April 4, 2005

Christopher E. French

Dear Shareholder:

Your Company had a good year in 2004, achieving improved financial results and building an organization better able to competitively provide our customers with the latest wired and wireless services.

We had many financial highlights during the year. Total revenues reached $121.0 million, an increase of $15.4 million. Operating income improved to $19.6 million and net income from continuing operations was $10.2 million, an increase of 4.9% over 2003 results. Total net income was $10.2 million, a $21.8 million decrease from the prior year which included the $22.4 million gain from the sale of our cellular partnership interest. In its first year contributing a significant amount of net income, our PCS subsidiary generated net income of $2.9 million, or 28.2% of total net income in 2004, a dramatic turnaround from its $5.4 million loss in 2002.

Our ability to generate and grow revenues and profits starts with our customers and depends on our ability to fulfill their needs for telecommunications products and services. On the following pages of this annual report we highlight a cross-section of the many customers who allow us to meet their needs for quality telecommunication services. Our success in the future will continue to depend on our ability to deliver superior service at reasonable prices, thereby providing value to our existing and potential customers. We must do this while the technological and regulatory changes to our industry occur more rapidly and in an increasingly competitive marketplace.

One of the more significant of these changes is the decline in traditional wired telephone lines and the volume of calls made through the local telephone network. This decline will continue, if not accelerate, as customers increasingly use alternative services and technologies for their calling needs. Many customers already forgo a second line in their homes in favor of the greater convenience and functionality of wireless services, or replace it with a broadband service such as our Digital Subscriber Line (DSL) service. Additionally, the ability to convert voice traffic so it can be carried over Internet connections (referred to as Voice over Internet Protocol, or VoIP) will further accelerate the migration of traffic to alternative networks.

While this shift will have negative consequences for our traditional local exchange telephone business it will also present opportunities from which we should benefit due to our past efforts at diversification and expansion. The best example has been our past and ongoing investment in our PCS business. At the end of the year we provided PCS service to approximately 102,600 retail and 27,300 wholesale PCS customers, increases of 17,500 and 14,500, respectively. In contrast, our telephone subsidiary provided service to approximately 24,700 access lines as of the end of the year, a decline of 186 from the previous year. As calls increasingly use VoIP, our extensive broadband data network, provided via DSL service, is in place to support customers' demand for higher speed services. Our DSL network is currently available to over 97% of our customers in our local exchange territory, with 2,566 local subscribers at the end of the year, a growth of 110.3%. Our goals are to make DSL service available to all local exchange customers by the end of 2005 and to generate double-digit growth in DSL services.

Our DSL network is supported by our extensive local fiber distribution network which will allow us to meet the future increases in speeds and services our customers will demand. This same network, through connections with other regional and national networks, enables Shenandoah County to support high-tech companies that require advanced telecommunication services to the rest of the world. Our advanced network was a key factor in EchoStar's recent decision to locate a major facility south of Mt. Jackson. This is a prime example of how Shentel can support the extensive range of services important to today's information-based economy.

Other efforts of diversifying into new sources of revenues and profits and deploying new technologies have also started to show signs of success. Our regional phone directory, ShentelPages, generated a 22.8% increase in yellow page advertising revenue, reaching $2.2 million for the 2005 book. We already make use of VoIP technologies for our internal phone system at the Shentel Center in Edinburg. We are assisting numerous businesses with the installation of Wi-Fi service in their establishments, both for use by their customers and to enhance their own internal data networks. Additionally, we are currently testing a wireless broadband service to determine how we can profitably offer these services to a broader range of people, either those who are currently without access to broadband, or as an alternative to their existing broadband provider.

Another source of future revenue growth is to find new businesses that are a good strategic fit with our organization, such as our acquisition of NTC Communications. NTC is a provider of local and long distance voice, cable television, Internet and data services, primarily to off-campus student housing near fifteen college campuses, including James Madison University, Virginia Tech, and the University of Virginia. These services mirror those already offered by Shentel and have allowed the Company to extend its geographic reach throughout the southeastern United States and to add college consumers to our customer mix. As with our existing businesses, the key to NTC's success has been its great employees, and we extend to them a welcome, along with our thanks to all of our employees and managers who made this acquisition possible and are working hard to ensure that it becomes a profitable part of our business.

Our Company made its first investment in NTC in 2001 and at the time the acquisition was announced we held a 16.1% ownership interest. With the purchase of the remaining portion that we did not own, we were able to immediately refinance NTC's high cost debt with lower rates, realizing almost $1.0 million of annual interest cost savings. Further savings are expected from the integration of NTC into our existing operations, such as converting to our existing billing and accounting systems. We believe there are additional opportunities to further grow and expand within NTC's core markets and extend similar services to non-student residential developments or other businesses in the same areas, taking advantage of the network infrastructure and personnel we have in place. Although we recognize that it presents new and different challenges, we believe the potential from this acquisition is excellent.

The acquisition of NTC was a major accomplishment and was achieved while we continued to handle the thousands of daily tasks necessary to run our business successfully. Another challenge that was faced, but not one related to growing the business, was dealing with the requirements resulting from the passage of the Sarbanes-Oxley Act, more specifically the requirements imposed under its section 404. This section dealt with the review, documentation, and improvement of internal control processes for all public companies. While the passage of the Act was an appropriate response to the various corporate scandals that occurred over the past years, it unfortunately imposed costs, disproportionately on small public companies like Shentel, which I believe greatly exceed the benefits. Our 2004 financial results include over $1.1 million of expenses to support compliance with these new regulations, which equates to over ten percent of our total net income. Additional costs, which cannot easily be quantified, were the amount of internal resources which were redirected to these compliance efforts as well as the distraction from the important task of operating a successful business. Unfortunately, while our total compliance and auditing costs are expected to decrease from 2004's high, we believe our ongoing costs in these areas will remain significantly higher than historical levels.

In addition to the Sarbanes-Oxley compliance costs, we experienced other large increases in our operating costs, including our human resource expenditures due to our growing employee base. These increases were expected, and necessary in order to properly manage and operate our expanding business. Continuing the managerial restructuring started in 2003, we added four vice-presidents during 2004 to specifically focus on our functional areas of technology, legal and marketing, and to directly manage our new competitive efforts. These individuals, along with our other additions to staff, have already made a positive contribution to our growth and provide a broader managerial base for the future. Without these additional resources and the outstanding contributions of our existing employees, we would not have been as successful with our Sarbanes-Oxley compliance and NTC acquisition efforts.

There are significant matters which will require our focus in the near future. With the changes taking place in the structure of our industry, particularly the decline of the long distance segment, the existing revenue and cost support mechanisms for the traditional local exchange industry are quickly becoming unsustainable in their present form. Historically, the universal service funds and federal access revenues received by the Company allowed us to keep local service rates affordable and enabled us to provide the quality of telephone services our customers demanded. It is expected that these alternative sources of revenue will decline in the coming years, requiring us to seek to significantly raise local service rates for the first time in many decades.

Another issue we will have to deal with is the announced merger between Sprint and Nextel and its effect on the Sprint affiliates. Unfortunately, this is probably an area where we will have the least amount of control over the ultimate outcome. Our PCS business, which we operate as an affiliate of Sprint, is the single largest source of revenue for our organization. We are committed to working with Sprint to reach mutually acceptable long-term arrangements to deal with any matters that the merger presents.

Despite all the obstacles and challenges the Company has faced, we believe you should be pleased with our overall financial performance. We were again able to increase profits, and we raised the cash dividend paid to shareholders by 10.3%. Additionally, the Company's stock price increased $4.32, ending the year at $29.95. More importantly, the long-term performance of your stock has been very good, as can be seen by the total return chart contained in the proxy statement. This chart shows a 13.9% compound growth rate in the value of your investment over the five year period ending December 31, 2004, a sharp contrast to the decline in value of the comparison indices.

While we have no assurances about how our stock will continue to perform, we believe that its future price performance will reflect our ability to profitably grow the Company over the long term. This will remain our primary objective, and one we believe will ultimately provide the best return for our shareholders.

For the Board of Directors,

Christopher E. French

Christopher E. French
President

In defining what makes Shentel the company it is today, we need look no further than to our customers. Throughout our history, Shentel has always put its customers first. That passion to connect with our customers remains strong to this day. Over the years, we have worked diligently to provide generations of customers with a wide range of the highest quality products and services. We will continue to give customers the options they desire and the service they rely on. We take this opportunity to highlight some of the connections that exemplify our relationships with our customers.

We need to keep in touch on the family farm

Collin Richman

Whether he is out chasing cattle or mowing hay on his Woodstock farm, Collin Richman keeps his Sprint PCS wireless telephone on his hip.

This fourth generation cattleman works on the farm, which has about 100 head of cattle, with his father, grandfather and uncle.

As traditional farm properties in and around Shenandoah County are bought and developed into residential areas, Richman remains firm about the importance of the family farm. "It's a family operation," he said. "There aren't a lot of us, so we need to keep in touch with each other."

The farm is more than 100 acres, so there are times when he is working out of sight of any homes or roads. "For safety purposes, it's good to have a cell phone," said the young farmer. "You never know when a storm might blow in or a tractor might break down - or when we might need to call a vet. Other times the emergency might not be as great, but the call is still important."

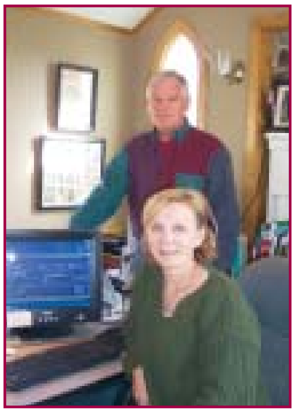
Answering questions in real time has made a tremendous impact on our business

Ginny Waite and Danny Sheetz live in a farmhouse outside of Woodstock where they've created a small office beside their home.

After years of city living, the husband and wife brought their business to Shenandoah County without skipping a beat. Ginny is co-founder and owner of First Billing Services LCC.

She is a consultant to INVACARE Corp. and serves as administrator of CARE Support Line Services which answers home medical equipment reimbursement questions for insurance providers nationwide.

Through a combination of business services provided by Shentel, their daily commute has been reduced to the few steps it takes to cross their driveway.



Ginny Waite and Danny Sheetz

"I am thrilled to have a service-oriented business located here in the heart of the Shenandoah Valley," said Ginny.

With the help of a fax line and high-speed Internet access, the couple assists insurance providers in all 50 states.

"Thousands of pages can come through the fax machine," Danny said. "Sometimes it works all day long."

"DSL has been a real plus," he added. "The regular dial-up line wasn't fast enough. With DSL we can answer questions in real time with information access at our fingertips. It has been a great help to the business."

"Many areas do not have DSL, so we feel very fortunate that Shentel does," Ginny said.

"And we have never had an interruption in our service due to Shentel," Danny added. "Shentel is always there for us."

Now that is service

Oby Mauck enjoys his Shentel digital cable TV service. He subscribes to HBO and Showtime for special entertainment options and movies. There are certain programs he watches at the same time every day.

As much as the programs, the Woodstock retiree appreciates the local service he gets from the people of Shentel.

"When the installer came to put the system in, he took the time to show me how it works," Oby said. "He was a nice young gentleman. He got everything all squared away in no time."

Oby Mauck

Once, after a power outage, Oby could not get his digital cable service to operate when the power came back on. "I tried to program it, but it just wouldn't work," he said. "I called, and the customer service representative who answered the phone said, 'Let me get a technician.' Eugene Miller took a look at it from up there. Eugene said 'Give me 15 minutes and I will call you back.' Well, 14 minutes later he called me back and it's worked perfect ever since," Oby recalled.

"Now *that* is service."

I am reassured that my family is protected when I'm on night duty

The Stickley family relies on Shentel to provide 24-hour security alarm monitoring for their home in Fishers Hill.

Ron and Kathy Stickley and their daughters, McKenzie and Delainey, live on a fairly well-traveled road in a rural setting. On three occasions prior to the installation of their Shentel security system, they experienced attempted break-ins.

All three incidents occurred when Ron was not home which made the Stickleys think perhaps someone had been paying attention to whether or not his truck was in the driveway.

"My wife and I had been talking about getting an alarm system and then after the third incident Kathy put her foot down. We called Shentel," Ron said.

Now when Ron gets in his truck to drive to the Strasburg Rescue Squad for night duty, he feels reassured that his family is protected while he is away.

"Having the system does give us a real sense of security."

Ron and Kathy Stickley and their daughters, McKenzie and Delainey

An independent lifestyle is important to me

Gyneth Pence

Gyneth Pence is a subscriber to Shentel's medical response system. This retiree's family urged her to sign up for the service after she fell in her home.

The system enables the customer to summon help without having to dial a telephone, by simply pressing an alarm worn on a bracelet or necklace. When Gyneth's alarm is activated, staff members in Shentel's Communication Center notify her son, Bill, who lives next door. His telephone number is listed as the first to call when there is a potential emergency.

Gyneth reports that she has not had a reason to use the alarm yet. "But just knowing it's there makes all the difference in the world. It gives everyone in my family a little peace of mind," said the 86-year-old who lives by herself in Woodstock and maintains a fairly independent lifestyle. "It gives me a sense of security."

Maintaining the proper environment inside the poultry house is critical

Todd Hensley can see his poultry house from his home on the hill less than a quarter of a mile away, but that doesn't mean he knows what is happening in the poultry house when he is not on the farm.

"I can see if the lights are on, but I can't tell if the temperature has dropped or if there has been an equipment failure of some kind," said the Mount Jackson farmer who grows chickens for Tyson Foods.

Shentel's alarm system in his poultry house protects the thousands of birds housed inside, dependent on the artificial light and the warm temperatures to grow properly. "There are times when the power is on at my house, but off down here," he said. "I need to know immediately if there is a problem."

Todd Hensley

"It's a very low maintenance monitoring system that requires very little upkeep," Todd said. "We've had maybe two problems in nine years and Shentel has always been very helpful," he said, adding that the alarm system is not just a matter of convenience. "It is a necessity," he said. "It could turn into a nightmare situation very quickly."

Todd has his home telephone number, wireless phone and pager numbers listed at Shentel's communication center, as well as the numbers of several family members just in case he can't be reached immediately. "I wouldn't want to be without it," he said of the system.

Communication in such a large facility is a necessity

From the PBX system that handles incoming calls to DSL Internet lines to Sprint PCS wireless phones, Shentel provides a variety of services that help Perry Judd's Incorporated get the job done.

PBX system at Judd's

Judd's has become one of Shenandoah County's largest employers since beginning operations with 30 employees more than 30 years ago. The Strasburg Division prints over 160 titles of magazines and catalogs for some of the most influential publishers in the nation.

Currently, more than 800 people work various shifts at the plant which operates 24 hours a day, seven days a week. With that many employees in such a large facility, internal communication is a necessity and that's where Shentel plays a key role. The Overhead Paging System, installed and supported by Shentel, gives crewleaders and key personnel the ability to make announcements by way of a paging unit and a network of overhead speakers.

"We have a good working relationship with Shentel," said Suzanne Purdum, Help Desk Specialist at Perry Judd's. "We give them the information when we have a problem and they get back to us right away."

"It took a lot of learning on my part when the system wiring was moved to our department," Suzanne said. "The people at Shentel did a great job of explaining it all to me."

The fact that Shentel supports its products with attentive customer service long after installation is critical to Judd's. "I communicate any problem I might have to Shentel and they straighten things out," Suzanne said. "That's a good feeling."

Shentel makes it work

When the Shenandoah County Public School System wanted to establish a video and audio link between the three county high schools, they turned to Shentel.

"Shentel helped us establish this audio and video link between the three high schools," said Instruction Technology Coordinator, Tim Taylor. "Shentel is a major piece of the puzzle for us."

The interactive classroom, that Shentel provided, has two banks of monitors suspended from the ceiling in the front and back of the room. The instructor can see students at the other schools and the students in the other schools can see the instructor. Live audio permits the students not on location to participate as if they were in the same room with the teacher.

Interactive classroom at Central

"It works well," Taylor said. "Students have the opportunity to take specialized classes and it is an economically sound option."

Shentel also took the lead in setting up the school system's Wide Area Network (WAN) which "allows connectivity between all schools in the county," Taylor said. The WAN makes a big difference in a county as large as Shenandoah. "I can sit in my office and access any servers in the school instead of having to drive to a site," he said. "That is remarkable."

When Taylor goes to statewide educational technology seminars, he sees that Shenandoah County is able to hold its own despite being in a rural part of Virginia. "We're doing some good things and Shentel makes it work."

NTC keeps students connected with family, friends and professors

Austin Grant

James Madison University students Ashley Higgins and Austin Grant use NTC services every day to stay connected to the global community.

"I use the Internet for school and for talking to friends," said Austin, a 20-year-old sophomore biotechnology major. "I go to whatever websites teachers use for courses."

Austin lives in Stonegate, a student housing development which is already equipped with NTC service. "NTC provides phone, Internet and cable," Austin said. "It is part of the regular rent."

Ashley Higgins, a third-year JMU student from Stuarts Draft, is a three-year customer of NTC who also lives at Stonegate in Harrisonburg. "I haven't had any problems with the service," the speech pathology major said. "I have Internet, phone and cable service."

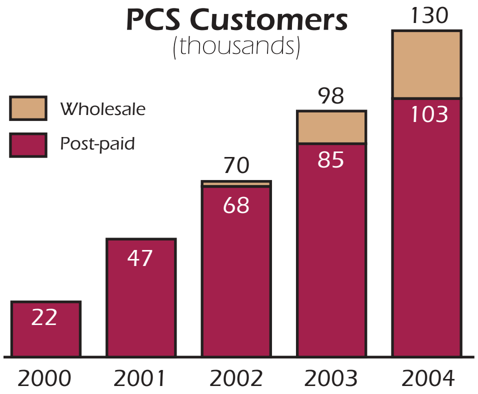
In addition to keeping up with friends through emails and instant messaging, Ashley also does most of her banking online. She uses Blackboard, a James Madison University Intranet website that helps professors and students communicate outside of the classroom.

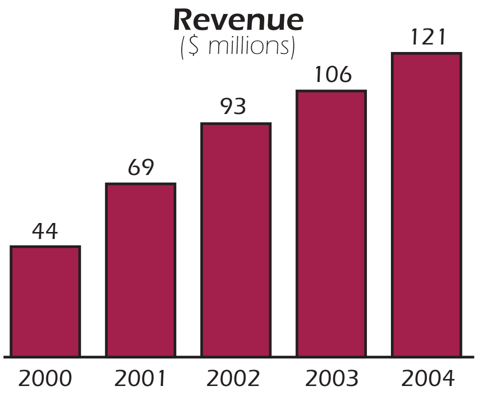
"I can check my schedule and get my class assignments," she explained. "NTC provides the Internet access that enables me to do that."

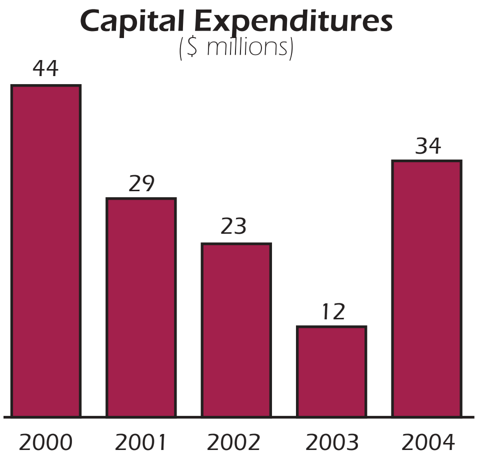
"The cable service is great!" said Austin. "We have the extra package that has all the premium channels, HBO and special programming."

