Substantially all activation fee revenue and associated direct costs are recognized at the time the related wireless handset is sold and is classified as equipment revenue and cost of goods and services, respectively.

Under the Sprint Nextel Management Agreement, wireless service revenues are reported net of the 8% Management Fee and, since its imposition effective January 1, 2007, the 8.8% Net Service Fee retained by Sprint Nextel, in accordance with EITF Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent."

### Income Taxes

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

### 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 2007 Compared to 2006

## Consolidated Results

The Company's consolidated results for the years ended December 31, 2007 and 2006 are summarized as follows:

| in thousands | Year Ended December 31, 2007 | 2006 | Change $ | % |
|---|---|---|---|---|
| Operating revenues | $ 141,183 | $ 169,195 | $ (28,012) | (16.6) |
| Operating expenses | 109,998 | 148,021 | (38,023) | (25.7) |
| Operating income | 31,185 | 21,174 | 10,011 | 47.3 |
| Other income (expense) | 589 | 9,195 | (8,606) | (93.6) |
| Income tax provision | 12,971 | 12,370 | 601 | 4.9 |
| **Net income** | **$ 18,803** | **$ 17,922** | **$ 881** | **4.9** |

### Operating revenues

For the year ended December 31, 2007, operating revenue decreased $28.0 million, or 16.6%, due to the changes in the Company's PCS segment as a result of the amendments to the management agreement with Sprint Nextel. Travel revenue and travel expenses, reported and settled on a gross basis in the past, are now settled net as a component of a Net Service Fee paid subsequent to January 1, 2007. The Net Service Fee, in addition to replacing the net travel settlements, also replaced 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, 2007, operating expenses decreased $38.0 million, or 25.7%, primarily due to the changes in the Company's PCS segment. For the year ended December 31, 2007, PCS operating expenses decreased $41.3 million, or 41.4%, while Telephone and Cable TV operating expenses increased $3.1 million and $1.3 million, respectively, principally due to costs associated with the early retirement offer announced in late 2006, and the cost of the share award distributed in December 2007 to management level employees. The Company recognized expenses associated with these two programs of approximately $4.8 million in 2007.

### Other income (expense)

For the year ended December 31, 2006, other income (expense) included a $10.5 million pre-tax gain on the sale of RTB stock. For 2007 compared to 2006, gains on investments other than the RTB stock increased $0.7 million, non-operating income increased $0.7 million, and interest expense decreased $0.5 million.

### Income tax provision

The Company's effective tax rate increased slightly from 40.7% in 2006 to 40.8% in 2007.

# Segment Results: PCS

| in thousands | Year Ended December 31, 2007 | 2006 | Change $ | % |
|---|---|---|---|---|
| **Segment operating revenues** | | | | |
| Wireless service revenue | $ 80,054 | $ 75,509 | $ 4,545 | 6.0 |
| Travel and roaming revenue | 45 | 34,048 | (34,003) | (99.9) |
| Equipment revenue | 5,015 | 4,210 | 805 | 19.1 |
| Other revenue | 2,193 | 1,688 | 505 | 29.9 |
| **Total segment operating revenues** | **87,307** | **115,455** | **(28,148)** | **(24.4)** |
| **Segment operating expenses** | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 28,150 | 52,511 | (24,361) | (46.4) |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 15,226 | 32,958 | (17,732) | (53.8) |
| Depreciation and amortization | 15,107 | 14,326 | 781 | 5.5 |
| **Total segment operating expenses** | **58,483** | **99,795** | **(41,312)** | **(41.4)** |
| **Segment operating income** | **$ 28,824** | **$ 15,660** | **$ 13,164** | **84.1** |

The Company's PCS subsidiary, 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. 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
- Effective May 2007, 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, national distribution and product development, has been simplified. As a result of the amendments, the Company and Sprint Nextel no longer settle such amounts; nor does 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, Sprint Nextel will retain 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% Management Fee on billed revenue (net of customer credits, account write-offs and other billing adjustments) retained by Sprint Nextel under the management agreement. The Net Service Fee was designed to approximate the prior settlements adjusted to reflect new pricing for travel and CCPU and CPGA services (i.e., customer costs, service bureau, customer activation and billing). The Net Service Fee was set to be net of the cost to provide local customer service support to Sprint Nextel iDEN customers in the Company's local PCS service area.

The Company had 346 PCS base stations in service at December 31, 2007, compared to 332 base stations in service at December 31, 2006. The increase in base stations was primarily the result of supplementing network capacity and expanding coverage in certain market areas.

The Company's average PCS retail customer turnover, or churn rate, was 2.0% in 2007, compared to 1.9% in 2006. In 2007, allocated write-offs were 6.1% of PCS service revenues, compared to 4.2% bad debt write-offs as a percent of PCS service revenues in 2006. Management continues to monitor receivables, collection efforts and new subscriber credit ratings. As of December 31, 2007, the Company had 187,303 retail PCS subscribers compared to 153,503 subscribers at December 31, 2006. The PCS operation added 33,800 net retail customers in 2007 compared to 30,528 net retail subscribers added in 2006.

### Operating Revenues

For 2007, wireless service revenue totaled $80.1 million and consisted of gross billings of $114.1 million and wholesale revenue of $0.1 million related to 2006, less credits and adjustments of $11.1 million, allocated write-offs of $6.9 million, management fee of $7.7 million and net service fee of $8.5 million. For 2006, wireless service revenue totaled $75.5 million and consisted of gross billings of $88.4 million and wholesale revenue of $3.0 million, less credits and adjustments of $9.6 million, and management fee of $6.4 million.

Gross billings for 2007 increased $25.7 million, or 29.1%, as a result primarily of the increase in the number of subscribers; credits and adjustments increased $1.5 million, or 15.6%, due to promotional incentives offered by Sprint Nextel in early 2007 and billing/service adjustments; management fees increased $1.3 million due to increased billings; and the allocated write-offs and the net service fee for 2007 are new components of wireless service revenue as a result of the 2007 Amendment. The wholesale revenue of $0.1 million in 2007 was recorded to true up 2006 accruals.

As a result of the 2007 Amendment, travel, data, long distance and wholesale revenues, totaling $37.1 million in 2006, are no longer recorded by the Company.

Equipment revenue increased $0.8 million in 2007 over 2006 as a result of increased sales of handsets to both new and upgrading customers.

Other revenue increased $0.5 million for 2007 compared to 2006. The increase resulted from revenue collected from Sprint Nextel associated with new customer activations.

**Cost of goods and services**

Cost of PCS goods and services decreased $24.4 million, or 46.4% in 2007, principally as a result of the effects of the 2007 Amendment. The 2007 Amendment eliminated $27.1 million in net costs, primarily travel and long distance costs of $27.3 million and other costs totaling $3.0 million, offset by lost handset subsidies of $3.2 million. The PCS segment also recorded $0.6 million of net credits in 2007 to true-up 2006 accruals for expenses previously settled with Sprint Nextel.

Cost of goods and services experienced 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 2006. Network costs increased $1.3 million in 2007 as the PCS segment added EVDO capability for high speed data transmission such as internet access to 52 tower sites during the fourth quarter of 2007, as well as adding 14 additional cell sites to expand our capacity and coverage footprint. The Company anticipates significant additional expenses in 2008 for additional cell sites and EVDO capability on additional tower sites. All other costs of goods and services increased $0.4 million over 2006.

**Selling, general and administrative**

Selling, general and administrative costs decreased $17.7 million, or 53.8%, compared to 2006. The decrease was primarily attributable to the elimination of $16.8 million in 2006 costs due to the 2007 Amendment, principally $11.1 million of customer service and billing provided by Sprint Nextel, and $5.7 million in commissions paid to third party and national retailers who activate customers in the Company's PCS service area. The 2007 Amendment also impacted bad debt expense. The PCS segment recorded $3.3 million in bad debt expense during 2006; under the 2007 Amendment, bad debts are reflected as an offset against billed revenues (allocated write-offs). Allocated write-offs, at $6.9 million for 2007, have increased substantially. Due to the change in handling bad debts, the PCS segment reversed in 2007 the $0.5 million reserve for bad debts as of December 31, 2006.

Other components of selling, general and administrative expenses increased approximately $2.9 million over 2006. Significant increases included $1.0 million in commissions, $1.7 million in costs related to the 13 retail locations acquired from Sprint Nextel, and the PCS segment's $0.7 million share of the cost of the December stock award. These increases were partially offset by $0.6 million in lower marketing and advertising costs.

**Depreciation and amortization**

Depreciation and amortization expense increased $0.8 million, or 5.5%, over 2006, due to capital investments to expand our network coverage and capacity, as well as for adding EVDO capability.