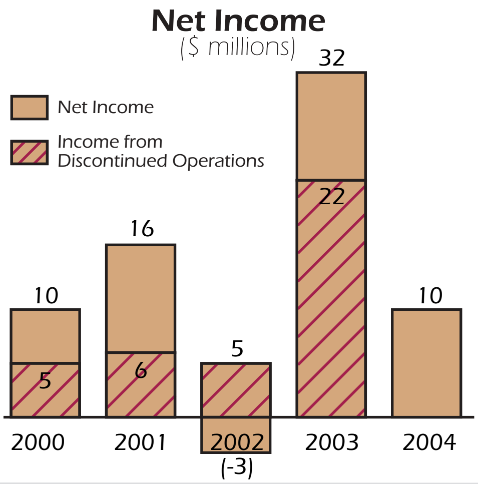
Ashley Higgins

(Front, left to right): Laurence F. Paxton - VP Information Technology; L. Marlene Williams - Controller; David K. MacDonald - VP Operations; Christopher E. French - President; Alan R. Prusak - VP Technology; Lori W. Warren - Director of Regulatory Affairs; and David E. Ferguson - VP Customer Services.
(Back, left to right): Chris S. Kyle - Director of Planning; William L. Pirtle - VP Sales; Daniel R. Detamore-Hunsberger - Director of Compliance; Kenneth R. Joyner - Director of Human Resources; Earle A. MacKenzie - Executive VP; Nancy A. Stadler - VP Marketing; Thomas A. Whitaker - Director of Converged Services; Jonathan R. Spencer - General Counsel; and Jeffrey R. Pompeo - VP Converged Services.

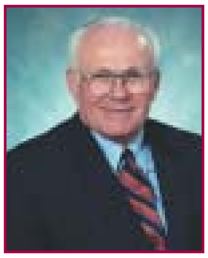








Douglas C. Arthur
Attorney-at-Law
Arthur and Allamong



Noel M. Borden
President, Retired
H.L. Borden Lumber Company
(a retail building materials firm)

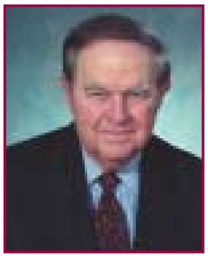
Ken L. Burch
Farmer

Christopher E. French
President
Shenandoah Telecommunications Company and its subsidiaries

Grover M. Holler, Jr.
President
Valley View, Inc.
(a real estate developer)

Dale S. Lam
Chief Financial Officer
Comsonics, Inc.
(cable television equipment manufacture and repair)

Harold Morrison, Jr.
Chairman of the Board
Woodstock Garage, Inc.
(an auto sales and repair firm)



Zane Neff
Manager, Retired
Hugh Saum Company, Inc.
(a hardware and furniture store)

James E. Zerkel II
Vice President
James E. Zerkel, Inc.
(a hardware firm)

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollar figures in thousands, except per share data)

	2004	2003	2002	2001	2000
Operating Revenues	**$ 120,974**	$ 105,617	$ 92,720	$ 68,722	$ 44,426
Operating Expenses	**101,349**	86,989	83,382	62,298	39,048
Interest Expense	**3,129**	3,510	4,195	4,127	2,936
Income Taxes (Benefit)	**6,078**	5,304	(2,109)	5,811	2,975
Income (Loss) from Continuing Operations	**$ 10,243**	$ 9,761	$ (2,893)	$ 9,694	$ 5,091
Discontinued Operations, net of tax	**-**	22,389	7,412	6,678	4,764
Cumulative effect of a change in accounting, net of tax	**-**	(76)	-	-	-
Net Income	**10,243**	32,074	4,519	16,372	9,855
Total Assets	**211,247**	185,364	164,004	167,372	152,585
Long-term Obligations	**52,291**	43,346	52,043	56,436	55,487
Shareholder Information					
Number of Shareholders	**4,116**	3,930	3,954	3,752	3,726
Shares Outstanding	**7,629,810**	7,592,768	7,551,818	7,530,956	7,518,462
Income (Loss) per share from Continuing Operations-diluted	**$ 1.34**	$ 1.28	$ (0.38)	$ 1.28	$ 0.68
Income per share from Discontinued Operations-diluted	**-**	2.94	0.98	0.88	0.63
Loss per share from cumulative effect of a change in accounting	**-**	(0.01)	-	-	-
Net Income per share-diluted	**1.34**	4.22	0.60	2.17	1.31
Cash dividends per share	**$ 0.43**	$ 0.39	$ 0.37	$ 0.35	$ 0.33

In keeping with Shentel's tradition of providing cutting-edge products and outstanding service, the Company took on a new venture in 2004. Shentel purchased the remaining 83.9% of NTC Communications, L.L.C. (NTC), which it did not already own, for $10 million and the assumption of NTC's existing debt.

This acquisition is the cornerstone of Shentel's strategy to expand its geographic footprint and customer base and to become a leading provider of voice, video and Internet services to the Multi-Tenant Unit (MTU) housing market.

James Madison University in Harrisonburg

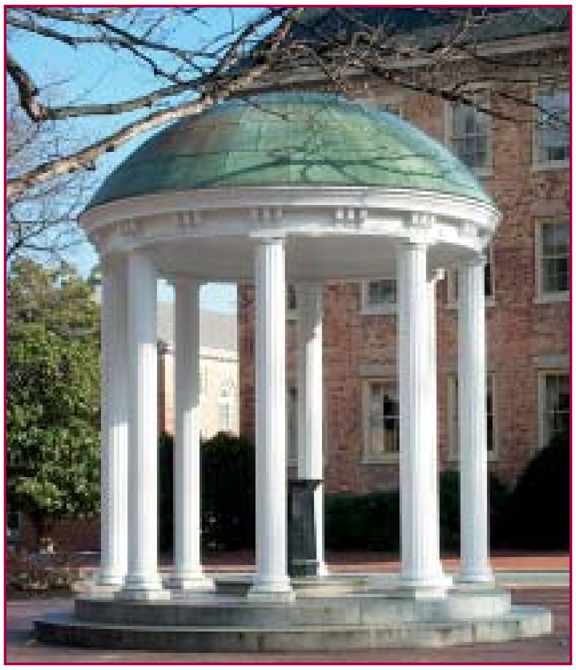
Headquartered in Harrisonburg, Virginia, NTC is a leading provider of "bundled" or "converged" telephone, television and high speed Internet services sold primarily to off-campus college student apartment complexes. Established in 1996 to serve student apartments around the campus of James Madison University in Harrisonburg, NTC has grown into 16 markets in seven Southeastern states.

In addition to James Madison University students, customers with NTC service attend universities and colleges including:

University of Georgia
University of Mississippi
Virginia Tech
University of North Carolina, Charlotte
University of North Carolina, Chapel Hill
North Carolina State University
University of Virginia
Longwood University
East Carolina University
University of Florida
North Carolina A&T
University of Central Florida
Florida State University
Towson University

The company has contracted with more than 107 MTU properties and has over 38,000 bedrooms wired for service. As of December 2004, the company has approximately 22,300 individual customers.

Although primarily focused on the student housing market, NTC also has customers in traditional residential apartment buildings, retirement homes, and condominiums. The NTC business model is to negotiate long term contracts with MTU property owners to be the exclusive provider of bundled



University of North Carolina at Chapel Hill services to the building's tenants. Depending on the desires of the property owner, some contracts call for NTC to sell services in a "bulk" manner to the property owner who then promotes the services to prospective tenants as "included in the rent," while other contracts call for NTC to market services directly to each tenant.

In exchange for exclusivity, NTC will build fiber or other high-bandwidth facilities on the owner's property to deliver services into all bedrooms within each apartment. By wiring and delivering Internet, phone, and TV service to wall jacks in each bedroom, NTC is able to eliminate the need to deploy costly and difficult-to-manage modems, routers and TV set-top boxes. An automatic provisioning system allows students to register for Internet services online when they arrive for class in the fall or any time during the year.

Because of our "student centric" focus, NTC attempts to tailor its services to the unique needs of the off-campus student. For example, NTC will typically supplement traditional Internet access with a separate data connection that goes directly into the local university's computing system, which in effect, extends the "on-campus" computing environment to "off-campus" users.

College students are often some of the most aggressive Internet users in terms of file sharing, bandwidth consumption, and virus susceptibility. NTC utilizes advanced IP traffic shaping technology to minimize the impact that computer viruses, worms and peer-to-peer traffic create. Property managers view the NTC service as a competitive advantage, which makes their apartments more desirable to students and therefore more likely to achieve full occupancy.

Going forward, Shentel plans to continue to aggressively pursue the student housing MTU market leveraging the NTC brand in the existing seven state area, while targeting non-student, "traditional" MTU properties using the Shentel brand. We will attempt to achieve economies of scale by increasing our customer base in existing markets to take advantage of our embedded infrastructure and deployed field personnel, while at the same time using our relationships with large property management firms and MTU development companies to expand the business.

University of Georgia

	Three Month Period Ended				
	Dec. 31 2004	Sept. 30 2004	Jun. 30 2004	Mar. 31 2004	Dec. 31 2003
Telephone Access Lines	24,691	24,818	24,867	24,901	24,877
CATV Subscribers	8,631	8,684	8,709	8,701	8,696
Internet Subscribers dial-up	15,051	15,817	16,422	17,063	17,420
DSL Subscribers	2,646	2,152	1,856	1,637	1,298
Retail PCS Subscribers	102,613	98,053	94,475	89,632	85,139
Wholesale PCS Users (1)	27,337	19,603	18,059	16,349	12,858
Paging Subscribers	1,595	1,684	1,782	1,862	1,989
Long Distance Subscribers	9,918	9,719	9,559	9,542	9,526
Fiber Route Miles	557	554	554	552	552
Total Fiber Miles	28,830	28,771	28,770	28,743	28,740
Long Distance Calls (000) (2)	6,265	6,117	6,228	5,821	5,851
Total Switched Access Minutes (000)	66,449	63,867	60,874	58,099	55,932
Originating Switched Access MOU (000)	18,870	18,596	18,280	18,252	17,829
Employees (full time equivalents)	374	303	284	272	268
CDMA Base Stations (sites)	271	261	257	257	253
Towers (100 foot and over)	80	78	78	78	77
Towers (under 100 foot)	11	10	10	11	11
NTC properties served (3)	107	-	-	-	-
PCS Market POPS (000) (4)	2,048	2,048	2,048	2,048	2,048
PCS Covered POPS (000) (4)	1,629	1,611	1,610	1,585	1,581
PCS Ave. Monthly Churn % (5)	2.2%	2.2%	1.9%	2.2%	2.00%

PLANT FACILITY STATISTICS At Dec. 31, 2004 (6)	Telephone	CATV
Route Miles	2,177	558
Customers Per Route Mile	11	15
Miles of Distribution Wire	601	166
Telephone Poles	7,662	36
Miles of Aerial Copper Cable	330	163
Miles of Buried Copper Cable	1,340	360
Miles of Underground Copper Cable	39	2
Fiber Optic Cable-Fiber Miles	262	-
Inter-toll Circuits to Interexchange Carriers	1,790	-
Special Service Circuits to Interexchange Carriers	345	-

(1) - Wholesale PCS Users are private label subscribers with numbers homed in the Company's wireless network service area.
(2) - Originated by customers of the Company's Telephone subsidiary.
(3) - NTC properties served refers to multi-unit housing facilities with NTC services provided.
(4) - POPS refers to the estimated population of a given geographic area and is based on information purchased by Sprint from Geographic Information Services. Market POPS are those within a market area which the Company is authorized to serve under its Sprint agreements, and Covered POPS are those covered by the network's service area.
(5) - PCS Ave. Monthly Churn is the average of three monthly calculations of deactivations (excluding returns less than 30 days) divided by beginning of month subscribers.
(6) - Excludes NTC

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES

2004 FINANCIAL STATEMENTS

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a -15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of management, including our principal executive officer and principal financial officer, an evaluation of the effectiveness was conducted of the internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In conducting the evaluation of the effectiveness of the internal control over financial reporting, the Company did not include the internal controls of NTC Communications, L.L.C., which the Company acquired on November 30, 2004. The acquired entity constituted approximately 12% of the total consolidated assets of the Company as of December 31, 2004 and accounted for less than 1% of total consolidated revenues and total consolidated net income of the Company for the year then ended. Refer to Note 14 to the consolidated financial statements for a further discussion of the acquisition and its impact on the Company's consolidated financial statements.

Based on the evaluation under the framework in Internal Control — Integrated Framework, management concluded that the internal control over financial reporting was effective as of December 31, 2004.

Management's assessment of the effectiveness of the internal control over financial reporting as of December 31, 2004 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

KPMG

The Board of Directors and Shareholders
Shenandoah Telecommunications Company:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Shenandoah Telecommunications Company and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In conducting their evaluation of the effectiveness of internal control over financial reporting, the Company did not include the internal controls of NTC Communications, L.L.C. (NTC), which the Company acquired on November 30, 2004. The acquired entity constituted approximately 12% of the total consolidated assets of the Company as of December 31, 2004 and less than 1% of total consolidated revenues and total consolidated net income of the Company for the year then ended. Refer to note 14 of the consolidated financial statements for a further discussion of the acquisition and its impact on the Company's consolidated financial statements. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of NTC.

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, 2004, 2003, and 2002, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended, and our report dated March 21, 2005, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Richmond, Virginia
March 21, 2005

KPMG

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, 2004, 2003, and 2002, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Telecommunications Company and subsidiaries as of December 31, 2004, 2003 and 2002, and the results of their operations and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for asset retirement obligations in 2003.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 21, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LLP

Richmond, Virginia
March 21, 2005

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2004, 2003 and 2002 *(in thousands)*

ASSETS (Note 5)	**2004**	2003	2002
Current Assets			
Cash and cash equivalents	**$ 14,172**	$ 28,696	$ 2,209
Accounts receivable, net (Notes 1 and 8)	**9,019**	6,488	7,536
Escrow receivable (Note 2)	**5,000**	-	-
Income taxes receivable	**2,341**	1,526	12
Materials and supplies	**2,108**	2,062	1,787
Prepaid expenses and other	**1,877**	1,669	2,205
Deferred income taxes (Note 6)	**-**	522	1,197
Assets held for sale (Note 2)	**-**	-	5,548
Total current assets	**$ 34,517**	$ 40,963	$ 20,494
Securities and Investments (Notes 3 and 8)			
Available-for-sale securities	**$ 232**	$ 199	$ 151
Other investments	**7,018**	7,268	7,272
Total securities and investments	**$ 7,250**	$ 7,467	$ 7,423
Property, Plant and Equipment			
Plant in service (Note 4)	**$ 227,004**	$ 197,431	$ 184,069
Plant under construction	**3,319**	2,261	5,209
	$ 230,323	$ 199,692	$ 189,278
Less accumulated depreciation	**74,071**	72,006	57,126
Net property, plant and equipment	**$ 156,252**	$ 127,686	$ 132,152
Other Assets			
Intangible assets, net (Note 1)	**$ 3,401**	$ -	$ -
Cost in excess of net assets of business acquired (Note 1)	**8,863**	3,313	3,313
Deferred charges and other assets, net (Notes 1 and 2)	**964**	5,935	622
Net other assets	**$ 13,228**	$ 9,248	$ 3,935
Total assets	**$ 211,247**	$ 185,364	$ 164,004

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2004, 2003 and 2002 *(in thousands)*

LIABILITIES AND SHAREHOLDERS' EQUITY	**2004**	2003	2002
Current Liabilities			
Current maturities of long-term debt (Note 5)	**$ 4,372**	$ 4,230	$ 4,482
Revolving line of credit (Note 5)	**-**	-	3,503
Accounts payable (Note 7)	**6,003**	4,729	5,003
Advanced billings and customer deposits	**3,566**	3,326	3,538
Accrued compensation	**1,785**	1,015	1,268
Current deferred income taxes	**1,453**	-	-
Accrued liabilities and other	**4,667**	2,496	1,564
Current liabilities held for sale (Note 2)	**-**	-	542
Total current liabilities	**$ 21,846**	$ 15,796	$ 19,900
Long-term debt, less current maturities (Note 5)	**$ 47,919**	$ 39,116	$ 47,561
Other Liabilities			
Deferred income taxes (Note 6)	**$ 24,826**	$ 20,819	$ 15,859
Pension and other (Note 9)	**2,859**	3,425	2,441
Total other liabilities	**$ 27,685**	$ 24,244	$ 18,300
Minority Interests in discontinued operations (Note 2)	**$ -**	$ -	$ 1,666
Commitments and Contingencies (Notes 2,3,5,6,7,9,12, and 13)			
Shareholders' Equity (Notes 5 and 10)			
Common stock, no par value, authorized 16,000 shares; issued and outstanding 7,630 shares in 2004, 7,593 shares in 2003, and 7,552 shares in 2002	**$ 6,319**	$ 5,733	$ 5,246
Retained earnings	**107,413**	100,449	71,335
Accumulated other comprehensive income (loss) (Note 3)	**65**	26	(4)
Total shareholders' equity	**$ 113,797**	$ 106,208	$ 76,577
Total liabilities and shareholders' equity	**$ 211,247**	$ 185,364	$ 164,004

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2004, 2003 and 2002 *(in thousands, except per share amounts)*

	2004	2003	2002
Operating revenues:			
Wireless (Notes 7 and 8)	**$ 83,238**	$ 69,629	$ 57,613
Wireline	**30,684**	29,022	28,755
Other	**7,052**	6,966	6,352
Total operating revenues	**$ 120,974**	$ 105,617	$ 92,720
Operating expenses:			
Cost of goods and services, exclusive of depreciation and amortization shown separately below (Note 7)	**$ 15,793**	$ 13,386	$ 11,687
Network operating costs, exclusive of depreciation amortization shown separately below (Note 8)	**36,220**	31,666	31,283
Selling, general and administrative, exclusive of depreciation and amortization shown separately below (Note 7)	**30,316**	25,306	25,930
Depreciation and amortization	**19,020**	16,631	14,482
Total operating expenses	**$ 101,349**	$ 86,989	$ 83,382
Operating income	**$ 19,625**	$ 18,628	$ 9,338
Other income (expense):			
Interest expense	**$ (3,129)**	$ (3,510)	$ (4,195)
Net (loss) on investments (Note 3)	**(206)**	(443)	(10,004)
Non-operating income (expense), net	**31**	390	(141)
	$ (3,304)	$ (3,563)	$ (14,340)
Income (loss) before income taxes, cumulative effect of a change in accounting and discontinued operations	**$ 16,321**	$ 15,065	$ (5,002)
Income tax provision (benefit) (Note 6)	**6,078**	5,304	(2,109)
Income (loss) from continuing operations	**$ 10,243**	$ 9,761	$ (2,893)
Discontinued operations, net of income taxes (Note 2)	**-**	22,389	7,412
Cumulative effect of a change in accounting, net of income taxes (Note 1)	**-**	(76)	-
Net income	**$ 10,243**	$ 32,074	$ 4,519
Income (loss) per share:			
Basic Net income (loss) per share:			
Continuing operations	**$ 1.35**	$ 1.29	$ (0.38)
Discontinued operations	**-**	2.95	0.98
Cumulative effect of a change in accounting, net of income taxes	**-**	(0.01)	-
	$ 1.35	$ 4.23	$ 0.60
Weighted average shares outstanding, basic	**7,611**	7,577	7,542
Diluted Net income (loss) per share:			
Continuing operations	**$ 1.34**	$ 1.28	$ (0.38)
Discontinued operations	**-**	2.94	0.98
Cumulative effect of a change in accounting, net	**-**	(0.01)	-
	$ 1.34	$ 4.22	$ 0.60
Weighted average shares, diluted	**7,657**	7,608	7,542

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
AND COMPREHENSIVE INCOME
Years Ended December 31, 2004, 2003 and 2002 *(in thousands, except per share amounts)*

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, January 1, 2002	7,530	$ 4,950	$ 69,610	$ 42	$ 74,602
Comprehensive income:					
Net income	-	-	4,519	-	4,519
Net unrealized change in securities available-for-sale, net of tax of $29	-	-	-	(46)	(46)
Total comprehensive income					$ 4,473
Dividends declared ($0.37 per share)	-	-	(2,794)	-	(2,794)
Common stock issued through exercise of incentive stock options and stock grants	22	296	-	-	296
Balance, December 31, 2002	7,552	$ 5,246	$ 71,335	$ (4)	$ 76,577
Comprehensive income:					
Net income	-	-	32,074	-	32,074
Net unrealized change in securities available-for-sale, net of tax of $(18)	-	-	-	30	30
Total comprehensive income					$ 32,104
Dividends declared ($0.39 per share)	-	-	(2,960)	-	(2,960)
Common stock issued through exercise of incentive stock options	41	487	-	-	487
Balance, December 31, 2003	7,593	$ 5,733	$ 100,449	$ 26	$ 106,208
Comprehensive income					
Net income	**-**	**-**	**10,243**	**-**	**10,243**
Net unrealized change in securities available-for-sale, net of tax of $(21)	**-**	**-**	**-**	**39**	**39**
Total comprehensive income					**$ 10,282**
Dividends declared ($0.43 per share) (3,279)	**-**	-	**(3,279)**	**-**	**(3,279)**
Common stock issued through exercise of incentive stock options	**37**	**586**	-	-	**586**
Balance, December 31, 2004	**7,630**	**$ 6,319**	**$ 107,413**	**$ 65**	**$ 113,797**

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004, 2003 and 2002 *(in thousands)*

	2004	2003	2002
Cash Flows from Operating Activities			
Income (loss) from continuing operations	**$ 10,243**	$ 9,761	$ (2,893)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**18,976**	16,612	14,476
Amortization	**44**	19	6
Deferred income taxes	**5,960**	5,664	289
Loss on disposal of assets	**1,251**	348	739
Net (gain) loss on disposal of investments	**(144)**	3	9,034
Net loss from patronage and equity investments	**33**	52	393
Other	**(777)**	399	443
Changes in assets and liabilities, exclusive of acquired business:			
(Increase) decrease in:			
Accounts receivable	**(2,140)**	1,069	(1,797)
Materials and supplies	**75**	(275)	1,147
Increase (decrease) in:			
Accounts payable	**(172)**	(275)	1,067
Other prepaids, deferrals and accruals	**1,067**	(2,778)	120
Net cash provided by operating activities	**$ 34,416**	$ 30,599	$ 23,024
Cash Flows From Investing Activities			
Purchase and construction of plant and equipment, net of retirements	**$ (34,095)**	$ (12,476)	$ (22,612)
Acquisition of business, net of cash acquired	**(9,153)**	-	-
Purchase of investment securities	**(736)**	(796)	(1,775)
Proceeds from sale of equipment	**39**	109	77
Proceeds from investment activities (Note 3)	**416**	714	3,301
Net cash used in investing activities	**$ (43,529)**	$ (12,449)	$ (21,009)

(Continued)

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2004, 2003 and 2002 *(in thousands)*

	2004	2003	2002
Cash Flows From Financing Activities			
Proceeds from issuance of long-term debt	**$ 13,177**	$ -	$ -
Principal payments on long-term debt	**(15,895)**	(8,697)	(4,393)
Net proceeds from (payments of) lines of credit	-	(3,503)	(2,697)
Dividends paid	**(3,279)**	(2,960)	(2,794)
Proceeds from exercise of incentive stock options	**586**	487	296
Net cash (used in) financing activities	**$ (5,411)**	$ (14,673)	$ (9,588)
Net cash provided by (used in) continuing operations	**$ (14,524)**	$ 3,477	$ (7,573)
Net cash provided by discontinued operations	-	23,010	7,745
Net increase (decrease) in cash and cash equivalents	**$ (14,524)**	$ 26,487	$ 172
Cash and cash equivalents:			
Beginning	**28,696**	2,209	2,037
Ending	**$ 14,172**	$ 28,696	$ 2,209
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest, net of capitalized interest of $30 in 2004; $26 in 2003, and $93 in 2002	**$ 3,112**	$ 3,577	$ 4,274
Income taxes	**$ 935**	$ 15,569	$ 1,045

Non-cash transactions:
During 2002, the Company issued 4,654 shares of Company stock to employees valued at $0.1 million in recognition of the Company's 100th year anniversary.

See accompanying notes to consolidated financial statements.

SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES
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 services ("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. Following its acquisition of NTC Communications LLC ("NTC") in November 2004 (Note 14), the Company provides local and long distance voice, cable television, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities primarily located near colleges and universities in the Mid-Atlantic and southeastern United States. 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 Communications Company and its related parties (collectively, "Sprint"), the Company is the exclusive PCS Affiliate of Sprint 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 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 and other entities where effective control is exercised. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates: Management of the Company has made a number of estimates and assumptions 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 were $14.1 million, $27.9 million, and $2.2 million at December 31, 2004, 2003 and 2002, 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 by industry and national 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. The Company's allowance for uncollectable receivables related to continuing operations was $376 thousand, $477 thousand and $914 thousand at December 31, 2004, 2003 and 2002, respectively.

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

Available-for-Sale Securities: Debt and equity securities classified as available-for-sale consist of securities which the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including changes in market conditions, liquidity needs and similar crite-

Note 1. Summary of Significant Accounting Policies (Continued)

ria. Available-for-sale securities are recorded at fair value as determined by quoted market prices. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses are determined on a specific identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

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

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

Materials and supplies: New and reusable materials are carried in inventory at the lower of average cost or market value. Inventory held for sale, such as telephones and accessories, are carried at the lower of average cost or market value. Non-reusable material is carried at estimated salvage value.

Property, plant and equipment: Property, plant and equipment is stated at cost. The Company capitalizes all costs associated with the purchase, deployment and installation of property, plant and equipment, including interest on major capital projects during the period of their construction. Expenditures, including those on leased assets, which extend the useful life or increase its utility, are capitalized. Maintenance expense is recognized when repairs are performed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization is not included in the income statement line items "Costs of goods and services," "Network operating costs" or "Selling, general and administrative." Depreciation expense for continuing operations was approximately 8.9%, 8.7% and 8.6% of average depreciable assets for the years ended December 31, 2004, 2003 and 2002, respectively. Depreciation lives are assigned to assets based on their estimated useful lives in conjunction with industry and regulatory guidelines, where applicable. Such lives, while similar, may exceed the lives that would have been used if the Company did not operate certain segments of the business in a regulated environment. The Company takes technology changes into consideration as it assigns the estimated useful lives, and monitors the remaining useful lives of asset groups to reasonably match the remaining economic life with the useful life and makes adjustments when necessary. During the year ended December 31, 2004, the estimated useful lives of certain asset classes were decreased to reflect the remaining economic useful lives of their assets. As a result, the Company recorded a $0.5 million charge for the change in estimated useful lives.

In June 2001, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset, which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company adopted SFAS No. 143 on January 1, 2003. The impact of the adoption of SFAS No. 143 was the recording of a capitalized asset retirement obligation of $158 thousand, the related accumulated depreciation of $32 thousand, the present value of the future removal obligation of $249 thousand, and the cumulative effect of the accounting change of $76 thousand after taxes recorded on the consolidated statements of income.

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 was estimated based on the size of the tower. The Company's cost to remove the towers is amortized over the life of the tower. The pro forma liability on January 1, 2002 would have been $236 thousand, and was $249 thousand on December 31, 2002. On December 31, 2004 and 2003, the liability was $334 thousand and

Note 1. Summary of Significant Accounting Policies (Continued)

$300 thousand, respectively. Accretion and depreciation expense for the years ended December 31, 2004 and 2003 was approximately $20 and $8 thousand before taxes, respectively.

Cost in excess of net assets of business acquired and intangible assets: In June 2001, FASB issued SFAS No.142, "Goodwill and Other Intangible Assets," which eliminates amortization of goodwill and intangible assets that have indefinite useful lives and requires annual tests of impairment of those assets. SFAS No. 142 also provides specific guidance about how to determine and measure goodwill and intangible asset impairments, and requires additional disclosures of information about goodwill and other intangible assets. The provisions of SFAS No. 142 were required to be applied starting with fiscal years beginning after December 15, 2001 and applied to all goodwill and other intangible assets recognized in financial statements at that date. Goodwill and intangible assets are assessed annually for impairment and in interim periods if certain events occur indicating that the carrying value may be impaired. No impairment of goodwill or intangible assets was required to be recorded in the year ended December 31, 2004, 2003 or 2002. In the year ended December 31, 2004, $5.6 million of goodwill was recorded related to the NTC acquisition (Note 14). Goodwill is allocated to the reporting segment responsible for the acquisition that gave rise to the goodwill. The following presents the goodwill balance allocated by segment and changes in the balances for the year ended December 31, 2004:

	CATV Segment	Converged Services Segment	Total
Balance as of December 31, 2003	$ 3,313	$ -	$ 3,313
Acquisition (Note 14)	-	5,550	5,550
Balance as of December 31, 2004	$ 3,313	$ 5,550	$ 8,863

There were no changes in the goodwill balance for the years ended December 31, 2003 and 2002.

Acquired intangible assets consist of the following at December 31, 2004:

	Useful Life (Years)	Gross Carrying Amount	Accumulated Amortization	Net
Business contracts	13.7	$ 2,433	$ (15)	$ 2,418
Non-compete agreement	4	835	(17)	818
Trade name	5	168	(3)	165
		$ 3,436	$ (35)	$ 3,401

There were no acquired intangible assets at December 31, 2003 and 2002.

Amortization expense related to intangible assets was $35 thousand for the year ended December 31, 2004 and there was no intangible asset amortization expense for the years ended December 31, 2003 and 2002.
Aggregate amortization expense for intangible assets for the periods shown will be as follows:

December 31,	Amount *(in thousands)*
2005	$ 422
2006	422
2007	422
2008	404
2009	209

Retirement plans: The Company maintains a noncontributory defined benefit plan covering substantially all employees. Pension benefits are based primarily on the employee's compensation and years of service. The Company's policy is to fund the maximum allowable contribution calculated under federal income tax regulations. During the year ended December 31, 2003, the Company adopted a Supplemental Executive Retirement Plan for selected employees. This is an unfunded plan and is maintained

Note 1. Summary of Significant Accounting Policies (Continued)

primarily for the purpose of providing additional retirement benefits for a select group of management employees. The Company also maintains a defined contribution plan under which substantially all employees may defer a portion of their earnings on a pre-tax basis, up to the allowable federal maximum. The Company may make matching and discretionary contributions to this plan. Neither of the funded retirement plans holds Company stock in the plan's portfolio.

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

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 equipment sales, revenue is recognized when the sales transaction is complete. For services, revenue is recognized as the services are performed.

Beginning in the year ended December 31, 2000, coinciding with the inception of activation fees in its PCS segment, nonrefundable PCS activation fees and the portion of the activation costs deemed to be direct costs of acquiring new customers (primarily activation costs and credit analysis costs) were deferred and recognized ratably over the estimated life of the customer relationship of 30 months in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 101. Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a bundled transaction, and the consideration will be measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 has required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition would need to be made in the future. The adoption of EITF 00-21 has resulted in substantially all of the activation fee revenue generated from Company-owned retail stores and associated direct costs being recognized at the time the related wireless handset is sold and is classified as equipment revenue and cost of goods and services, respectively. Upon adoption of EITF 00-21, previously deferred revenues and costs will continue to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. Revenue and costs for activations at other retail locations will continue to be deferred and amortized over their estimated lives as prescribed by SAB 101, as amended by SAB 104. The adoption of EITF 00 21 had the effect of increasing equipment revenue by $68 thousand and increasing costs of activation by $23 thousand in the year ended December 31, 2003, which otherwise would have been deferred and amortized. The amounts of deferred revenue under SAB101, as amended by SAB 104, at December 31, 2004, 2003 and 2002 were $0.8 million, $1.2 million and $1.5 million, respectively. The deferred costs at December 31, 2004, 2003 and 2002 were $0.3 million, $0.4 million and $0.7 million, respectively.

Prior to January 1, 2004, with the exception of certain roaming and equipment sales revenues, the Company recorded its PCS revenues based on the revenues collected by Sprint, net of the 8% fee retained by Sprint. After the adoption of the Amended Agreement, effective January 1, 2004, the Company records its PCS revenues, with the exception of certain roaming and equipment sales revenues, based on the PCS revenues billed, as opposed to collected, by Sprint, net of the 8% fee retained by Sprint. The cash settlements received from Sprint are net of the 8% fee, customer credits, account write offs and other billing adjustments. The Amended Agreement only changes the timing of the Company's receipt of the cash settlements from Sprint and does not change the Company's recording of revenue.

Stock Option Plan: To account for its stock options granted under the Company Stock Incentive Plan (the "Plan"), the Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25,

Note 1. Summary of Significant Accounting Policies (Continued)

"Accounting for Stock Issued to Employees," and related interpretations including FASB Interpretation No. 44, "Accounting for Certain Transactions involving Stock Compensation," an interpretation of APB Opinion No. 25 issued in March 2000. Under this method, compensation expense is recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation," established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosure—an amendment of FASB Statement No. 123."

Grants of options under the Plan are accounted for following the APB Opinion No. 25 and related interpretations. Accordingly, no compensation expense has been recognized under the Plan for years prior to the grants in the year ended December 31, 2004. During the year ended December 31, 2004, the Company issued tandem awards of stock options and stock appreciation rights. The awards have been accounted for as stock appreciation rights and therefore the Company recorded a liability for the related expense since it is assumed the awards will be settled in cash. As a result of the tandem awards, the Company recognized compensation expense for the vested portion of the awards of $162 thousand for the year ended December 31, 2004. Had compensation expense been recorded for the options based on fair values of the awards at the grant date (the method prescribed in SFAS No. 123), reported net income and earnings per share would have been reduced to the pro forma amounts shown in the following table for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Net Income	*(in thousands, except per share amounts)*		
As reported	**$ 10,243**	$ 32,074	$ 4,519
Add: Recorded stock-based compensation expense included in reported net income, net of related income tax effects.	**-**	-	-
Deduct: Pro forma compensation expense, net of related income tax effects.	**143**	185	212
Pro forma	**10,100**	31,889	4,307
Earnings per share, basic and diluted			
As reported, basic	$ **1.35**	$ 4.23	$ 0.60
As reported, diluted	**1.34**	4.22	0.60
Pro forma, basic	**1.33**	4.21	0.57
Pro forma, diluted	**1.32**	4.19	0.57

Earnings per share: Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share is computed by dividing the income (loss) by the sum of the weighted average number of common shares outstanding and potential dilutive common shares determined using the treasury stock method. Because the Company reported a net loss from continuing operations in 2002, the diluted income (loss) per share is the same as basic income (loss) per share, since including any potentially dilutive securities would be antidilutive to the net loss per share from continuing operations. In the years ended December 31, 2004 and 2003, all options were dilutive. There were no adjustments to net income (loss) in the computation of diluted earnings per share for any of the years presented. The following tables show the computation of basic and diluted earnings per share for the years ended December 31, 2004, 2003 and 2002:

	2004	2003	2002
Basic income (loss) per share	*(in thousands, except per share amounts)*		
Net income (loss) from continuing operations	$ **10,243**	$ 9,761	$ (2,893)
Weighted average shares outstanding	**7,611**	7,577	7,542
Basic income (loss) per share - continuing operations	$ **1.35**	$ 1.29	$ (0.38)
Effect of stock options outstanding:			
Weighted average shares outstanding	**7,611**	7,577	7,542
Assumed exercise, at the strike price at the beginning of year	**170**	172	-
Assumed repurchase of options under treasury stock method	**(124)**	(141)	-
Diluted weighted average shares	**7,657**	7,608	7,542
Diluted income (loss) per share - continuing operations	$ **1.34**	$ 1.28	$ (0.38)

Note 1. Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Standards:

In March 2004, the FASB issued EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" which provides new guidance for assessing impairment losses on debt and equity investments. EITF Issue No. 03-1 also includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF Issue No. 03-1; however, the disclosure requirements remain effective for the Company's year ended December 31, 2004. The Company will evaluate the effect, if any, of EITF Issue No. 03-1 when final guidance is released. During the fourth quarter of the year ended December 31, 2004, the Company recognized a $28 thousand impairment loss on NetIQ Corp. and as a result the Company does not have any unrealized losses or additional disclosures required by EITF issue No. 03-1at December 31, 2004.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share Based Payment," which is a revision of SFAS No. 123, "Accounting for Stock-Based Compensation." SFAS No. 123 (R) replaces SFAS No. 123, and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends SFAS No. 95, "Statement of Cash Flows." The approach in SFAS 123 (R) is similar to the approach described in SFAS No. 123, except that SFAS No. 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. SFAS No. 123 (R) will be effective for the Company beginning July 1, 2005. The Company is evaluating the impact of applying SFAS No. 123 (R) and does not believe the application will have a material impact on the Company's consolidated financial statements.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003),"Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," which was issued in January 2003. The Company will be required to apply FIN 46R to variable interests in variable interest entities ("VIEs") created after December 31, 2003. For variable interests in VIEs created before January 1, 2004, the Interpretation will be applied beginning on January 1, 2005, except it must be applied in the fourth quarter of the year ended December 31, 2003 for any VIEs that are considered to be special purpose entities. For any VIEs that must be consolidated under FIN 46R that were created before January 1, 2004, the assets, liabilities and non-controlling interests of the VIE initially would be measured at their carrying amounts with any difference between the net amount added to the balance sheet and any previously recognized interest being recognized as the cumulative effect of an accounting change. If determining the carrying amounts is not practicable, fair value at the date FIN 46R first applies may be used to measure the assets, liabilities and non-controlling interest of the VIE. The Company does not have any investments in entities it believes are variable interest entities.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity," which was effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For the Company, the Statement was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatory redeemable financial instruments. For certain mandatory redeemable financial instruments, the Statement will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatory redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.

In December 2003, the FASB issued Statement No. 132(R). Statement No. 132(R) is a revision of Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS 132(R) is effective for financial statements with fiscal years ending after December 15, 2003. SFAS 132(R) requires additional disclosures including information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. The objectives of the revisions are to provide qualitative information about the items in the financial statements, quantitative information about items recognized or disclosed in the financial statements, information that enables users of financial statements to assess the effect that pension plans and other postretirement benefit plans have on entities'

Note 1. Summary of Significant Accounting Policies (Continued)

results of operations, and information to facilitate assessments of future earnings and cash flows. With the exception of the 2004 adoption of the requirement to include estimated future benefit payments, the Company adopted this statement effective December 31, 2003, with disclosures included in Note 9.