## Segment Results: Telephone

| in thousands | Year Ended December 31, 2007 | 2006 | Change $ | % |
|---|---|---|---|---|
| **Segment operating revenues** | | | | |
| Service revenue - wireline | $ 6,782 | $ 6,856 | $ (74) | (1.1) |
| Access revenue | 12,476 | 13,163 | (687) | (5.2) |
| Facilities lease revenue | 7,533 | 6,838 | 695 | 10.2 |
| Equipment revenue | 28 | 28 | - | - |
| Other revenue | 3,716 | 3,585 | 131 | 3.7 |
| **Total segment operating revenues** | **30,535** | **30,470** | **65** | **0.2** |
| **Segment operating expenses** | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 7,753 | 6,868 | 885 | 12.9 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 6,258 | 4,491 | 1,767 | 39.3 |
| Depreciation and amortization | 5,217 | 4,755 | 462 | 9.7 |
| **Total segment operating expenses** | **19,228** | **16,114** | **3,114** | **19.3** |
| **Segment operating income** | **$ 11,307** | **$ 14,356** | **$ (3,049)** | **(21.2)** |

Shenandoah Telephone Company provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the northern Shenandoah Valley, and into the northern Virginia suburbs of Washington, DC.

In recent years, the trend amongst regulated local telephone service providers has been a decline in subscribers, principally due to competition from cable companies, other competitive providers, and consumer migration to wireless and DSL services eliminating secondary and often the primary access lines. The construction of new homes within Shenandoah County, combined with Shentel's ownership of the overlapping cable franchise (which does not offer internet or voice service), appeared to have mitigated this trend. In 2007, access lines declined by 294, or 1.2%. Based on industry experience, the Company anticipates that the long-term trend toward declining telephone subscriber counts will continue for the foreseeable future.

### Operating Revenues

Wireline service revenue decreased 1.1%, consistent with the 1.2% drop in access lines during the year.

Access revenue decreased $0.7 million, or 5.2%, in 2007 compared to 2006. Significant components included $0.3 million lower DSL revenue due to the adoption during 2007 of the NECA wholesale rate for DSL service, $0.2 million for the reversal of accruals for disputed charges for handling 1-800 calls; and $0.1 million in lower carrier access revenues.

Facility lease revenue increased $0.7 million to $7.5 million in 2007 primarily due to a new fiber lease with the Company's cable television affiliate initiated during 2007, and additional circuits initiated in 2007 with the Company's long distance affiliate.

Other revenue increased $0.1 million to $3.7 million in 2007, due to small increases in directory revenue and building rent.

### Cost of goods and services

Cost of goods and services increased in 2007 by $0.9 million, or 12.9%, due to part of the Telephone segment's share of early retirement costs.

### Selling, general and administrative

Selling, general and administrative expense increased in 2007 by $1.8 million, or 39.3%, due to the remaining $1.3 million of the Telephone segment's share of the early retirement costs (the Telephone segment's total share of the early retirement costs was $2.2 million), plus Telephone's $0.5 million share of the cost of the December stock award.

### Depreciation expense

Depreciation expense increased $0.5 million, or 9.7%, over 2006. The Company accelerated depreciation on certain components of its fiber network that will be replaced to upgrade network capacity during 2008.

## Segment Results: Converged Services

| in thousands | Year Ended December 31, 2007 | 2006 | Change $ | % |
|---|---|---|---|---|
| **Segment operating revenues** | | | | |
| Service revenue - wireline | $ 10,255 | $ 9,976 | $ 279 | 2.8 |
| Equipment and other revenue | 959 | 691 | 268 | 38.8 |
| **Total segment operating revenues** | **11,214** | **10,667** | **547** | **5.1** |
| **Segment operating expenses** | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 8,712 | 8,662 | 50 | 0.6 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 4,802 | 4,347 | 455 | 10.5 |
| Depreciation and amortization | 5,923 | 5,103 | 820 | 16.1 |
| **Total segment operating expenses** | **19,437** | **18,112** | **1,325** | **7.3** |
| **Segment operating (loss)** | **$ (8,223)** | **$ (7,445)** | **$ (778)** | **10.4** |

The Converged Services segment 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, Mississippi and Delaware.