Reclassifications: Certain amounts reported in the 2003 and 2002 financial statements have been reclassified to conform with the 2004 presentation, with no effect on net income or shareholders' equity, including the following reclassifications:

- In 2004, the Company evaluated the income statement classification of wireless handset mail-in rebates in Company retail stores and determined the most appropriate treatment is to include the mail-in rebates as a reduction of wireless revenues. Prior to 2004, the Company recorded mail-in rebates in selling, general and administrative expenses. As a result of this change, both total operating revenues and selling, general and administrative expenses were decreased by mail-in rebate amounts of $0.2 million and $0.3 million for the years ended December 31, 2003 and 2002, respectively.
- As a result of an amendment to the Management Agreement with Sprint in 2004, network support costs are bundled in a $7.25 per subscriber monthly charge. Prior to the amendment, network support costs were included in network operating costs. As a result of the amendment, network support costs are not separately identifiable and are therefore included in selling, general and administrative expenses as part of the per subscriber monthly charge in 2004. Approximately $1.8 million and $0.7 million was reclassified from network operating costs to selling, general and administrative expenses for the years ended December 31, 2003 and 2002, respectively, to conform with the 2004 presentation.
- In 2004, for the purpose of classifying all wireless handset costs associated with national retailers in costs of goods and services, the Company recorded wireless handset rebates given to national retailers in costs of goods sold instead of sell ing, general and administrative expenses as was the practice in prior years. To conform to the 2004 presentation, $0.7 million for each of the prior years ended December 31, 2003 and 2002, was reclassified from selling, general and administrative expenses to cost of goods sold.
- In 2004, the Company recorded costs associated with its Shentel Pages directory to cost of goods sold. To conform with the 2004 presentation, the Company reclassified $0.7 million for each of the years ended December 31, 2003 and 2002 from selling, general and administrative expenses to cost of goods sold.

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 for $37.0 million. The closing of the sale took place at the close of business on February 28, 2003. The total proceeds received were $38.7 million, including $5.0 million held in escrow, and a $1.7 million adjustment for estimated working capital at the time of closing. There was a post- closing adjustment based on the actual working capital balance as of the closing date, which resulted in a $39 thousand charge for the Company. The $5.0 million escrow was established for any contingencies and indemnification issues that would arise during the two-year post-closing period and is included in deferred charges and other assets in the consolidated balance sheet at December 31, 2003 and as an escrow receivable at December 31, 2004. In February 2005, the Company received the $5.0 million from the escrow agent. The Company's gain on the transaction was approximately $35 million. After the closing, the Company provided transition services to Verizon for a period of approximately three months for fees of approximately $40 thousand per month.

The assets and liabilities attributable to the cellular operation classified as held for sale in the consolidated balance sheets and consist of the following at December 31, 2002.

	2002
Assets	*(in thousands)*
Accounts receivable	$ 2,608
Other current assets	309
Property, plant and equipment, (net)	2,631
Total assets	$ 5,548
Liabilities and minority interest	
Accounts payable and accrued expenses	$ 381
Deferred revenue and deposits	161
Minority interest	1,666
Total liabilities and minority interest	$ 2,208

Note 2. Discontinued Operations (Continued)

The operations of the cellular partnership, including the minority interest, have been reclassified as discontinued operations, net of taxes in the consolidated statements of income for all periods presented. Operating results and the sale of the discontinued operations are summarized as follows:

	2003	2002
	(in thousands)	
Revenues	$ 3,056	$ 20,895
Operating expenses	453	3,618
Other income	-	3
Income before minority interest and taxes	$ 2,603	$ 17,280
Minority interests	(773)	(5,200)
Sale of partnership interest	34,973	-
Income taxes	(14,414)	(4,668)
Net income from discontinued operations	$ 22,389	$ 7,412

Note 3. Securities and Investments

The Company has three classifications of investments: available for sale securities, investments carried at cost, and equity method investments. See Note 1 for definitions of each classification of investment. The following tables present the investments of the Company for the three-year period ended December 31, 2004.

Available-for-sale securities at December 31, 2004, 2003 and 2002 consist of the following:

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
		(in thousands)		
2004				
Deutsche Telekom, AG	**$ 85**	**$ 101**	**$ -**	**$ 186**
NetIQ Corp.	**46**	**-**	**-**	**46**
	$ 131	**$ 101**	**$ -**	**$ 232**
2003				
Deutsche Telekom, AG	$ 85	$ 64	$ -	$ 149
Other	73	-	23	50
	$ 158	$ 64	$ 23	$ 199
2002				
Deutsche Telekom, AG	$ 85	$ 20	$ -	$ 105
Other	73	-	27	46
	$ 158	$ 20	$ 27	$ 151

In the year ended December 31, 2002, the Company sold its holdings of VeriSign, Inc. for proceeds of $2.8 million and a realized loss of $9.0 million. The VeriSign stock was valued at $38 per share at December 31, 2001, and declined over the ensuing months to approximately $6 per share in early July 2002. The Company sold all of its holdings in the stock early in the third quarter of the year ended December 31, 2002. The Company's original investment in VeriSign's predecessor companies was approximately $1.0 million. Total proceeds from all sales of stock in VeriSign and its predecessor companies were $8.1 million, or more than eight times the original investment.

There were no gross realized gains on available-for-sale securities included in income in the year ended December 31, 2004, 2003 or 2002. Gross realized losses included in income in the years ended December 31, 2004, 2003 and 2002 were $28 thousand, $3 thousand and $9.0 million, respectively.

Note 3. Securities and Investments (Continued)

Changes in the unrealized gains (losses) on available-for-sale securities during the years ended December 31, 2004, 2003 and 2002 are reported as a separate component of shareholders' equity are as follows:

	2004	2003	2002
Available-for-sale securities:		*(in thousands)*	
Beginning Balance	**$ 41**	$ (7)	$ 68
Unrealized holding gains (losses) during the year, net	**32**	48	(75)
Reclassification of recognized (gains) during the year, net	**28**	-	-
	101	41	(7)
Deferred tax effect related to net unrealized gains	**36**	15	(3)
Ending Balance	**$ 65**	$ 26	$ (4)

At December 31, 2004, 2003 and 2002, other investments, comprised of equity securities, which do not have readily determinable fair values, consist of the following:

	2004	2003	2002
Cost method:		*(in thousands)*	
Rural Telephone Bank	**$ 796**	$ 796	$ 796
NECA Services, Inc.	**500**	500	500
CoBank	**1,486**	1,321	1,126
Other	**151**	182	241
	$ 2,933	$ 2,799	$ 2,663
Equity method:			
South Atlantic Venture Fund III L.P.	**52**	89	263
South Atlantic Private Equity Fund IV L.P.	**513**	541	707
Dolphin Communications Parallel Fund, L.P.	**190**	184	273
Dolphin Communications Fund II, L.P.	**1,870**	1,290	1,024
Burton Partnership	**1,252**	1,149	988
NTC Communications LLC (Note 14)	**-**	971	1,089
Virginia Independent Telephone Alliance	**173**	228	248
ValleyNet	**35**	17	17
	$ **4,085**	$ 4,469	$ 4,609
Total investments	$ **7,018**	$ 7,268	$ 7,272

The Company's investment in CoBank increased $165 thousand, $195 thousand and $358 thousand in the years ended December 31, 2004, 2003 and 2002, 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, 2004, the Company received distributions from its equity investments totaling $378 thousand in cash and invested $736 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 $42 thousand in the year ended December 31, 2004. Other equity investments had a net loss of $75 thousand in the year ended December 31, 2004.

The Company was committed to invest an additional $1.1 million at December 31, 2004 in various equity method investees pursuant to capital calls from the fund managers. It is not practicable to estimate the fair value of the other investments due to their limited market and restricted nature of their transferability.

The Company's ownership interests in Virginia Independent Telephone Alliance and ValleyNet at December 31, 2004 were approximately 22% and 20%, respectively. 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 approximately 2% at December 31, 2004.

Note 4. Plant in Service

Plant in service consists of the following at December 31, 2004, 2003 and 2002:

	Estimated Useful Lives	**2004**	2003	2002
			(in thousands)	
Land		**$ 802**	$ 802	$ 792
Buildings and structures	15 - 40 years	**36,626**	30,956	28,949
Cable and wire	15 - 40 years	**61,674**	51,041	49,495
Equipment and software	3 - 16.6 years	**127,902**	114,632	104,833
		$ 227,004	$ 197,431	$ 184,069

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

Total debt consists of the following at December 31, 2004, 2003 and 2002:

		Weighted Average Interest Rate	**2004**	2003	2002
				(in thousands)	
Rural Telephone Bank ("RTB")	Fixed	6.02%	**$ 5,120**	$ 5,599	$ 10,645
Rural Utilities Service ("RUS")	Fixed	5.00%	**142**	149	159
CoBank (term loan)	Fixed	7.56%	**33,652**	37,398	41,039
CoBank revolving credit facility	Variable	3.66%	**13,177**	-	-
RUS Development Loan		Interest free	**200**	200	200
			52,291	43,346	52,043
Current maturities			**4,372**	4,230	4,482
Total long-term debt			**$ 47,919**	$ 39,116	$ 47,561
CoBank 1-year revolver		Variable 2.79% - 5.03%	**$ -**	$ -	$ 3,200
SunTrust Bank revolver		Variable 2.05% - 2.53%	**$ -**	$ -	$ 303

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 $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 quarterly payments beginning June 2006. Borrowings under the facility have an adjustable rate, less patronage credits, that can be converted to a fixed rate at the Company's option. The loan is secured by a pledge of the stock of all of the subsidiaries of the Company as well as all of the outstanding membership interests in NTC.

The RTB loans are payable $67 thousand monthly, including interest. RUS loans are payable $4 thousand quarterly, including interest. The RUS and RTB loan facilities have maturities through 2019. The CoBank term facility requires monthly payments of $580 thousand, including interest. The final maturity of the CoBank term loan is in 2013.

The Company has a $0.5 million revolving credit facility with SunTrust Bank that the Company uses to fund short-term liquidity variations due to the timing of customer receipts and vendor payments for services. This facility matures on May 31, 2005, and is priced at the 30-day LIBOR rate plus 1.25%. The Company has not borrowed on this facility. The long-term debt is secured by a pledge of the stock of the Company's subsidiaries. The CoBank term loan is $33.7 million, all of which is at fixed rates ranging from approximately 3.7% to 8.0%. 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 in each of the reported years, the Company received patronage credits of approximately 81 basis points on its outstanding CoBank debt balance. The Company accrued a similar amount in the year ended December 31, 2004, in anticipation of the early 2005 distribution of the credits by CoBank.

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

The Company is required to meet financial covenants measured at the end of each quarter, based on a trailing 12-month basis and calculated on continuing operations. At December 31, 2004, the covenant calculations were as follows; the ratio of total debt to operating cash flow, which must be 2.5 or lower, was 1.4. The equity to total assets ratio, which must be 35% or higher, was 53.9%. The ratio of operating cash flow to scheduled debt service, which must exceed 2.0, was 5.1. The Company was in compliance with all other covenants related to its debt agreements at December 31, 2004.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2004 are as follows:

Year	Amount
	(in thousands)
2005	$ 4,372
2006	5,203
2007	5,939
2008	6,114
2009	6,303
Later years	24,360
	$ 52,291

The estimated fair value of fixed rate debt instruments as of December 31, 2004, 2003 and 2002 was $49.3 million, $42.6 million and $51.1 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.

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

Note 6. Income Taxes

Total income taxes for the years ended December 31, 2004, 2003 and 2002 were allocated as follows:

	2004	2003	2002
		(in thousands)	
Income tax provision (benefit) from continuing operations	**$ 6,078**	$ 5,304	$ (2,109)
Income taxes on discontinued operations	**-**	14,414	4,668
Income tax from cumulative effect of an accounting change	**-**	(47)	-
Accumulated other comprehensive income for unrealized holding gains (losses) on equity securities	**21**	18	(29)
	$ 6,099	$ 19,689	$ 2,530

The Company and its subsidiaries file income tax returns in several jurisdictions. The provision for the federal and state income taxes attributable to income (loss) from continuing operations consists of the following components:

	Years Ended December 31,		
	2004	2003	2002
		(in thousands)	
Current provision (benefit)			
Federal taxes	**$ (323)**	$ 762	$ (2,076)
State taxes	**442**	147	(212)
Total current provision (benefit)	**$ 119**	$ 909	$ (2,288)
Deferred provision (benefit)			
Federal taxes	**$ 5,528**	$ 4,091	$ 592
State taxes	**431**	304	(413)
Total deferred provision	**$ 5,959**	$ 4,395	$ 179
Income tax provision (benefit)	**$ 6,078**	$ 5,304	$ (2,109)

Note 6. Income Taxes (Continued)

A reconciliation of income taxes determined by applying the Federal and state tax rates to income (loss) from continuing operations is as follows for the years ended December 2004, 2003 and 2002:

	Years Ended December 31,		
	2004	2003	2002
		(in thousands)	
Computed "expected" tax expense	**$ 5,548**	$ 5,122	$ (1,701)
State income taxes, net of federal tax effect	**576**	298	(460)
Other, net	**(46)**	(116)	52
Income tax provision (benefit)	**$ 6,078**	$ 5,304	$ (2,109)

Net deferred tax assets and liabilities consist of the following at December 31, 2004, 2003 and 2002:

	2004	2003	2002
Deferred tax assets:		*(in thousands)*	
Allowance for doubtful accounts	**$ 129**	$ 192	$ 370
Accrued compensation costs	**61**	-	181
State net operating loss carryforwards, net of federal tax	**1,583**	1,569	1,425
Recognized investment losses including impairments	**-**	-	593
Deferred revenues	**212**	304	338
AMT credits	**-**	-	285
Accrued pension costs	**175**	476	395
Other, net	**128**	81	23
Total gross deferred tax assets	**$ 2,288**	$ 2,622	$ 3,610
Less valuation allowance	**(728)**	(864)	(704)
Net deferred tax assets	**$ 1,560**	$ 1,758	$ 2,906
Deferred tax liabilities:			
Plant-in-service	**$ 25,844**	$ 20,058	$ 17,568
Escrowed gain on sale of discontinued operations	**1,859**	1,859	-
Unrealized gain on investments	**38**	15	-
Gain on investments, net	**98**	123	-
Total gross deferred tax liabilities	**$ 27,839**	$ 22,055	$ 17,568
Net deferred tax liabilities	**$ 26,279**	$ 20,297	$ 14,662

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 believes it more likely than not that the Company will realize the benefits of the deductible differences that are not reserved by the valuation allowance, which decreased by $136 thousand, to $728 thousand in the year ended December 31, 2004 from $864 thousand in the year ended December 31, 2003. The Company has generated net operating loss carry forwards of approximately $26.1 million from its PCS operations in several states. The carry forwards expire at varying dates beginning in the year ending December 31, 2005.

Note 7. Significant Contractual Relationship

In 1999, the Company executed a Management Agreement (the "Agreement") with Sprint whereby the Company committed to construct and operate a PCS network using CDMA air interface technology, replacing an earlier PCS network based on

Note 7. Significant Contractual Relationship (Continued)

GSM technology. Under the Agreement, the Company is the exclusive PCS Affiliate of Sprint 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 name in its territory, and operate its network under the Sprint radio spectrum license. As an exclusive PCS Affiliate of Sprint, the Company has the exclusive right to build, own and maintain its portion of Sprint's nationwide PCS network, in the aforementioned areas, to Sprint's specifications. The initial term of the Agreement is for 20 years and is automatically renewable for three 10-year options, unless terminated by either party under provisions outlined in the Agreement.

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

Historically, Sprint determined charges for services provided at the beginning of each calendar year. Sprint calculated the costs to provide these services for its network partners and required a final settlement against the charges actually paid. If the costs to provide these services were less than the amounts paid by Sprint's network partners, Sprint issued a credit for these amounts. If the costs to provide the services were more than the amounts paid by Sprint's network partners, Sprint charged the network partners for these amounts. For the years presented, the Company recorded the actual costs, after the adjustments, which were recorded for these services provided by Sprint.

The wireless market is characterized by significant risks as a result of rapid changes in technology, increasing competition and the cost associated with the build-out and enhancement of Sprint's nationwide digital wireless network. Sprint 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 for the calculation of the fee charged to the Company for these services. Sprint adjusted these fees at least annually. This situation changed with the execution of an amendment to the Agreement which occurred on January 31, 2004, retroactive to January 1, 2004 (the "Amended Agreement"). By simplifying the formulas used and fixing certain fees, the Amended Agreement provides greater certainty to the Company for certain future expenses and revenues during the term of the agreement that expires on December 31, 2006 and simplifies the methods used to settle revenue and expenses between the Company and Sprint.

The Company entered into an amendment to the Amended Agreement with Sprint on May 24, 2004 (the May 2004 Amendment). Under the terms of the May 2004 Amendment, the Company has agreed to participate in all new and renewed reseller agreements signed through December 31, 2006. In addition, the Company signed an agreement to participate in all existing Sprint reseller arrangements applicable to the Company's service area. In consideration for this participation, the Company received a reduction in the monthly fee per subscriber paid to Sprint for back office services and certain network services.

The Company's PCS subsidiary is dependent upon Sprint's ability to execute certain functions such as billing, customer care, collections and other operating activities under the Company's agreements with Sprint. Due to the high degree of integration within many of the Sprint 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 was 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 ultimately profitability for its PCS operation. Changes in technology, increased competition,

Note 7. Significant Contractual Relationship (Continued)

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.

Prior to January 1, 2004, with the exception of certain roaming and equipment sales revenues, the Company recorded its PCS revenues based on the revenues collected by Sprint, net of the 8% fee retained by Sprint. After the adoption of the Amended Agreement, effective January 1, 2004, the Company records its PCS revenues, with the exception of certain roaming and equipment sales revenues, based on the PCS revenues billed, as opposed to collected, by Sprint, net of the 8% fee retained by Sprint. The cash settlements received from Sprint are net of the 8% fee, customer credits, account write offs and other billing adjustments. The Amended Agreement only changes the timing of the Company's receipt of the cash settlements from Sprint and does not change the Company's recording of revenue.

The Company receives and pays travel fees for inter-market usage of the network by Sprint wireless subscribers not homed in a market in which they may use the service. Sprint and its PCS Affiliates pay the Company for the use of its network by their wireless subscribers, while the Company pays Sprint 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 were reduced to $0.10 per minute as of January 1, 2002. The $0.10 rate was in effect for the full year ended December 31, 2002. The travel rate for the years ended December 31, 2004 and 2003 was $0.058 per minute and will remain at this rate through December 31, 2006.

In connection with execution of the Amended Agreement, the Company and Sprint resolved several outstanding issues. The result of the resolution of these disputes was a favorable adjustment to revenue of $0.4 million for the settlement of a dispute related to inter-market travel revenue generated by certain other affiliate subscribers traveling in the Company's market. Additionally, there was a reduction to previously billed disputed software maintenance fees of $0.3 million that resulted from a re-allocation of the fees from Sprint on a per subscriber basis versus the prior allocation which was on a per switch basis.

The Sprint 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, 2004.

On December 15, 2004, Sprint and Nextel Communications, Inc. announced that they entered into a definitive agreement to merge. The impact of this transaction on the Company's PCS operation is uncertain as of the date of this report.