The number of MDU properties served increased by ten during 2007 to 112 at December 31, 2007. The Company has been adding contracts with larger properties, while terminating contracts with smaller, less profitable properties. Four properties that the Company had expected to renew their expiring contracts chose not to do so during second quarter of 2006.

### Operating Revenues

Service revenue increased $0.3 million for 2007. Video revenue increased by $0.7 million and internet revenue increased $0.2 million, compared to 2006, while voice revenue declined by $0.6 million as college students migrate to wireless phone service.

Equipment and other revenue increased $0.3 million principally due to one-time revenues on projects where the Company installed certain equipment as a convenience to the property owners and billed the properties for the installations. The cost of the projects is included in cost of goods and services. The Company recognized minimal gross profit on these projects.

### Selling, general and administrative

Selling, general and administrative expenses increased $0.5 million, or 10.5%, in 2007 over 2006, due to increases in bad debt expense and legal costs.

### Depreciation and amortization

Depreciation and amortization expense increased $0.8 million, or 16.1%, in 2007 over 2006. The increase reflects depreciation on additional capital spending for new properties in 2006 and 2007, the increase in 2007 expense over 2006 related to shortened lives on certain phone system assets initiated in late 2006, offset by the absence of accelerated depreciation in 2006 relating to four MDU's that elected not to renew their contracts for service.

## Segment Results: Mobile

| in thousands | Year Ended December 31, 2007 | 2006 | Change $ | % |
|---|---|---|---|---|
| **Segment operating revenues** | | | | |
| Tower lease revenue-affiliate | $ 2,216 | $ 1,656 | $ 560 | 33.8 |
| Tower lease revenue-non-affiliate | 3,704 | 3,412 | 292 | 8.6 |
| Other revenue | 243 | 183 | 60 | 32.8 |
| **Total segment operating revenues** | **6,163** | **5,251** | **912** | **17.4** |
| **Segment operating expenses** | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 1,867 | 1,595 | 272 | 17.1 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 762 | 686 | 76 | 11.1 |
| Depreciation and amortization | 923 | 878 | 45 | 5.1 |
| **Total segment operating expenses** | **3,552** | **3,159** | **393** | **12.4** |
| **Segment operating income** | **$ 2,611** | **$ 2,092** | **$ 519** | **24.8** |

The Mobile segment provides tower rental space to affiliated and non-affiliated companies throughout the Company's four state PCS market, and paging services throughout the northern Shenandoah Valley.

At December 31, 2007, the Mobile segment had 114 towers and 167 non-affiliate tenants compared to 112 towers and 151 non-affiliate tenants at December 31, 2006.

### Operating revenues

The increase in tower lease revenue – affiliate resulted from changes in lease rates implemented during the second quarter of 2007, to better reflect market conditions for tower leases. The offsetting expense is within the PCS segment.

Tower lease revenue non-affiliate increased due to additional leases entered into during 2007.

The increase in other revenue resulted from site application and similar costs billed to potential tenants.

### Operating expenses

The increase in cost of goods and services reflects increased rent and power costs for tower sites ($0.1 million) and higher maintenance and repair costs ($0.1 million).

The increase in selling, general and administrative expenses primarily reflects increased allocations of internal costs reflecting higher levels of activity at Mobile (see above comments), offset by a refund of sales tax charged in prior years on tower rents.

## Segment Results: Cable Television

| in thousands | Year Ended December 31, 2007 | 2006 | Change $ | % |
|---|---|---|---|---|
| **Segment operating revenues** | | | | |
| Service revenue | $ 4,573 | $ 4,611 | $ (38) | (0.8) |
| Equipment and other revenue | 485 | 386 | 99 | 25.6 |
| **Total segment operating revenues** | **5,058** | **4,997** | **61** | **1.2** |
| **Segment operating expenses** | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 4,161 | 3,241 | 920 | 28.4 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 1,659 | 1,200 | 459 | 38.3 |
| Depreciation and amortization | 1,050 | 1,104 | (54) | (4.9) |
| **Total segment operating expenses** | **6,870** | **5,545** | **1,325** | **23.9** |
| **Segment operating (loss)** | **$ (1,812)** | **$ (548)** | **$ (1,264)** | **230.7** |

The Cable Television segment provides analog, digital and high-definition television signals under franchise agreements within Shenandoah County, Virginia. As of December 31, 2007, it served 8,303 subscribers, down 137 from December 31, 2006. Increases in digital subscribers were offset by losses in basic customers.