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 $2.7 million, $3.1 million and $3.5 million in the years ended December 31, 2004, 2003 and 2002, respectively. At December 31, 2004, 2003 and 2002, the Company had accounts receivable from ValleyNet of approximately $0.3 million, $0.4 million and $0.4 million, respectively. The Company's PCS operating subsidiary leases capacity through ValleyNet fiber facilities. Payment for usage of these facilities was $0.8 million, $0.8 million and $1.2 million in the years ended December 31, 2004, 2003 and 2002 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, 2004, 2003 and 2002.

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

Note 9. Retirement Plans

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

Note 9. Retirement Plans (Continued)

	2004	2003	2002
Change in benefit obligation:		*(in thousands)*	
Benefit obligation, beginning	**$ 11,650**	$ 9,585	$ 8,538
Service cost	**604**	486	420
Interest cost	**691**	615	591
Actuarial (gain) loss	**910**	1,211	252
Benefits paid	**(261)**	(247)	(216)
Benefit obligation, ending	**$ 13,594**	$ 11,650	$ 9,585
Change in plan assets:			
Fair value of plan assets, beginning	**$ 7,853**	$ 6,705	$ 7,375
Actual return on plan assets	**1,154**	948	(794)
Benefits paid	**(261)**	(247)	(216)
Contributions made	**1,971**	447	340
Fair value of plan assets, ending	**$ 10,717**	$ 7,853	$ 6,705
Funded status	**$ (2,876)**	$ (3,797)	$ (2,880)
Unrecognized net (gain) loss	**2,501**	2,229	1,505
Unrecognized prior service cost	**220**	252	283
Unrecognized net transition asset	**-**	(9)	(38)
Accrued benefit cost	**$ (155)**	$ (1,325)	$ (1,130)
Components of net periodic benefit costs:			
Service cost	**$ 604**	$ 486	$ 420
Interest cost	**691**	615	591
Expected return on plan assets	**(579)**	(494)	(582)
Amortization of prior service costs	**31**	31	31
Amortization of net loss	**62**	32	-
Amortization of net transition asset	**(9)**	(29)	(29)
Net periodic benefit cost	**$ 800**	$ 641	$ 431

The accumulated benefit obligation for the qualified retirement plan was $9,115, $7,872 and $6,551 at December 31, 2004, 2003 and 2002, respectively.

Weighted average assumptions used by the Company in the determination of benefit obligations at December 31, 2004, 2003 and 2002 were as follows:

	2004	2003	2002
Discount rate	**5.75%**	6.00%	6.50%
Rate of increase in compensation levels	**4.50%**	4.50%	4.50%

Weighted average assumptions used by the Company in the determination of net pension cost for the years ended December 31, 2004, 2003, and 2002 were as follows:

	2004	2003	2002
Discount Rate	**6.00%**	6.50%	7.00%
Rate of increase in compensation level	**4.50%**	4.50%	5.00%
Expected long-term rate of return on plan assets	**7.50%**	7.50%	8.00%

Note 9. Retirement Plans (Continued)

The Company's pension plan asset allocations based on market value at December 31, 2004 and 2003, by asset category were as follows:

Asset Category	**2004**	2003
Equity securities	**64.9%**	69.8%
Debt securities	**20.5%**	26.6%
Cash and cash equivalents	**14.6%**	3.6%
	100.0%	100.0%

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid by the plan as follows:

Year Ending	Amount
	(in thousands)
2005	$ 279
2006	277
2007	271
2008	275
2009	275
2010 - 2014	$ 2,658
	$ 4,035

Investment Policy

The investment policy of the Company's Pension Plan is for assets to be invested in a manner consistent with the fiduciary standards of the Employee Retirement Income Security Act of 1974, as amended. This investment policy is to preserve capital, which includes the investment objectives of inflationary protection and protection of the principal amounts contributed to the Pension Plan. Of lesser importance is the consistency of growth, which will tend to minimize the annual fluctuations in the normal cost. It is anticipated that growth of the fund will result from both capital appreciation and the re-investment of current income.

Contributions

The Company expects to contribute $0.5 million to the noncontributory defined benefit plan in 2005 and contributed $2.0 million in the year ended December 31, 2004 and $0.4 million in the year ended December 31, 2003.

The Company's matching contributions to the defined contribution plan were approximately $254 thousand, $228 thousand and $210 thousand for the years ended December 31, 2004, 2003 and 2002, respectively.

Note 9. Retirement Plans (Continued)

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. The following table presents the actuarial information for the SERP at December 31, 2004 and 2003.

	2004	2003
Change in benefit obligation:	*(in thousands)*	
Benefit obligation, beginning	**$ 869**	$ -
Service cost	**113**	22
Interest cost	**52**	23
Actuarial loss	**201**	278
Plan adoption	**-**	546
Benefit obligation, ending	**$ 1,235**	$ 869
Funded status	**$ (1,235)**	$ (869)
Unrecognized net loss	**465**	278
Additional minimum liability	**(387)**	(380)
Intangible asset	**387**	380
Unrecognized prior service cost	**485**	521
Accrued benefit cost	$ **(285)**	$ (70)
Components of net periodic benefit costs:		
Service cost	**$ 113**	$ 22
Interest cost	**52**	23
Amortization of prior service costs	**36**	25
Amortization of net loss	**14**	-
Net periodic benefit cost	**$ 215**	$ 70

Assumptions used by the Company in the determination of benefit obligations of the SERP consisted of the following at December 31:

	2004	2003
Discount rate	**5.75%**	6.00%
Rate of increase in compensation levels	**4.50%**	4.50%

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid for the SERP:

Year Ending	Amount
	(in thousands)
2005	$ -
2006	-
2007	-
2008	-
2009	1
2010 – 2014	87
	$ 88

Note 10. Stock Incentive Plan

The Company maintains a shareholder-approved Company Stock Incentive Plan (the "Plan"), providing for the grant of incentive compensation to essentially all employees in the form of stock options. The Plan authorizes grants of options to purchase up to 480,000 shares of common stock over a ten-year period beginning in 1996. The option price for all grants has been at the current market price at the time of the grant. Grants generally provide 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 year ended December 31, 2004, the Company also made grants pursuant to which the options are vested over a four-year period beginning on the third anniversary of the grant date. The participants may exercise 25% of the total grant after each anniversary date from the third through the sixth year, with the options expiring on the seventh anniversary of the grant date.

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

	2004	2003	2002
Dividend rate	**1.77%**	1.68% to 2.35%	1.52%
Risk-free interest rate	**2.74%**	3.00% to 3.18%	4.24%
Expected lives of options	**5 years**	5 to 10 years	5 years
Price volatility	**49.68%**	38.83% to 51.02%	30.03%

In the year ended December 31, 2004, the Company issued tandem awards of stock options and stock appreciation rights. Because the employee has the choice of receiving cash or shares of stock, this plan results in the Company recording a liability, which will be adjusted each period to reflect the current stock price. If employees subsequently choose to receive shares of stock rather than cash, the liability is settled by issuing stock.

A summary of the status of the Plan at December 31, 2004, 2003 and 2002 and changes during the years ended on those dates is as follows:

	Shares	Weighted Average Grant Price Per Share	Fair Value Per Share
Outstanding January 1, 2002	138,054	$ 13.51	
Granted	47,646	17.59	$ 4.08
Cancelled	(19,758)	13.95	
Exercised	(16,238)	11.27	
Outstanding December 31, 2002	149,704	14.99	
Granted	75,396	18.89	$ 4.24 to 11.37
Cancelled	(11,892)	16.62	
Exercised	(40,988)	11.89	
Outstanding December 31, 2003	172,220	16.92	
Granted	108,178	24.56	9.66
Cancelled	(4,368)	12.66	
Exercised	(37,219)	15.80	
Outstanding December 31, 2004	**238,811**	20.97	

Note 10. Stock Incentive Plan (Continued)

There were options for 88,626, 85,670 and 91,658 shares exercisable at December 31, 2004, 2003 and 2002, at weighted average exercise prices per share of $17.13, $15.94, and $13.70, respectively. For the tandem awards issued in the year ended December 31, 2004, there were 308 shares cancelled and no shares exercised during the year ended December 31, 2004. During the year ended December 31, 2002, the Company issued 4,654 shares of common stock to employees valued at $100 thousand in recognition of the Company's 100th year anniversary. The following table summarizes information about stock options outstanding at December 31, 2004:

	Exercise Prices	Shares Outstanding	Option Life Remaining	Shares Exercisable
2000	$ 17.19	10,737	1 years	10,737
2001	$ 15.79	25,242	2 years	25,242
2002	$ 17.59	30,332	3 years	30,332
2003	$ 17.98-22.01	64,630	4 to 9 years	22,315
2004	**$ 23.00-26.46**	**107,870**	**5 to 7 years**	-

Note 11. Major Customers

The Company has one major customer and relationship that is a significant source of revenue. In the year ended December 31, 2004, as during the past number of years, the Company's relationship with Sprint continued to increase, due to growth in the PCS business segment. Approximately 63.5% of total operating revenues in the year ended December 31, 2004, 61.3% of total operating revenues in the year ended December 31, 2003, and 57.7% of total operating revenues in the year ended December 31, 2002 were generated by or through Sprint and its customers using the Company's portion of Sprint's nationwide PCS network. No other customer relationship generated more than 2.5% of the Company's total operating revenues for the year ended December 31, 2004, 2003 or 2002.

Note 12. Shareholder Rights Plan

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

Note 13. Lease Commitments

The Company leases land, buildings and tower space under various non-cancelable agreements, which expire between the years ending December 31, 2005 and 2043 and require various minimum annual rental payments. The leases generally contain certain renewal options for periods ranging from 5 to 20 years.

Future minimum lease payments under non-cancelable operating leases with initial variable lease terms in excess of one year as of December 31, 2004 are as follows:

Year Ending	Amount (in thousands)
2005	$ 4,416
2006	3,729
2007	3,041
2008	2,552
2009	1,732
2010 and beyond	1,842
	$ 17,312

The Company's total rent expense from continuing operations for each of the previous three years was $4.4 million in the year ended December 31, 2004, $4.4 million in the year ended December 31, 2003, and $3.4 million in the year ended December 31, 2002.

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, 2004 are as follows:

Year Ending	Amount (in thousands)
2005	$ 2,944
2006	1,837
2007	1,469
2008	882
2009	402
2010 and beyond	463
	$ 7,997

Note 14. Acquisitions

On November 30, 2004, the Company purchased the 83.9% of NTC that it did not currently own for $10 million, of which $1 million is held in escrow for payment of specified potential liabilities, and the assumption of NTC's existing debt and other liabilities. The results of NTC's operations have been included in the consolidated financial statements since that date. NTC provides local and long distance voice, cable television, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities primarily located near colleges and universities.

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

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

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

The table below reflects the unaudited pro forma results of the Company and NTC for the years ended December 31, 2004 and 2003 and as if the acquisition had taken place at the beginning of the respective calendar year (in thousands):

	2004	2003
	(in thousands)	
Operating revenue	$ 129,864	$ 112,542
Income from continuing operations	9,370	9,286
Discontinued operations, net of income taxes	-	22,389
Cumulative effect of a change in accounting, net of income taxes	-	(76)
Net income	$ 9,370	$ 31,599
Diluted net income per share	$ 1.22	$ 4.15

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

Note 15. Segment Reporting

The Company, as a holding company with various operating subsidiaries, has identified eleven reporting segments based on the activities of the holding company and the products and services each subsidiary provides. Each segment is managed and evaluated separately because of differing technologies and marketing strategies.

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

Shenandoah Telecommunications Company (Holding)	Invests, in both affiliated and non-affiliated companies.
Shenandoah Telephone Company (Telephone)	Provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the Northern Shenandoah Valley.
Shenandoah Cable Television Company (CATV)	Provides cable television service in Shenandoah County.
ShenTel Service Company (ShenTel)	Provides Internet access to a multi-state region surrounding the northern Shenandoah Valley, hosts Travel 511 for Virginia, and sells and services telecommunication equipment.
Shenandoah Valley Leasing Company (Leasing)	Finances purchases of telecommunications equipment to customers of other segments.
Shenandoah Mobile Company (Mobile)	Provides tower rental space in the Company's PCS markets and paging services throughout the northern Shenandoah Valley.
Shenandoah Long Distance Company (Long Distance)	Provides long distance services on a resale basis.
Shenandoah Network Company (Network)	Leases interstate fiber optic facilities.
ShenTel Communications Company (Shen Comm)	Provides DSL services as a CLEC operation.
Shenandoah Personal Communications Company (PCS)	As a PCS Affiliate of Sprint, provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia.
Shentel Converged Services, Inc.	Provides local and long distance voice, cable television, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities throughout the southeastern United States.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. Each segment accounts for inter-segment sales and transfers as if the sales or transfers were to outside parties.

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

Year	Holding	Telephone	Consolidated Totals
		(in thousands)	
2004	**$ (179)**	**$ 148**	**$ (31)**
2003	(441)	65	(376)
2002	(822)	45	(777)

Note 15. Segment Reporting (Continued)

Selected financial data for each segment is as follows:

	PCS	Telco	ShenTel	CATV	Mobile	Long Distance
			(in thousands)			
Operating revenues - external:						
2004	**$ 80,165**	**$ 23,740**	**$ 6,718**	**$ 4,377**	**$ 3,073**	**$ 1,430**
2003	66,788	22,729	6,897	4,433	2,840	1,116
2002	55,214	22,461	6,312	4,358	2,399	1,101
Operating revenues - internal:						
2004	**$ 1**	**$ 3,635**	**$ 457**	**$ 31**	**$ 1,298**	**$ 1,323**
2003	1	3,062	307	24	1,238	228
2002	-	2,888	349	5	1,661	643
Depreciation and amortization:						
2004	**$ 11,915**	**$ 4,633**	**$ 532**	**$ 888**	**$ 611**	**$ -**
2003	10,246	4,279	410	777	599	-
2002	8,617	3,798	414	718	581	-
Operating income (loss):						
2004	**$ 7,286**	**$ 10,767**	**$ 781**	**$ 308**	**$ 2,208**	**$ 273**
2003	2,916	11,927	1,469	890	1,347	$ 407
2002	(5,294)	11,908	776	1,145	1,224	$ 695
Non-operating income less expenses:						
2004	**$ (884)**	**$ 103**	**$ -**	**$ (83)**	**$ 57**	**$ 7**
2003	(76)	(151)	9	(31)	(13)	$ 4
2002	(91)	(474)	(93)	(23)	5	$ 4
Interest expense:						
2004	**$ 1,626**	**$ 305**	**$ 202**	**$ 288**	**$ 254**	**$ -**
2003	2,920	443	171	514	26	$ -
2002	3,693	662	165	583	6	$ -
Income tax expense (benefit) from continuing operations:						
2004	**$ 1,884**	**$ 3,858**	**$ 208**	**$ (23)**	**$ 786**	**$ 104**
2003	(411)	4,268	501	146	377	$ 157
2002	(3,660)	3,237	191	198	790	$ 259
Income (loss) from continuing operations:						
2004	**$ 2,892**	**$ 6,707**	**$ 371**	**$ (40)**	**$ 1,225**	**$ 176**
2003	331	7,064	805	200	724	$ 255
2002	(5,416)	7,536	327	341	(734)	$ 441
Income from discontinued operations, net of taxes:						
2004	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
2003	-	12	-	-	22,389	$ -
2002	-	72	-	2	7,468	$ -
Net income (loss) including cumulative effect:						
2004	**$ 2,892**	**$ 6,707**	**$ 371**	**$ (40)**	**$ 1,225**	**$ 176**
2003	331	7,076	805	200	23,037	$ 255
2002	(5,416)	7,608	327	343	6,734	$ 441
Total assets:						
2004	**$ 81,090**	**$ 59,507**	**$ 10,636**	**$ 9,970**	**$ 17,335**	**$ 380**
2003	68,773	57,533	6,721	10,340	18,396	$ 808
2002	71,256	59,554	6,255	10,961	17,482	$ 343

Note 15. Segment Reporting (Continued)

Converged Services	Network	Shen Comm	Leasing	Holding	Combined Totals	Eliminating Entries	Consolidated Totals
$ 736	**$ 664**	**$ 64**	**$ 7**	**$ -**	**$ 120,974**	**$ -**	**$ 120,974**
-	744	56	14	-	105,617	-	105,617
-	835	20	20	-	92,720	-	92,720
$ -	**$ 180**	**$ -**	**$ -**	**$ -**	**$ 6,925**	**$ (6,925)**	**$ -**
-	151	-	-	-	5,011	(5,011)	-
-	110	-	-	-	5,656	(5,656)	-
$ 232	**$ 113**	**$ 1**	**$ -**	**$ 95**	**$ 19,020**	**$ -**	**$ 19,020**
-	124	-	-	196	16,631	-	16,631
-	158	-	-	196	14,482	-	14,482
$ (167)	**$ 567**	**$ (229)**	**$ (6)**	**$ (2,163)**	**$ 19,625**	**$ -**	**$ 19,625**
-	624	(23)	4	(726)	18,835	(207)	18,628
-	641	(49)	11	(555)	10,502	(1,164)	9,338
$ -	**$ 11**	**$ -**	**$ 2**	**$ 2,982**	**$ 2,195**	**$ (2,370)**	**$ (175)**
-	4	1	1	4,275	4,023	(3,633)	390
-	10	8	1	4,966	4,313	(4,454)	(141)
$ 19	**$ -**	**$ 1**	**$ -**	**$ 2,804**	**$ 5,499**	**$ (2,370)**	**$ 3,129**
-	-	-	-	3,070	7,144	(3,634)	3,510
-	-	-	-	3,540	8,649	(4,454)	4,195
$ (69)	**$ 219**	**$ (85)**	**$ (2)**	**$ (802)**	**$ 6,078**	**$ -**	**$ 6,078**
-	242	(7)	2	29	5,304	-	5,304
-	249	(15)	5	(3,363)	(2,109)	-	(2,109)
$ (117)	**$ 359**	**$ (145)**	**$ (2)**	**$ (1,183)**	**$ 10,243**	**$ -**	**$ 10,243**
-	386	(14)	3	7	9,761	-	9,761
-	401	(26)	8	(5,771)	(2,893)	-	(2,893)
$ -	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
-	-	-	-	-	22,401	(12)	22,389
-	-	-	-	-	7,542	(130)	7,412
$ (117)	**$ 359**	**$ (145)**	**$ (2)**	**$ (1,183)**	**$ 10,243**	**$ -**	**$ 10,243**
-	386	(14)	3	7	32,086	(12)	32,074
-	401	(26)	8	(5,771)	4,649	(130)	4,519
$ 24,423	**$ 2,117**	**$ 93**	**$ 60**	**$ 152,002**	**$ 357,613**	**$ (146,366)**	**$ 211,247**
-	1,557	78	188	141,658	306,052	(120,688)	185,364
-	1,084	115	187	112,765	280,002	(115,998)	164,004

Note 16. Quarterly Results (unaudited)

The following table shows selected quarterly results for the Company.
(in thousands except for per share data)

For the year ended December 31, 2004	First	Second	Third	Fourth	Total
Revenues	$ 27,719	$ 29,852	$ 31,103	$ 32,300	$ 120,974
Operating income	4,284	5,026	6,471	3,844	19,625
Income from Continuing Operations	2,313	2,880	3,111	1,939	10,243
Net income	$ 2,313	$ 2,880	$ 3,111	$ 1,939	$ 10,243
Income per share – Continuing Operations - diluted	0.30	0.38	0.41	0.25	1.34
Net income per share - basic	$ 0.30	$ 0.38	$ 0.41	$ 0.25	$ 1.35
Net income per share - diluted	0.30	0.38	0.41	0.25	1.34

For the year ended December 31, 2003	First	Second	Third	Fourth	Total
Revenues	$ 24,947	$ 24,844	$ 27,583	$ 28,243	$ 105,617
Operating income	4,150	2,402	4,977	7,099	18,628
Income from Continuing Operations	1,931	1,044	2,717	4,069	9,761
Income from Discontinued Operations, net of taxes	22,628	-	(23)	(216)	22,389
Cumulative effect of change in accounting	(76)	-	-	-	(76)
Net income (a)	$ 24,483	$ 1,044	$ 2,694	$ 3,853	$ 32,074
Income per share –					
Continuing Operations - diluted	$ 0.26	0.14	0.36	0.53	1.28
Discontinued Operations - diluted	2.98	-	-	(0.03)	2.94
Cumulative effect of change in accounting - diluted	(0.01)	-	-	-	(0.01)
Net income per share - basic	$ 3.24	$ 0.14	$ 0.36	$ 0.51	$ 4.23
Net income per share - diluted	3.23	0.14	0.35	0.50	4.22

(a) Fourth quarter results of 2003 include favorable adjustments to revenue and expenses totaling $2.5 million, related to reconciliations of management's estimates and settlements of disputes with Sprint and a $0.4 million benefit related to a change in vacation benefit accrual for employees.