### Operating revenues

Service revenue decreased slightly in 2007 from 2006 due to the overall decline in subscribers. The increase in equipment and other revenue resulted from an increase in advertising revenue.

### Cost of goods and services

Cost of goods and services increased primarily due to costs associated with the new high-definition television service initiated at the beginning of 2007. The Company spent $0.3 million more in 2007 for converter boxes (that allow the subscriber to receive the hi-def signals), an additional $0.2 million on programming costs, and $0.2 million for additional network costs to transmit signals over the network. The Cable segment's costs included $0.2 million for a portion of its share of the early retirement costs incurred during 2007.

### Selling, general and administrative expenses

Selling, general and administrative expenses increased due to $0.3 million in additional marketing and customer service costs for the hi-def roll out in the beginning of the year, and to $0.2 million for the remaining portion of the Cable segment's share of early retirement costs.

# 2006 Compared to 2005

## Consolidated Results

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

| in thousands | Year Ended December 31, 2006 | 2005 | Change $ | % |
|---|---|---|---|---|
| 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.

### 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.

### 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 | 12,692 | 1,634 | 12.9 |
| **Total segment operating expenses** | 99,795 | 84,689 | **15,106** | **17.8** |
| **Segment operating income** | **$ 15,660** | **$ 9,730** | **$ 5,930** | **60.9** |

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 prior to the 2007 Amendments, the Company received revenue from wholesale resellers of wireless PCS service. These resellers paid 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.

### 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.

## Segment Results: 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.

### 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.

## Segment Results: 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 | 8,662 | 7,275 | 1,387 | 19.1 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 4,347 | 3,886 | 461 | 11.9 |
| 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 number of Converged Services properties served declined by seven during 2006 to 102 at December 31, 2006, as the Company focused 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. 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 $1.4 million, or 19.1%, 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 $0.5 million, or 11.9%, 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.

## Segment Results: Mobile

| in thousands | Year Ended December 31, 2006 | 2005 | Change $ | % |
|---|---|---|---|---|
| **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 | 560 | 126 | 22.5 |
| Depreciation and amortization | 878 | 713 | 165 | 23.1 |
| **Total segment operating expenses** | **3,159** | **2,687** | **472** | **17.6** |
| **Segment operating income** | **$ 2,092** | **$ 1,992** | **$ 100** | **5.0** |

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.

## Segment Results: Cable Television

| in thousands | Year Ended December 31, 2006 | 2005 | Change $ | % |
|---|---|---|---|---|
| **Segment operating revenues** | | | | |
| Service revenue | $ 4,611 | $ 4,675 | $ (64) | (1.4) |
| Equipment and other revenue | 386 | 357 | 29 | 8.1 |
| **Total segment operating revenues** | **4,997** | **5,032** | **(35)** | **(0.7)** |
| **Segment operating expenses** | | | | |
| Cost of goods and services, exclusive of depreciation and amortization shown separately below | 3,241 | 3,121 | 120 | 3.8 |
| Selling, general and administrative, exclusive of depreciation and amortization shown separately below | 1,200 | 1,114 | 86 | 7.7 |
| Depreciation and amortization | 1,104 | 1,052 | 52 | 4.9 |
| **Total segment operating expenses** | **5,545** | **5,287** | **258** | **4.9** |
| **Segment operating (loss)** | **$ (548)** | **$ (255)** | **$ (293)** | **(114.9)** |

As of December 31, 2006, the Cable Television segment served 8,440 subscribers, down 244 from December 31, 2005. Increases in economy and digital subscribers were offset by losses in basic customers.

### Operating revenues

Service revenue decreased slightly in 2006 from 2005 due to the overall decline in subscribers. The increase in equipment and other revenue resulted from an increase in equipment sold.

### Operating expenses

Cost of goods and services increased primarily due to maintenance and repair expenditures in 2006, offset in part by lower network costs.

Selling, general and administrative expenses increased due to higher bad debt and license fees in 2006.

# 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 $43.7 million of net cash from operations in 2007, a $9.4 million increase from $34.4 million generated in 2006. The primary change in cash from operations was the absence of the $10.5 million non-operating gain from the sale of RTB stock in 2006. Materials and supplies increased in 2007 to support the addition of 13 additional retail PCS stores. Accounts receivable growth slowed in 2006 as increased receivables at PCS were offset by declines at Converged Services and Telephone. Changes between 2005 and 2006 in prepaids, deferrals and accruals relate to increases in pension liabilities offset by decreases in accrued compensation.