Note 17. Subsequent Events

In February 2005, the Company received $5.0 million held in escrow from the closing of the Virginia 10 RSA Limited Partnership sale to Verizon Wireless. See Note 2 for information about the sale. At December 31, 2004, the $5 million held in escrow is included as an escrow receivable on the accompanying balance sheet.

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, 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. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by law.

GENERAL

Shenandoah Telecommunications Company is a diversified telecommunications company providing both regulated and unregulated telecommunications services through ten wholly owned subsidiaries. These subsidiaries provide local exchange telephone services, wireless personal communications services (PCS), as well as cable television, paging, Internet access, long distance, fiber optics facilities, and leased tower facilities. The Company is the exclusive provider of wireless mobility communications network products and services on the 1900 MHz band under the Sprint brand from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company refers to the Hagerstown, Maryland; Martinsburg, West Virginia; and Harrisonburg and Winchester, Virginia markets as its Quad State markets. The Company refers to the Altoona, Harrisburg, and York, Pennsylvania markets as its Central Penn markets. Competitive local exchange carrier (CLEC) services were established on a limited basis during 2002. In addition, the Company sells and leases equipment, mainly related to services it provides, and also participates in emerging services and technologies by direct investment in non-affiliated companies. As a result of the NTC Communications, L.L.C.(NTC) acquisition, the Company, through its newly created subsidiary Shentel Converged Services, provides local and long distance voice, cable television, Internet and data services on an, at times, exclusive basis to multi-dwelling unit (MDU) communities (primarily off-campus student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi.

The Company reports revenues as wireless, wireline and other revenues. These revenue classifications are defined as follows: Wireless revenues are made up of revenues from the Personal Communications Company (a PCS Affiliate of Sprint), and the Mobile Company. Wireline revenues include revenues from the Telephone Company, Network Company, Cable Television Company, Converged Services and the Long Distance Company. Other revenues are comprised of the revenues of ShenTel Service Company, the Leasing Company, ShenTel Communications Company, the Holding Company and the data services revenue from Converged Services. For additional information on the Company's business segments, see Note 15 to the audited consolidated financial statements appearing elsewhere in this report.

The Company operations require substantial investment in fixed assets or plant. This significant capital requirement may preclude profitability during the initial years of operation. The strategy of the Company is to grow and diversify the business by adding services and geographic areas that can leverage the existing plant, but to do so within the opportunities and constraints presented by the industry. For many years the Company focused on reducing reliance on its regulated telephone operation, which up until 1981 was the only significant business within the Company. This initial diversification was concentrated in other wireline businesses, such as the cable television and regional fiber facility businesses. In 1990 the Company made its first significant investment in the wireless sector through its former investment in the Virginia 10 RSA Limited partnership. By 1998, revenues of the regulated telephone operation had decreased to 59.2% of total revenues. In that same year more than 76.6% of the Company's total revenue was generated by wireline operations, and initiatives were already underway to make wireless a more significant contributor to total revenues.

During the 1990s significant investments were made in the cellular and PCS (wireless) businesses. The VA 10 RSA cellular operation, in which the Company held a 66% interest and was the general partner, experienced rapid revenue growth and excellent margins in the late 1990s. The cellular operation covered only six counties, and became increasingly dependent on roaming revenues. Management believed the roaming revenues and associated margins would be unsustainable as other wireless providers increasingly offered nationally-branded services with significantly reduced usage charges. To position it to participate in the newer, more advanced, digital wireless services, in 1995 the Company entered the PCS business through an affiliation with American Personal Communications (APC), initiating service along the Interstate 81 corridor from Harrisonburg, Virginia to Chambersburg, Pennsylvania. This territory was a very close match to the Company's fiber network, thereby providing economic integration that might not be available to other wireless carriers. In 1999, the Company entered a new affiliation arrangement with Sprint, the successor to APC thereby becoming part of a nationally branded wireless service and expanded the PCS footprint further into Central Pennsylvania.

The growing belief that national branding was critical to our wireless operations, the expectation that roaming revenues from our analog cellular operation would not continue to grow, and the increase in the number of wireless competitors in our markets, prompted the Company to exit the cellular business in order to focus on our PCS operations. The Company entered into an agreement on November 21, 2002, to sell its 66% ownership interest in the Virginia 10 RSA cellular operation which was classified as a discontinued operation. The closing occurred February 28, 2003. The Company received $37.0 million in proceeds, including $5.0 million in escrow for two years and $1.7 million for working capital. The $5.0 million was released from escrow in February 2005.

In 2004, the Company continued its profitable growth. The PCS operation contributed $80.2 million of revenue, a $13.4 million or 20% increase compared to 2003. PCS net income of $2.9 million for the year ended 2004 is a $2.6 million improvement over 2003. Churn was 2.2%, comparable to the same period last year. The NTC acquisition provided for growth in the fourth quarter of 2004 as well as a driver for future growth as the Company continues to diversify away from its traditional wireline business. The Company had approximately 17,700 Internet customers of which 2,646 access the service through Digital Subscriber Lines (DSL) for an increase of 104% over the same period in 2003.

SIGNIFICANT TRANSACTIONS

Reflected in the 2004 results are several unusual items, which should be noted in understanding the financial results of the Company for 2004.

On December 1, 2004, the Company purchased the 83.9% of NTC that it did not already own for $10 million and the assumption of NTC's existing debt. The results of NTC's operations have been included in the consolidated financial statements since the purchase date.

On January 30, 2004, the Company, a PCS Affiliate of Sprint, signed agreements with Sprint that resolved disputed items and documented changes in the management and operating agreements between the two companies related to the operations of the nationwide Sprint network. The agreements provide the Company with the ability to better estimate the future costs of certain operating expenses and in the Company's opinion improve the contract between Sprint and itself. Under the agreements:

1. For the period 2004 through 2006, the travel and reseller rates between the Company and Sprint were set at $0.058 per minute for voice and $0.002 per kilobyte for data. Without this agreement the voice travel rate for 2004 would have decreased to $0.041. Since the Company is in a net receivable position related to travel with Sprint, the impact on net travel and reseller revenue would have been a reduction of $1.4 million had the $0.041 rate been in effect in 2004. Beginning in 2007, the Sprint travel and reseller rate will be changed annually to equal 90% of Sprint's retail yield from the prior year. Sprint's retail yield will be determined based on Sprint's average revenue per PCS user for voice services divided by the average minutes of use per user.

2. Sprint agreed to meet certain service level goals related to the provision of customer services. If Sprint does not reach the stated goals before the end of 2006, the Company will have the opportunity to either provide the services itself or contract with a third party.

3. Sprint agreed to provide back office and network services through 2006 at a fixed rate per subscriber per month of $7.70.

4. Through 2006, a methodology is provided to determine if the Company is required to make certain capital expenditures and participate in Sprint national marketing programs.

5. Effective January 1, 2004, the method of cash settlement changed from Sprint distributing cash from customers based

on collected revenue to billed revenue. The absolute amount of cash received by the Company should remain the same, but the Company should receive cash on a more timely basis.

6. The Company is entitled to a Most Favored Nations (MFN) clause. During the period through 2006, the Company will have the opportunity to adopt any addendum to the Management and/or Service Agreements that Sprint signs with an other PCS Affiliate.

The Management and Services Agreements were further amended in May 2004. Under the terms of the May amendment, the Company has agreed to participate in all new and renewed reseller agreements signed through December 31, 2006. Additionally, the Company signed a letter of agreement to participate in all existing Sprint reseller arrangements applicable to the Company's service area. In consideration for this participation, the Company received a reduction in the monthly fee per subscriber paid to Sprint for back office services and certain network services. The reduction per subscriber per month is $0.45 in 2004, $0.70 in 2005 and $0.95 in 2006, from the amounts agreed upon in the management agreement amendment dated January 2004.

Beginning in November 2003 and continuing through 2004, the Company has undergone a management reorganization. The reorganization was in recognition of the Company's growth and changes in the telecom industry. The Company shifted from an organization structure that was focused on lines of business to a plan that organizes on function. As a result, the Company has expanded the senior staff and corresponding departments to better position itself for future opportunities.

SUMMARY

The Company's three major lines of business are wireless, wireline and other businesses. Each of the three areas has unique issues and challenges that are critical to the understanding of the operations of the Company. The wireless business is made up of two different operations, the PCS operation and the tower business. The wireline business is made up of traditional telephone operations, a cable TV operation, fiber network leasing, a company that resells long-distance and beginning December 2004, NTC Communications which provides voice and video. Other business includes the Company's Internet operation, the Interstate-81 corridor Travel 511 project and the sales and service of telecommunications systems.

The PCS operation must be understood within the context of the Company's relationship with Sprint and its PCS Affiliates. The Company operates its PCS wireless network as an affiliate of Sprint. The Company receives revenues from Sprint for subscribers that obtain service in the Company's network coverage area and those subscribers using the Company's network when they travel. The Company relies on Sprint to provide timely, accurate and complete information for the Company to record the appropriate revenue and expenses for the periods reflected.

The Company's PCS business has operated in a net travel receivable position for several years. The Company received $6.0 million in net travel revenue in 2004, compared to $6.0 million in 2003, and $5.8 million in 2002. This relationship could change due to service plan changes, subscriber travel habit changes, a rate reduction after 2006 and other changes beyond the control of the Company.

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

The Company faces vigorous competition in the wireless business as numerous national carriers are aggressively marketing their services in the Company's markets. The competitive landscape could change significantly depending on the marketing initiatives of our competitors, or in the event of consolidation in the wireless industry.

The wireline business is made up of traditional telephony, cable TV, fiber network operations, the Company's long distance resale business and NTC Communications. The Company's primary service area for the telephone, cable TV and long-distance business is Shenandoah County, Virginia. The county is a rural area in northwestern Virginia, with a population of approximately 37,300 inhabitants, which has increased by approximately 2,200 since 2000. While a number of new housing developments are being planned for the northern portion of Shenandoah County, the potential for significant numbers of additional wireline customers in the Shenandoah County operating area is limited. NTC Communications provides local and long distance voice, cable television, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities throughout the southeastern

United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi.

The Company's telephone subscriber count declined in the third quarter and again in the fourth quarter of 2004. Migration to wireless and DSL services are believed to be driving this change. Based on industry experience, the Company anticipates this trend may continue for the foreseeable future, although the planned construction of new homes within Shenandoah County may moderate this trend.

Other revenues include Internet services, both dial-up and DSL high-speed service. The Company has seen a decline in dial-up subscriptions over the last year. The DSL service has grown 100% in the last year driven by customer desire for faster Internet connections.

The Company is facing competition for revenues it generates in the other lines of business, which will require the Company to differentiate itself from other providers through its service levels and evolving technologies that are more reliable and cost effective for customers.

CRITICAL ACCOUNTING POLICIES

The Company relies on the use of estimates and makes assumptions that impact its financial condition and 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 impact the Company's results of operations include:

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, 2004, 2003 and 2002 was $0.4 million, $0.5 million and $0.9 million, respectively. If the allowance for doubtful accounts is not adequate, it could have a material adverse effect on our liquidity, financial position and results of operations.

The Company also reviews current trends in the credit quality of the subscriber bases in its various businesses and periodically changes its credit policies. As of December 31, 2004, the Sprint subscriber base in the Company's market area consisted of 15.0% sub-prime credit quality subscribers compared to 17.9% at December 31, 2003, a decline of 2.9%. In the fourth quarter of 2004, the Company identified several target markets where it has loosened its credit policies to evaluate the impact on increasing sales. This policy change has generated additional activations and is being closely monitored. This could result in additional bad debt in the future, but management believes the added revenues offset the bad debt risk.

The remainder of the Company's receivables are associated with services provided on a more localized basis, where the Company exercises total control in setting credit policy parameters. Historically there have been limited losses generated from the non-PCS revenue streams. Prior to 2002, the Company had not faced significant write-offs of inter-carrier accounts, but due to the telecommunication industry down-turn in 2002, the Company experienced write-offs in this area of the business totaling $0.5 million in 2002, due to bankruptcy filings of several significant telecommunications companies. In 2004 and 2003, the inter-carrier segment of the business improved and the Company recovered $113 thousand and $240 thousand, respectively, of bad debt from the sale of certain accounts that were previously written-off.

Bad debt expense summary, net of recoveries for the three years ended December 31:

	In thousands		
	2004	2003	2002
PCS subscribers	**$ 1,560**	$ 1,716	$ 3,744
Interexchange carriers	**(71)**	48	488
Other subscribers and entities	**82**	71	170
Total bad debt expense	**$ 1,571**	$ 1,835	$ 4,402

Revenue Recognition

The Company recognizes revenues 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. The Company's revenue recognition polices are consistent with the guidance in Staff Accounting Bulletin ("SAB") No. 101, as amended by SAB 104, Revenue Recognition in Financial Statements promulgated by the Securities and Exchange Commission, and the Emerging Issues Task Force ("EITF") 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). Effective July 1, 2003 the Company adopted EITF 00-21. 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 consensus guidance was applicable to new PCS service agreements entered into for quarters beginning July 1, 2003. The adoption of EITF 00-21 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 will need to be made in the future. The adoption of EITF 00-21 has resulted in substantially all of the PCS activation fee revenue generated through Company-owned retail stores and associated direct costs being recognized at the time the related wireless handset is sold and it is classified as equipment revenue and cost of equipment, respectively. Upon adoption of EITF 00-21, previously deferred PCS revenue and costs will continue to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. PCS revenue and costs for activations at other retail locations and through other sales channels will continue to be deferred and amortized over their estimated lives as prescribed by SAB 101. The adoption of EITF 00-21 in 2003, had the effect of increasing equipment revenue by $68 thousand and increasing costs of equipment by $23 thousand, which otherwise would have been deferred and amortized.

The Company records equipment revenue from the sale of handsets and accessories to subscribers in its retail stores and to local distributors in its territories upon delivery. The Company does not record equipment revenue on handsets and accessories purchased by subscribers in the Company's territories from national third-party retailers or those provided by Sprint. The Company believes the equipment revenue and related cost of equipment associated with the sale of wireless handsets and accessories is a separate earnings process from the sale of wireless services to subscribers. For competitive marketing reasons, the Company usually sells wireless handsets at prices lower than the cost. In certain instances the Company may offer larger handset discounts as an incentive for the customer to agree to a multi-year service contract. The Company also sells wireless handsets to existing customers at a loss and accounts for these transactions separately from agreements to provide customers wireless service. These transactions are viewed as a cost to retain the existing customers and deter churn.

For the Company's wireless customers that purchase and activate their service through a channel not covered by EITF 00-21, the wireless customers generally pay an activation fee to the Company when they initiate service. The Company defers the activation fee revenue (except when a special promotion reduces or waives the fee) over the average life of its subscribers, which is estimated to be 30 months. The Company recognizes service revenue from its subscribers as they use the service. The Company provides a reduction of recorded revenue for billing adjustments and a fee of 8% that is retained by Sprint. The Company also reduces recorded revenue for rebates and discounts given to subscribers on wireless handset sales at Company owned retail stores in accordance with ("EITF") Issue No. 01-9 "Accounting for Consideration Given by a Vendor to a Subscriber (Including a Reseller of the Vendor's Products)." The Company participates in the Sprint national and regional distribution programs in which national retailers sell Sprint wireless products and services. In order to facilitate the sale of Sprint wireless products and services, national retailers purchase wireless handsets from Sprint for resale and receive compensation from Sprint for Sprint wireless products and services sold. For industry competitive reasons, Sprint subsidizes the price of these handsets by selling the handsets at a price below cost. Under the Company's agreements with Sprint, when a national retailer sells a handset purchased from Sprint to a subscriber in the Company's territories, the Company is obligated to reimburse Sprint for the handset subsidy. The Company does not receive any revenues from the sale of handsets and accessories by national retailers. The Company classifies these handset subsidy charges as a cost of goods expense.

Sprint retains 8% of billed revenues from subscribers based in the Company's markets and from non-Sprint wholesale subscribers who roam onto the Company's network. The amount of affiliation fees retained by Sprint is recorded as an offset to the revenues recorded. Revenues derived from the sale of handsets and accessories by the Company and from certain roaming services (outbound roaming and travel revenues from Sprint and its PCS Affiliate subscribers) are not subject to the 8% affiliation fee from Sprint.

The Company defers direct subscriber activation costs on subscribers whose activation falls within the SAB 101, as amended by SAB 104, guidelines. The activation costs are deferred when incurred, and then amortized using the straight-line method over 30 months, which is the estimated average life of a subscriber. Direct subscriber activation costs also include the activation charge from Sprint, and credit check fees. These fees are charged to the Company by Sprint at approximately $12.92 per subscriber.

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 established a valuation allowance against the tax assets, in case they are not recoverable. For 2004, the Company's valuation allowance decreased $0.1 million due to the improved operating performance of the Company's PCS segment. The valuation allowance now stands at $0.7 million as of December 31, 2004. 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 the future effective income tax rate to be approximately 38%.

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 certain capital calls under one of its investments.

RESULTS OF CONTINUING OPERATIONS

2004 compared to 2003

Total revenue was $121.0 million in 2004, an increase of $15.4 million or 14.5%. Total revenues included $83.2 million of wireless revenues, an increase of $13.6 million or 19.5%; wireline revenues of $30.7 million, an increase of $1.7 million or 5.7%; and other revenues of $7.1 million, an increase of $0.1 million or 1.2 %.

Within wireless revenues, the PCS operation contributed $80.2 million, an increase of $13.4 million, or 20.0%. PCS service revenues were $52.3 million, an increase of $7.9 million or 17.7%. Service revenue growth was driven by the increase in subscribers, totaling 102,613 at December 31, 2004, an increase of 17,474 or 20.5%, compared to 85,139 subscribers at year-end 2003. The Company had churn of 2.2% in 2004 compared to 2.1% in 2003 which is essentially unchanged and reflects the Company's maintenance of tight credit screening for new subscribers as well as continued efforts to improve the after sales support. Competition in the wireless industry continues to have a significant impact on the results of the Company's PCS operation.

PCS travel revenue, including reseller revenue, which is compensation between Sprint and its PCS Affiliates for use of the other party's network, was $22.0 million, an increase of $5.2 million or 31.1%. Travel revenue is impacted by the geographic size of the Company's network service area (which increased by 18 cell sites in 2004) , the overall number of Sprint and Sprint affiliate retail wireless customers, their travel patterns and the travel exchange rate. The rate received on travel was $0.058 per minute in

2004, the same rate per minute as 2003. As a part of the amended management agreement signed on January 30, 2004, Sprint and the Company agreed to maintain the reciprocal travel rate at $0.058 per minute through December 31, 2006.

PCS equipment sales were $3.2 million, an increase of $1.4 million or 73.9%. The equipment sales at Company stores are net of $2.9 million of rebates and discounts given at the time of sale. Rebates and discounts continue to be required to meet significant industry competition for subscriber additions and subscriber retention. These discounts and rebates are primarily transacted in the form of instant rebates, providing a second phone free when a customer purchases one.

Wireless revenues included tower leases of $2.9 million, an increase of $0.3 million or 11.3%. The increase was the result of other wireless carriers executing additional leases to use space on the Company's portfolio of towers and increasing lease rates. Of the 91 towers and poles owned by the Company as of December 31, 2004, 53 towers have a total of 143 tenants, compared to 52 towers with 130 tenants at the end of 2003.

Wireless revenues from the Company's paging operation were $0.2 million, a decrease of $0.06 million as the customer base increasingly chose alternative wireless services. Paging service subscribers declined by 19.8% in 2004 from 1,989 subscribers to 1,595 subscribers. The paging operation continues to decline as more areas are covered by wireless voice services which have features that surpass those of paging technologies. The Company anticipates that its paging customer base will continue to decline in the future.

Within wireline revenues, the Telephone operation contributed $23.7 million, an increase of $1.0 million, or 4.4%. Telephone access revenues were $13.2 million, an increase of $1.6 million or 13.8%. During 2003, the Company recorded a $1.2 million reduction to access revenue, of which $0.7 million was related to resolving 2002 disputes with interexchange carriers on the rating of long distance calls transiting the Telephone switching network for termination on wireless networks. The NTC acquisition's contribution to wireline revenues was $0.5 million in 2004, including $0.2 million in voice services revenue and $0.3 million in cable television revenue.

The following table shows the access traffic minutes of use recorded by the telephone operations for the two years of 2004 and 2003.

Minutes of use (in thousands) (net of intercompany usage)	**2004**		2003	
	Originating	Terminating	Originating	Terminating
Interstate	**43,293**	**115,542**	29,373	87,539
Intrastate	**29,333**	**59,739**	37,190	49,103
Total	**72,626**	**175,281**	66,563	136,642

Access revenue (in thousands) (net of intercompany usage)	**2004**		2003	
	As reported	Pro forma	As reported	Pro forma
Traffic sensitive (1)	**$ 5,506**	**$ 5,506**	$ 4,274	$ 4,974
Special access revenues	**1,778**	**1,778**	1,606	1,606
Carrier common line settlement	**5,969**	**5,969**	5,750	5,750
Total	**$ 13,253**	**$ 13,253**	$ 11,630	$ 12,330

(1) For 2003, traffic sensitive revenue has been adjusted in the pro forma column to remove the impact of the access billing dispute adjustment and the impact of the NECA settlement adjustments.

Facility lease revenue contributed $5.1 million to wireline revenues, a decrease of $0.4 million or 7.8%. The decrease was primarily the result of the prolonged decline of lease rates associated with competitive pricing pressures.

Long distance, billing and collection services and other revenues contributed $1.2 million to wireline revenues, a decrease of $0.2 million compared to 2003 results. Revenues from these services has declined in recent years as wireless users are making long distance calls on their wireless phones and interexchange carriers now issue a greater proportion of their bills directly to their customers.

Wireline revenues from cable television services were $4.4 million in 2004 and 2003. In January 2005, the Company raised its cable television services rates by $6 per month for all non-basic subscribers primarily to offset higher programming costs.

Other revenues, primarily consisting of Internet service and revenues from the 511 Virginia contract, were $7.1 million in 2004, an increase of $0.1 million or 1.2%. The Company had 15,051 dial-up Internet subscribers at December 31, 2004, compared to 17,420 at the end of the previous year. During 2004, the Company's DSL high-speed Internet access subscriber count increased to 2,646 from 1,298. Total Internet service revenue was $4.9 million, an increase of $0.5 million or 10.1%. The 511Virginia contract with the Virginia Department of Transportation contributed $1.2 million to other revenues, a decrease of $0.1 million or 11.1%. The 511 Virginia contract expired in February 2005 Telecommunications equipment sales, services and lease revenues were $0.9 million, which reflects a $0.2 million decrease from 2003 results. NTC contributed $0.3 million in data services revenue.

Total operating expenses were $101.3 million, an increase of $14.4 million or 16.5%. The primary drivers in the increase in operating expenses are continued growth in the PCS operation, an increase in the number of employees and higher compliance costs to fulfill Sarbanes-Oxley requirements.

Cost of goods and services was $15.8 million, an increase of $2.4 million or 18.0%. The PCS cost of goods sold was $11.6 million, an increase of $1.6 million or 15.6%. This change is due primarily to higher volumes of handsets sold through Company owned stores and PCS handset subsidies paid to third-party retailers. In 2004, the Company recorded approximately $2.1 million in handset costs related to existing subscribers upgrading their handsets, an increase of $1.2 million or 142%. The cost of handset up-grades sold to existing customers is expected to increase as the customer base matures and handset manufacturers introduce new technologies in new handsets. The cable television programming (cost of service) expense was $2.0 million, an increase of $0.4 million or 21.2%. The Company has seen continuing upward pressure on the cost of cable TV programming by cable TV program providers. The cost of providing the Company's ShentelPages directory increased $0.4 million due to an expanded distribution area in 2004.

Network operating costs were $36.2 million, an increase of $4.4 million or 13.9%. The largest item in network operating costs is travel expense. These costs made up 39.7% and 33.8% of the total network and other costs in 2004 and 2003, respectively. Travel expense is the cost of minutes used by the Company's PCS subscribers on Sprint or other Sprint Affiliates' networks. Travel expense in 2004 was $14.4 million, an increase of $3.6 million due to a significant increase in travel minutes in 2004. The travel rate for 2004 was $0.058 and did not change from 2003. Our PCS customers increased their average monthly travel minutes by 26% compared to 2003. In 2003, the average customer's travel usage was 159 minutes per month and in 2004 that average travel usage increased to 179 minutes per month.

Network infrastructure maintenance costs were $10.2 million or 28.1% of total network operating costs, an increase of $0.1 million from 2003. Rent for towers, tower sites, and buildings increased $0.1 million or 1.4 % to $4.4 million. Rent increases plus the increase in the number of sites leased contributed to the increase. Line costs in 2004 were $6.2 million or 17.1% of the network operating costs, consistent with 2003 results.

Depreciation and amortization expense was $19.0 million, an increase of $2.4 million or 14.4%. The decrease in the estimated useful lives of certain asset classes resulted in a $0.5 million increase in depreciation expense in 2004. The PCS operation had depreciation expense of $11.9 million, an increase of $1.7 million or 16.3%. The 18 additional PCS base stations placed in service during 2004 resulted in higher depreciation expense for the year. In the telephone operation, depreciation increased $0.4 million or 9.3%, due to new assets deployed in the operation and a change in the estimated useful lives of certain assets.

Selling, general and administrative expenses were $30.3 million an increase of $5.0 million or 19.8%. The 2004 results include $1.3 million of additional employee expenses and over $1.1 million of expenses to support compliance with Sarbanes-Oxley regulations. Other costs including pension expense of $0.3 million, insurance expense of $0.1 million, $0.6 million in commissions paid in PCS due to increased phone sales and $0.3 for NTC's operations.

Bad debt expense decreased $0.3 million to $1.6 million or 14.4%. This decrease was due to a continuation of the credit terms for new PCS subscribers (limiting the high credit risk customers who obtained service) and improvement in the interexchange carrier segment of the business. This expense is net of normal recoveries and includes a recovery of $113 thousand for an interexchange carrier settlement the Company received in 2004 which was written off in 2002. In 2004, the Company identified several target markets to loosen its credit policies to evaluate the impact on increasing sales. This policy change has generated additional activations and is being closely monitored.

Operating income grew to $19.6 million, an increase of $1.0 million or 5.4%. The Company's operating margin was 16.2%, compared to 17.6% in 2003, a decrease of 1.4%, due primarily to increases in network operating costs and selling, general and administrative expenses.

Other income (expense) is comprised of non-operating income and expenses, interest expense and gain or loss on investments. Collectively, the net impact of these items to pre-tax income was an expense of $3.3 million for 2004, compared to expense of $3.6 million from 2003.

Interest expense was $3.1 million, a decrease of $0.4 million or 10.9%. Long-term debt (inclusive of current maturities), was $52.8 million at year-end 2004, versus $43.3 million at year-end 2003. Long term debt includes $13 million incurred in the November 30, 2004 acquisition of NTC.

Net losses on investments were $0.2 million, compared to a loss of $.04 million from 2003. See Note 3 to the consolidated financial statements.

Non-operating income was a gain of $0.03 million, a decrease of $0.4 million, primarily due to a $0.9 million loss on the disposal of PCS base stations in a network upgrade, offset by $0.5 million increase in dividend income.

The Company provided for income taxes of $6.1 million in 2004, which is an effective tax rate of 38%. Last year's effective tax rate was 35.2% due to the effect of state tax apportionment rules and reduction in the liability for tax purposes. The Company currently operates in ten states. Due to apportionment rules and geographic operations of subsidiaries where the Company's profits and losses arise, the Company is generating profits in states with lower tax rates, while generating losses in states with higher tax rates. The Company cautions readers that the current effective tax rate may not be the same rate at which tax benefits or tax expenses are recorded in the future. The Company's state apportionments, profits and losses and state tax rates may change, therefore changing the effective rate at which taxes are provided for or at which tax benefits accrue. In the near term, under existing operating results and current tax rates, the Company anticipates its future effective tax rate will be approximately 38%.

Net income from continuing operations was $10.2 million, an increase of $0.7 million from 2003. The results are primarily made up of the improvement in the PCS operation.

Income from discontinued operations was $22.4 million in 2003. The income from discontinued operations in 2003 includes the sale of the partnership interest in February 2003 and results from the two months of its operations in 2003. There was no income or loss from discontinued operations in 2004.

The Company adopted FAS 143 "Accounting for Asset Retirement Obligations." effective January 1, 2003, and as a result recorded a charge to earnings for the cumulative effect of this change in accounting of $76 thousand after taxes.

Net income was $10.2 million, a decrease of $21.7 million or 68%. The decrease is primarily the result of $22.4 million in income from discontinued operations recorded in 2003. See Note 2 to the consolidated financial statements.

DISCONTINUED OPERATIONS

The Company invested $2.0 million in the Virginia 10 RSA Limited Partnership in the early 1990s. The Partnership's local customer base peaked in early 2000 with nearly 12,000 subscribers, then steadily declined to 6,700 by December 31, 2002. The decline was the result of competition with digital technologies and increased competition from national carriers. As a result of the decline in the subscriber base, and the need for extensive capital expenditures to transform the analog network into a digital cellular network, the Company elected to sell its 66% interest in the partnership to one of the minority partners. The agreement was signed in November 2002, and closing was February 28, 2003. The Company's portion of the net income from its operations for 2003 and 2002 was $1.2 million and $7.4 million, respectively. There was no net income or loss from discontinued operations in 2004.

CONTINUING OPERATIONS

2003 compared to 2002

Total revenue was $105.6 million in 2003, an increase of $12.9 million or 13.9%. Total revenues included $69.6 million of wireless revenues, an increase of $12.0 million or 20.9%; wireline revenues of $29.0 million, an increase of $0.3 million or 0.9%; and other revenues of $7.0 million, an increase of $0.6 million or 9.7%.

Within wireless revenues, PCS operation contributed $66.8 million, an increase of $11.6 million, or 21.0%. PCS service revenues were $44.4 million, an increase of $10.9 million or 32.4%. Service revenue growth was driven by the increase in subscribers, totaling 85,139 at December 31, 2003, an increase of 17,297 or 25.5%, compared to 67,842 subscribers at year-end 2002. The company had churn of 2.1% in 2003 compared to 2.8% in 2002. The decline in the churn rate is the result of tightening the credit screening for new subscribers as well as continued efforts to improve the after sales support. Competition in the wireless industry continues to have a significant impact on the results of the Company's PCS operation.

PCS travel revenue, including reseller revenue, which is compensation between Sprint and its PCS Affiliates for use of the other party's network, was $16.8 million, an increase of $0.3 million or 1.8%. Travel revenue is impacted by the geographic size of the Company's network service area, the overall number of Sprint wireless customers, their travel patterns and the travel exchange rate. The rate received on travel was $0.058 per minute in 2003, compared to $0.10 per minute in 2002. As a part of the amended management agreement signed on January 30, 2004, Sprint and the Company agreed to maintain the travel rate at $0.058 per minute through December 31, 2006.

PCS equipment sales were $1.8 million, an increase of $0.4 million or 32.2%. The equipment sales are net of $2.1 million of rebates and discounts given at the time of sale. Rebates and discounts continue to be required to meet significant industry competition for subscriber additions and subscriber retention. These discounts and rebates are primarily transacted in the form of instant rebates, providing a second phone free when a customer purchases one, or providing free phones if the subscriber signs up for a specific contract term and a specific service plan.

In accordance with Sprint's requirements, the Company launched third generation (3G 1X) wireless service in August 2002. The impact of 3G 1X-network enhancements on revenues became more pronounced in 2003, as use of new 3G services and features generated approximately $1.0 million for the year, compared to $0.2 million in 2002. The growth in 3G revenue is the result of more subscribers on 3G plans and the increase in popularity of camera phones during 2003.

Wireless revenues included tower leases of $2.6 million, an increase of $0.5 million or 24.8%. The increase was the result of other wireless carriers leasing additional space on the Company's portfolio of towers. Of the 88 towers and poles owned by the Company as of December 31, 2003, 52 towers have one or more external tenants, compared to 46 towers with external tenants at the end of 2002.

Wireless revenues from the Company's paging operation were $0.2 million, a decrease of $0.1 million as the customer base increasingly chose alternative wireless services. Paging service subscribers declined by 32.3% in 2003 from 2,940 subscribers to 1,989 subscribers. The paging operation continues to decline as more areas are covered by wireless voice services which have features that surpass those of paging technologies. The Company anticipates that its paging customer base will continue to decline in the future.

Within wireline revenues, the Telephone operation contributed $22.7 million, an increase of $0.3 million, or 1.2%. Telephone access revenues were $11.1 million, an increase of $0.2 million or 1.6%. During 2003, the Company recorded a $1.2 million reduction to access revenue, of which $0.7 million was related to 2002, resolving disputes with interexchange carriers on the rating of long distance calls transiting the Telephone switching network for termination on wireless networks.

Originating access revenue increased in 2003 due in part to a shift from interstate to intrastate traffic. On similar traffic volume in both years, the Company generated an additional $0.4 million due to a favorable rate differential of $0.03 per minute on the increase in the mix of intrastate traffic. The Company's increased access revenue was also a result of the benefit gained through handling more minutes through the switch, which increased 36.0 million minutes or 35.7% over 2002. The rates for terminating traffic were similar in both years, although the percentage of terminating traffic to total traffic increased from 58% in 2002 to 65% in 2003.

The shift in originating traffic is the result of implementing software capable of identifying actual interstate and intrastate traffic specifically delivered to the wireline switch, where previously usage was allocated between interstate and intrastate traffic types by the interexchange carriers.

The following table shows the access traffic minutes of use for the two years of 2003 and 2002.

Minutes of use (in thousands) (net of intercompany usage)	**2003**		2002	
	Originating	Terminating	Originating	Terminating
Interstate	**29,373**	**87,539**	42,929	63,959
Intrastate	**37,190**	**49,103**	22,684	36,712
Total	**66,563**	**136,642**	65,613	100,671

Access revenue (in thousands) (net of intercompany usage)	**2003** As reported	**2003** Pro forma	2002 As reported	2002 Pro forma
Traffic sensitive (1)	**$ 4,274**	**$ 4,974**	$ 4,676	$ 3,976
Special access revenues	**1,606**	**1,606**	1,247	1,247
Carrier common line settlement	**5,750**	**5,750**	4,978	4,978
Total	**$ 11,630**	**$ 12,330**	$ 10,901	$ 10,201

(1) Traffic sensitive revenue has been normalized in the pro forma column to remove the impact of the access billing dispute adjustment and the impact of the NECA settlement adjustments.

Facility lease revenue contributed $5.5 million to wireline revenues, a decrease of $0.2 million or 3.5%. The decrease was primarily the result of the prolonged decline of lease rates associated with competitive pricing pressures and the economic downturn in the telecommunications industry. During 2002 the Company completed a second, diverse fiber route to its existing interconnection point in the Dulles airport area of Northern Virginia. This fiber route provides increased reliability for customers in the event of fiber cuts or breaks, and extends the availability of the Company's fiber network to additional market locations.

Billing and collection services and other revenues contributed $0.4 million to wireline revenues, which was the same as 2002 results. Revenues from this service had declined in recent years, with interexchange carriers now issuing a greater proportion of their bills directly to their customers.

Wireline revenues from cable television services were $4.4 million, an increase of $0.1 million or 1.7%. The number of subscribers and service plan prices remained relatively constant during 2003.

Other revenues, primarily consisting of Internet and 511Virginia service revenues were $5.8 million in 2003, an increase of $0.7 million or 13.5%. The Company had 17,420 dial-up Internet subscribers at December 31, 2003, compared to 18,050 at the end of the previous year. During 2003, the Company's DSL high-speed Internet access subscriber count increased to 1,298 from 646. Total Internet service revenue was $4.5 million, an increase of $0.3 million or 10.7%. The 511Virginia contract with the Virginia Department of Transportation contributed $1.3 million to other revenues, an increase of $0.4 million or 41.3%. Telecommunications equipment sales, services and lease revenues were $1.1 million, which reflects a $0.1 million decrease from 2002 results.

Total operating expenses were $87.0 million, an increase of $3.6 million or 4.3%. The primary driver in the increase in operating expenses is continued growth in the PCS operation somewhat offset by a significant decline in bad debt expense compared to 2002.

Late in 2003, the Company made an employee benefits policy change, which eliminated the requirement for the Company to accrue a vacation liability in advance of the year in which the benefit was used. The result of this change was a reduction of benefit expense of $0.5 million for the year compared to 2002. Benefit expenses impact all operating departments based on the amount of direct labor charged to the department. The change has a one-time impact on the financial statements of the Company. The benefits policy now provides that employees earn and use their paid time off in the same period. In the future, under this policy unused hours up to a prescribed limit can be banked but only used for extended illness, not carried over for use as vacation.