In 2007, the Company used $30.6 million of cash in investing activities. Purchase and construction of plant and equipment increased to $29.1 million in 2007, as the Company increased capital spending in its PCS segment following the resolution of uncertainties concerning the status of our relationship with Sprint Nextel. The Company added EVDO data carrying capacity to 52 PCS sites during 2007, and added 14 cell sites to expand our coverage footprint. The 2007 increase in purchases of investment securities results from the decision to fund a rabbi trust in connection with the Executive Supplemental Retirement Plan. 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 $11.3 million received on the sale of the RTB stock. Capital spending in 2006 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 $9.3 million in 2007, compared to $13.6 million in 2006 and $18.7 million in 2005. In 2007, the Company made $4.1 million in scheduled debt payments, and increased the dividend over 2006. 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 Rural Utilities Service ("RUS"), and made approximately $4.0 million in scheduled principal payments on the outstanding CoBank debt. The dividend increased by $1.8 million in 2006 over 2005 as the Company paid a special dividend from the gain on the sale of the RTB stock.

In 2007, the Company received $1.0 million in cash for the exercise of incentive stock options, compared to $1.4 million in 2006 and $1.2 million in 2005. The Company also recognized $156 thousand and $228 thousand in excess tax benefits on stock option exercises during 2007 and 2006, respectively.

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, 2007, the Company's indebtedness totaled $21.9 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, 2007, availability totaled $11.3 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. 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 $21.7 million at December 31, 2007, 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 2007 and 2006, 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 approximately $350 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, 2007, the ratio of total debt to operating cash flow, which must be 2.5 or lower, was 0.4; the equity to total assets ratio, which must be 35% or higher, was 68.22%; and the ratio of operating cash flow to scheduled debt service, which must exceed 2.0, was 7.54. The Company was in compliance with all covenants at December 31, 2007.

As of December 31, 2005, the Company had loans from the RTB and the RUS 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, and in 2007, received a final distribution from the RTB of $0.1 million.

**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, 2007, are as follows:

| in thousands | Total | Less than 1 year | 1-3 years | 4-5 years | After 5 years |
|---|---|---|---|---|---|
| Long-term debt principal | $ 21,907 | $ 4,248 | $ 8,960 | $ 6,623 | $ 2,076 |
| Interest on long–term debt | 4,245 | 1,494 | 1,985 | 717 | 49 |
| Retirement plan contributions[1] | 2,424 | 2,424 | - | - | - |
| Operating leases[2] | 46,769 | 6,358 | 11,712 | 7,750 | 20,949 |
| Marketing assistance payments[3] | 204 | 68 | 114 | 21 | 1 |
| Capital calls on investments | 500 | 500 | - | - | - |
| Purchase obligations[4] | 1,271 | 1,271 | - | - | - |
| **Total obligations** | **$ 77,320** | **$ 16,363** | **$ 22,771** | **$ 15,111** | **$ 23,075** |

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 Converged Services to provide services to certain MDU communities. Does not include variable revenue sharing amounts that could total up to approximately $473 thousand annually.

4] Represents open purchase orders at December 31, 2007.

The Company expects to settle its qualified defined benefit pension plan during 2008. Funds to settle the accumulated benefits will come from the assets of the plan.

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 $29.1 million on capital projects in 2007, an increase from the $21.2 million spent in 2006, but comparable to the $29.5 million spent in 2005. The Company postponed certain PCS related spending in 2006, due to uncertainty as to the potential change in the status of the PCS subsidiary.

Capital expenditures budgeted for 2008 total approximately $64.7 million. The increase over 2007 spending largely consists of spending to add capacity and network coverage to our PCS network, new towers in our Mobile segment to support the expansion of PCS network coverage, and buildouts for MDU complexes in our Converged Services segment, in addition to on-going spending to expand our digital cable capabilities and upgrade our fiber networks, and construct a new warehouse for our Telephone segment, among many other projects.

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 December 2007, the Financial Accounting Standards Board ("FASB") issued two statements, SFAS 141 (Revised 2007), Business Combinations ("SFAS 141 Revised"), and SFAS 160, Non-Controlling Interests in Consolidated Financial Statements – an Amendment of ARB No. 51 ("SFAS 160"). These two statements, which become effective January 1, 2009, change the accounting for transactions where one entity acquires all, or a substantial portion of, the ownership interests in another entity. SFAS 160 will also change the accounting for and presentation of those ownership interests not acquired in prior business combinations (formerly, minority interests). As the Company currently has no non-controlling interests subject to SFAS 160, and as SFAS 141 Revised does not change the accounting for any prior acquisitions, these statements have no impact upon the Company's historical financial statements.

# 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 generally involves three components. The first component is outstanding debt with variable rates. As of December 31, 2007, 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 $0.4 million, while the estimated fair value of the fixed rate debt was approximately $22.5 million as of December 31, 2007.

The second component of interest rate risk consists of temporary excess cash, which can be invested in various short-term investment vehicles such as overnight repurchase agreements and Treasury bills with a maturity of less than 90 days. The cash is currently invested in an institutional cash management fund that has 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. The Company's investments in publicly traded stock and bond mutual funds under the rabbi trust, which are subject to market risks and could experience significant swings in market values, are offset by corresponding changes in the liabilities owed to participants in the Executive Supplemental Retirement Plan. 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, 2007, the Company has $7.3 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) and 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.

**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

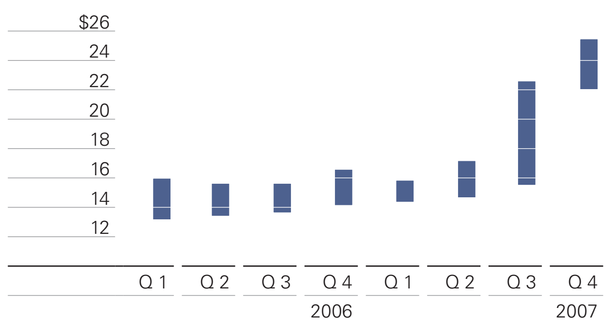
The Company's stock is traded on the Nasdaq Global Select Market under the symbol "SHEN." The following table shows the closing high and low sales prices per share of common stock as reported by the Nasdaq Global Select Market for each quarter during the last two years, adjusted for the three for one stock split issued by the Company in August 2007:

Shenandoah Telecommunications Company historically has paid annual cash dividends on or about December 1 of each year. The regular cash dividend was $0.27 per share in 2007 and $0.16 per share in 2006. In 2006, in conjunction with the payment of the annual cash dividend, the Company also paid a special cash dividend of $0.09 per share, representing a distribution of a portion of the gain on the liquidation of the RTB stock in the first quarter of 2006. Dividends are paid to Shenandoah Telecommunications Company shareholders from accumulated dividends paid to it by its operating subsidiaries.

| **2007** | High | Low |
|---|---|---|
| Fourth Quarter | $ 25.53 | $ 22.15 |
| Third Quarter | 22.56 | 15.51 |
| Second Quarter | 17.21 | 14.73 |
| First Quarter | 15.82 | 14.41 |

| **2006** | High | Low |
|---|---|---|
| Fourth Quarter | $ 16.66 | $ 14.18 |
| Third Quarter | 15.67 | 13.55 |
| Second Quarter | 15.67 | 13.42 |
| First Quarter | 15.98 | 13.28 |

**Share Price**




As of February 28, 2008, there were approximately 4,231 holders of record of the Company's common stock.

**Corporate Headquarters**
Shenandoah Telecommunications Company
500 Shentel Way
PO Box 459
Edinburg, Virginia 22824

**Shareholders' Questions & Stock Transfers**
Call (540) 984-5200
Transfer Agent – Common Stock
Shenandoah Telecommunications Company
PO Box 459
Edinburg, Virginia 22824

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

This Annual Report to the Shareholders contains forward-looking statements. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to: changes in the interest rate environment; management's business strategy; national, regional and local market conditions; and legislative and regulatory conditions. Readers should not place undue reliance on forward-looking statements which reflect management's view only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by law.

Shenandoah Telecommunications
Company & Subsidiaries

SHENTEL®

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

This list comprises all subsidiaries of Shenandoah Telecommunications Company, and all are incorporated in the Commonwealth of Virginia.

500 Shentel Way
PO Box 459
Edinburg, VA 22824
1.800.SHENTEL
www.shentel.com

We must serve well to prosper – We must prosper to serve well