Cost of goods and services was $13.4 million, an increase of $1.7 million or 14.5%. The PCS cost of goods sold was $10.1 million, an increase of $1.4 million or 16.2%. This change is due primarily to higher volumes of handsets sold through Company owned stores and PCS handset subsidies paid to third-party retailers. In 2003, the Company recorded approximately $1.8 million in handset costs related to existing subscribers upgrading their handsets. Prior to 2003, the Company did not track the specific costs related to subsidizing new handsets to existing customers. The cost of handset up-grades sold to existing customers is expected to increase as the customer base matures and handset manufacturers introduce new features. The cable television programming (cost of service) expense was $1.6 million, an increase of $0.2 million or 16.3%. The Company has seen continuing upward pressure on the cost of cable TV programming by cable TV program providers.

Network operating costs were $31.8 million, an increase of $0.5 million or 1.6%. The largest item in network operating costs is travel expense. These costs made up 33.8% and 34.2% of the total network and other costs in 2003 and 2002, respectively. Travel expense is the cost of minutes used by the Company's PCS subscribers on Sprint or other Sprint Affiliates' networks. Travel expense in 2003 was $10.8 million, an increase of $0.1 million due to a significant increase in travel minutes in 2003 which was offset by the impact of the rate decline. The travel rate declined from $0.10 per minute in 2002 to $0.058 per minute in 2003. Our PCS customers increased their average monthly travel minutes by 22% compared to 2002. In 2002, the average customer's travel usage was 130 minutes per month and in 2003 that average travel usage increased to 159 minutes per month.

Network infrastructure maintenance costs were $4.9 million or 15.5% of total network operating costs, a decrease of $0.2 million from 2002. Rent for towers, tower sites, and buildings increased $0.9 million or 27.3% to $4.2 million. Lease escalators plus the increase in the number of sites leased contributed to the increase. Line costs in 2003 were $8.0 million or 25.2% of the network operating costs, an increase of $0.1 million.

Depreciation and amortization expense was $16.6 million, an increase of $2.1 million or 14.8%. The PCS operation had depreciation expense of $10.2 million, an increase of $1.6 million or 18.9%. The 16 additional PCS base stations placed in service during 2003 resulted in higher depreciation expense for the year. In the telephone operation, depreciation increased $0.5 million or 12.6%, due to new assets deployed in the operation. There was no amortization of goodwill in 2003 or 2002, compared to goodwill amortization of $360 thousand expensed in 2001, due to the required accounting change.

Selling, general and administrative expenses were $25.3 million, a decrease of $0.6 million or 2.4%. Customer support costs were $10.4 million, an increase of $1.6 million due primarily to the growth in Sprint wireless subscribers. Selling and advertising expenses were $6.8 million, a decrease of $0.6 million, primarily due to the third party national programs that were modified to rebate programs. Administrative expenses increased $1.0 million or 17.1%. The increase was the result of increased professional fees, insurance and pension costs.

Bad debt expense decreased $2.6 million to $1.8 million or 58.3%. This decrease was due to more restrictive credit terms for new PCS subscribers (limiting the high credit risk customers who obtained service), lower churn in the PCS operation and improvement in the interexchange carrier segment of the business. This expense is net of normal recoveries and includes a recovery of $0.2 million for an interexchange carrier settlement the Company received in 2003 which was written off in 2002.

Operating income grew to $18.6 million, an increase of $9.3 million or 100%. Revenue growth, primarily in the PCS operation in addition to the reduced bad debt expenses, adjustments of management estimates, and the settlement of disputed items with Sprint, all contributed to the operating income improvements. The Company's operating margin was 17.6%, compared to 10.0% in 2002.

Other income (expense) is comprised of non-operating income and expenses, interest expense and gain or loss on investments. Collectively, the net impact of these items to pre-tax income was an expense of $0.1 million for 2003, compared to expense of $10.1 million from 2002. The 2002 results were primarily the results of the previously disclosed $9.0 million loss recorded on the sale of the VeriSign stock.

Interest expense was $3.5 million, a decrease of $0.7 million or 16.3%. The Company's average debt outstanding decreased approximately $4.8 million. Long-term debt (inclusive of current maturities), was $43.3 million at year-end 2003, versus $52.0 million at year-end 2002. The Company did not borrow any money on its revolving facilities in 2003.

Net losses on investments were $0.4 million, compared to a loss of $10.1 million from 2002. Results in 2002 include the sale of the VeriSign, Inc. stock for a loss of $9.0 million. See Note 3 to the consolidated financial statements.

Non-operating income was a gain of $0.4 million, an increase of $0.5 million, due to an increase in patronage equity earned from CoBank, the Company's primary lender, and due to interest income from the proceeds on the sale of the Virginia 10 RSA Limited partnership, offset by losses recorded for the Company's portfolio of investments.

The Company provided for income taxes of $5.3 million in 2003, which is an effective tax rate of 35.2% due to the effect of state tax apportionment rules and reduction in the liability for tax exposures. On a normalized basis the Company would have recorded taxes at an effective tax rate of approximately 39%. Last year's effective tax rate was 42.2% due to the impact of net operating loss carry forwards generated in several states with higher tax rates. The Company currently operates in four states. Due to apportionment rules and geographic operations of subsidiaries where the Company's profits and losses arise, the Company is generating profits in states with lower tax rates, while generating losses in states with higher tax rates. The Company cautions readers that the current effective tax rate may not be the same rate at which tax benefits or tax expenses are recorded in the future. The Company's state apportionments, profits and losses and state tax rates may change, therefore changing the effective rate at which taxes are provided for or at which tax benefits accrue.

Net income from continuing operations was $9.8 million, an increase of $12.7 million from 2002. The results are primarily made up of the improvement in the PCS operation and the one-time impact of the losses on the sale of VeriSign stock in 2002.

Income from discontinued operations was $22.4 million after taxes, an increase of $15.0 million or 202%. The income from discontinued operations in 2003 includes the sale of the partnership interest in February 2003 and results from the two months of its operations in 2003.

The Company adopted FAS 143 "Accounting for Asset Retirement Obligations." effective January 1, 2003, and as a result recorded a charge to earnings for the cumulative effect of this change in accounting of $76, thousand after taxes.

Net income was $32.1 million, an increase of $27.6 million or 610%. The increase is a result of improved operating results in the PCS operations, the 2002 VeriSign stock loss and the sale of the cellular operations.

INVESTMENTS IN NON-AFFILIATED COMPANIES

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

The fair value of the Company's available-for-sale securities was $0.2 million at the end of 2004, compared to $0.2 million at the end of 2003. The Company's available-for-sale portfolio at December 31, 2004 is made up of two investments, both of which are within the telecommunications industry. Due to the volatility of the securities markets, particularly in the telecommunications industry, there is uncertainty about the ultimate value the Company will realize with respect to these investments in the future. During 2004, the Company recognized an impairment loss from its available-for-sale securities of $28 thousand on NetIQ Corp.

The Company participates in emerging technologies by investing in entities that invest in start-up companies. This includes indirect participation through capital venture funds of South Atlantic Venture Fund III, South Atlantic Private Equity IV, Dolphin Communications Parallel Fund, Dolphin Communications Fund II and the Burton Partnership. For those companies that eventually make public offerings of their securities, it is the intent of the Company to evaluate whether to hold or sell parts or all of each investment on an individual basis. At December 31, 2004, the Company had external investments totaling $7.0 million. During 2004, the Company had a direct investment in NTC Communications. On November 30, 2004, the Company purchased the remaining 83.9% of NTC that it did not already own.

In 2005, the Company anticipates taking advantage of converting additional Rural Telephone Bank stock from Class B to Class C. In 2004, the Company converted a portion of its holdings into a different class of stock that pays cash dividends. The bank declares a dividend rate that varies, each year. The range of the dividend has been between 4.2% and 6.0% over the last 5 years. The rate in 2004 was 6.0%. This transaction provided the Company with approximately $0.3 million in income for 2004.

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.

The term debt loan agreements with CoBank have three financial covenants. These are measured on a trailing 12-month basis and are calculated on continuing operations. At December 31, 2004, the covenant calculations were as follows; the ratio of total debt to operating cash flow, which must be 2.5 or lower, was 1.4. The equity to total assets ratio, which must be 35% or higher, was 53.9%. The ratio of operating cash flow to scheduled debt service, which must exceed 2.0, was 5.1. The Company was in compliance with all other covenants related to its debt agreements at December 31, 2004. The Company has pledged all of its affiliates capital stock and the outstanding ownership interest in NTC as collateral for the CoBank loans.

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 $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 quarterly payments beginning June 2006. Borrowings under the facility are at an adjustable rate that can be converted to a fixed rate at the Company's option. The loan is secured by a pledge of the stock of all of the subsidiaries of the Company as well as all of the outstanding membership interests in NTC. At December 31, 2004, $13.2 million was outstanding under this facility.

The Company's covenants on the RUS/RTB debt require the pledge of all current and future assets of the Telephone subsidiary until the debt is retired.

Another external source of funding is a $0.5 million unsecured, variable rate revolving line of credit with SunTrust Bank. This facility is in place to allow the Company to better manage its daily cash balances. The facility expires May 31, 2005. Management anticipates renewing this facility with SunTrust Bank under similar terms and conditions. At December 31, 2004 there were no balances outstanding under this facility.

In February 2005, the Company received the $5.0 million placed in escrow, and reflected as an escrow receivable at December 31, 2004, as part of the sales agreement on the Virginia 10 RSA Limited Partnership.

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.

The Company spent $34 million on capital projects in 2004, or about $4 million below what was budgeted for the year. The variance was primarily due to delays in the start dates for construction of a fiber route and various PCS related expenditures.

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, 2004, are as follows:

Payments due by periods (unaudited) (in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt principal	$ 52,291	$ 4,372	$ 11,142	$ 12,417	$ 24,360
Interest on long-term debt	16,412	3,562	5,913	4,101	2,836
Retirement plan benefit contributions	500	500	-	-	-
Operating leases	17,312	4,416	6,770	4,284	1,842
Capital calls on investments	1,121	1,121	-	-	-
Purchase obligations	1,667	1,667	-	-	-
Total obligations	$ 89,303	$ 15,638	$ 23,825	$ 20,802	$ 29,038

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 expenditures budgeted for 2005 total approximately $36 million, including approximately $20 million for additional PCS base stations, additional towers, and switch upgrades to enhance the PCS network. Approximately $6 million is budgeted for telecommunication services currently outside of the Company's primary operating area, Improvements and replacements of approximately $5 million are planned for the telephone operation and the remaining $5 million covers technology upgrades and other capital needs.

The Company anticipates using funds from operations, to fund the capital expenditures and the payment of debt and interest. Due to lower than expected tax expenses in 2004, the Company will apply the tax receivable to the 2005-year tax liability. It is anticipated in 2005, that additional federal tax payments will be due based on anticipated profits expected to be generated in the operation.

Management anticipates its operations will generate higher operating cash flows in 2005, compared to those of continuing operations in 2004, although there are events outside the control of the Company that could have an adverse impact on cash flows from operations. The events that could adversely impact operating cash flow results include, but are not limited to; changes in overall economic conditions, regulatory requirements, changes in technologies, availability of labor resources and capital, and other conditions. The PCS subsidiary's operations are dependent upon Sprint's ability to execute certain functions such as billing, customer care, and collections; their ability to develop and implement successful marketing programs and new products and services; and their ability to effectively and economically manage other operating activities under the Company's agreements with Sprint. Additionally, the Company's ability to attract and maintain a sufficient customer base is critical to maintaining a positive cash flow from operations. These items individually and/or collectively could impact the Company's results. The Company is currently assessing the impact of the planned merger of Sprint and Nextel Communications on the Company's operations.

Management expects cash from operations, along with cash on hand, investments and funds available under the Company's existing credit facilities, should be sufficient to meet its short-term and long-term cash needs, including working capital requirements, capital projects and debt payments, and to fund potential dividend payments. Significant new ventures, acquisitions or other new business opportunities may require outside funding.

RECENTLY ISSUED ACCOUNTING STANDARDS

In December 2004, the FASB issued SFAS No. 123 (revised 2004), Share Based Payment, which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 (R) replaces SFAS No. 123, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends SFAS No. 95, Statement of Cash Flows.
The approach in SFAS 123 (R) is similar to the approach described in SFAS No. 123, however, SFAS No. 123 (R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure will no longer be an alternative. SFAS No. 123 (R) will be effective for the Company beginning July 1, 2005. The Company is evaluating the impact of applying SFAS No. 123 (R) and does not believe the application will have a material impact on the Company's consolidated financial statements.

In March 2004, the FASB issued EITF Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments" which provides new guidance for assessing impairment losses on debt and equity investments. EITF Issue No. 03-1 also includes new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB delayed the accounting provisions of EITF Issue No. 03-1; however, the disclosure requirements remain effective for the Company's year ended December 31, 2004. The Company will evaluate the effect, if any, of EITF Issue No. 03-1 when final guidance is released. During the fourth quarter, the Company recognized a $28 thousand impairment loss on NetIQ Corp. and as a result the Company does not have any unrealized losses or additional disclosures required by EITF issue No. 03-1 at December 31, 2004.

In December 2003, the FASB issued FASB Interpretation No. 46 (revised December 2003),"Consolidation of Variable Interest Entities," which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. FIN 46R replaces FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," (VIE), which was issued in January 2003. The Company does not have any investments in entities it believes are variable interest entities.

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Liabilities and Equity," which was effective at the beginning of the first interim period beginning after June 15, 2003. This Statement establishes standards for the classification and measurement of certain financial instruments with characteristics of both liabilities and equity. The Statement also includes required disclosures for financial instruments within its scope. For the Company, the Statement was effective for instruments entered into or modified after May 31, 2003 and otherwise will be effective as of January 1, 2004, except for mandatorily redeemable financial instruments. For certain mandatory redeemable financial instruments, the Statement will be effective for the Company on January 1, 2005. The effective date has been deferred indefinitely for certain other types of mandatory redeemable financial instruments. The Company currently does not have any financial instruments that are within the scope of this Statement.

In December 2003, the Financial Accounting Standards Board issued FASB Statement No. 132(R). Statement No. 132(R) is a revision of Statement No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." SFAS 132(R) is effective for financial statements with fiscal years ending after December 15, 2003. SFAS 132(R) requires additional disclosures including information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. The objectives of the revisions are to provide qualitative information about the items in the financial statements, quantitative information about items recognized or disclosed in the financial statements, information that enables users of financial statements to assess the effect that pension plans and other postretirement benefit plans have on entities' results of operations, and information to facilitate assessments of future earnings and cash flows. With the exception of the 2004 adoption of the requirement to include estimated future benefit payments, the Company adopted this statement effective December 31, 2003, with disclosures included in Note 9.

RISKS

At December 31, 2004, the Company is one of eleven PCS Affiliates of Sprint, and accordingly, is impacted by decisions and requirements adopted by Sprint in regard to its wireless operation. Management continually reviews its relationship with Sprint as new developments and requirements are added. Note 7 to the accompanying consolidated financial statements contains a detailed description of the significant contractual relationship. See Item 1. "Business – Risk Factors", "-Recent Developments" and "-Regulation" for a discussion of risks relating to the Company's PCS business, its relationship with Sprint and the Wireless Industry in general.

The Company's access revenue may be adversely impacted by legislative or regulatory actions that decrease access rates or exempt certain traffic from paying access to the Company's regulated telephone network. The Federal Communications Commission is currently reviewing the issue of Voice over Internet Protocol (VoIP) as it relates to access charges. An unfavorable finding may have an adverse effect on the Company's telephone operations.

There has been a trend for incumbent local exchange carriers to see a decrease in access lines due to the effect of wireless and wireline competition and the elimination of a second line dedicated to dial up Internet as customers migrate to broadband connections. Although the Company has not seen a material reduction in its number of access lines to date, it experienced line decreases in each of the last two quarters. There is a significant risk that this trend could have a material adverse effect on the Company's telephone operations in the future.

The Company's revenue from fiber leases may be adversely impacted by further erosion in demand or in price competition for these facilities. The Company monitors each of its fiber lease customers closely to minimize the risk related to this business.

The Company operates the cable television system in Shenandoah County, Virginia. The Company has seen increased competition from satellite providers that are larger and have cost advantages over the Company in the procurement of programming. The continued success of the satellite television providers may have an adverse impact on the Company's cable television results.

The Company may not be able to utilize all of its net operating loss carry forwards for taxes in certain states before they expire, resulting in the Company writing off some of its deferred tax assets and impacting its cash position.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Management, with the participation of the President and Chief Executive Officer, who is the principal executive officer, and the Executive Vice President and Chief Financial Officer, who is the principal financial officer, conducted an evaluation of our disclosure controls and procedures, as defined by Rule 13a-15(e) under the Securities Exchange Act of 1934. Based on this evaluation, the Company's principal executive officer and its principal financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2004.

During 2004, there were changes in the Company's internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting as follows:

1. The Company dedicated significant resources during the second quarter of 2004 in preparing for the conversion of its new PCS point of sale system. The conversion involved a change from a stand-alone, Company-hosted system, to a system hosted and integrated into the Sprint billing system. Through this integration, the Company eliminated several points of multiple data entry, thereby reducing the risk of error, and enhancing internal control, while improving the sales process. The new system was placed in service during mid-July 2004.

2. The Company has put into place processes that have steadily improved our ability to identify material errors in Sprint financial information on a timely basis. These processes are in part a result of a new Amended Management and Services Agreement.

3. In connection with the requirements imposed under Section 404 of the Sarbanes-Oxley Act of 2002, we retained an outside consulting firm to assist us in reviewing, documenting, and improving our internal control processes and have engaged Goodman and Company, a regional accounting firm to assist in the testing of these controls.

On an ongoing basis, the Company contracted with Goodman and Company to perform internal audit functions.

Under our agreements with Sprint, Sprint provides us with billing, collections, customer care, certain network operations and other back office services for the PCS operation. As a result, Sprint remits to the Company approximately 64% of the Company's total revenues, while approximately 37.1% of the expenses reflected in the Company's consolidated financial statements relate to charges by or through Sprint for expenses such as billing, collections and customer care, roaming expense, long-distance, and travel. Due to this relationship, the Company necessarily relies on Sprint to provide accurate, timely and sufficient data and information to properly record our revenues, expenses and accounts receivable, which underlie a substantial portion of our periodic financial statements and other financial disclosures.

Information provided by Sprint includes reports regarding the subscriber accounts receivable in our markets. Sprint provides us monthly accounts receivable, billing and cash receipts information on a market level, rather than a subscriber level. We review these various reports to identify discrepancies or errors. However, under our agreements with Sprint, we are entitled to only a portion of the receipts, net of items such as taxes, government surcharges, certain allocable write-offs and the 8% of revenue retained by Sprint. Because of our reliance on Sprint for financial information, we must depend on Sprint to design adequate internal controls with respect to the processes established to provide this data and information to the Company and Sprint's other PCS affiliate network partners. To address this issue, Sprint engages independent auditors to perform a periodic evaluation of these controls and to provide a "Report on Controls Placed in Operation and Tests of Operating Effectiveness for Affiliates" under guidance provided in Statement of Auditing Standards No. 70 ("SAS 70 reports"). The report is provided to the Company on semi-annual basis and covers a twelve-month period. The current recent report covers the period from October 1, 2003 to September 30, 2004. The most recent report indicated there were no material issues, that were not remediated by year end, which would adversely affect the information used to support the recording of the revenues and expenses provided by Sprint related to the Company's relationship with them.