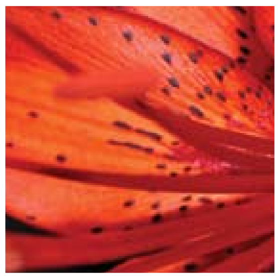




Shenandoah Telecommunications Company

Annual Report 2005

SHENTEL™

Change:

progressive development

"Without continual growth
and progress, such words as
improvement, achievement
and success have no meaning."

-Benjamin Franklin

Contents

Letter to the Shareholders

Christopher E. French

March 31, 2006

Dear Shareholder:

Your Company had a great year in 2005. We achieved record financial and operational results and made continued progress with our ongoing efforts to diversify into new and developing business opportunities. Our solid performance was a result of our ongoing efforts to grow our business profitably into a regional provider of advanced telecommunications services. As you can see on the following pages of this report, we have many growth initiatives underway, and are continuing to develop new sources of revenues and profits.

Our past diversification efforts have resulted in our PCS subsidiary becoming the largest of our businesses in terms of revenue and the second biggest contributor of profits. This subsidiary will undergo significant changes in 2006; but we do not yet know the ultimate nature of that change. As we continue our discussions with Sprint Nextel concerning the impact of their merger, we have made clear our desire to create a new long-term operating relationship that will be mutually beneficial.

Financial highlights for the year include revenues of $146.4 million, an increase of $25.4 million or 21.0%. Operating income reached $19.4 million, an increase of 7.6%. Net income reached $10.7 million, increasing 7.0% over 2004. This increase was achieved while incurring a large net loss from NTC Communications and a large increase in Stock Appreciation Rights (SARs) expense. In our first full year of operating NTC, we incurred an operating loss of $3.9 million, as we focused on conversion and integration efforts instead of generating new revenues from additional properties. We also booked $1.3 million in SARs expense, which relates to the Company's stock-based compensation plan and was driven by the large increase in your Company's stock price during 2005.

Total long-term debt was $35.9 million at year end, a reduction of $16.4 million. As of the end of the year, total long-term debt as a percent of total assets was 17.5%, compared to 24.7% a year earlier.

From an operations perspective, highlights include the increase in our retail PCS customer base, which grew to 122,975 or 19.8% above the previous year-end total. Following our purchase of NTC Communications at the end of 2004, we successfully converted its customer base to our in-house customer care and billing platforms. During the last weeks of August 2005, we initiated service for over 20,000 students living in off-campus student housing in our NTC markets. Our local exchange business had a slight positive net gain in access lines which compares favorably to a general decline in access lines experienced by most other telephone companies.

In addition to our efforts integrating NTC Communications, we focused a large amount of time and resources on our other Converged Services businesses. We started an initiative to build and market wireless broadband services to customers in selected markets in the Mid-Atlantic and southeastern United States. In February of 2006, we successfully concluded negotiation of an exclusive agreement with RCMS/Legacy Custom Homes to build an advanced fiber optic network for Legacy's newest community, Tackley Mill, in Ranson, West Virginia. Under the agreement, our company will provide a comprehensive suite of telecommunications services to the 600 single-family homes and 400 town homes planned for the community.

All of our Converged Services efforts represent important steps in our Company's ongoing drive to further diversify into services other than those provided through traditional regulated telecommunication businesses. The continued convergence of technologies and the increasingly competitive nature of telecommunications make it imperative that our organization enter new markets and provide additional services in order to continue our long-term profitable growth.

One factor driving the changes in our industry is the increasing demand for broadband access. Access to high speed data services, whether used for connecting to the Internet or other data applications, has become a basic requirement for families, businesses and communities that want to remain a viable part of our modern information society. Our telephone company subsidiary continued its leading role in providing advanced telecommunication services to the communities we serve, and by the end of the year we had completed network upgrades enabling us to provide broadband access service to any local exchange subscriber. Achieving this milestone gave every resident of Shenandoah County and the Bergton exchange in Rockingham County access to broadband services that other areas may not have for years to come.

The changes taking place to both our industry and our business have been developing and evolving over a long period of time. In the past our Company was successful because of our ability to adapt to those changes, and because we identified and participated in opportunities those changes presented. Due to the recent merger of Sprint and Nextel, our PCS business (and therefore our Company) now faces what we believe could be one of the most significant decisions in our Company's history. We have been providing PCS service since 1995, first as an affiliate of American Personal Communications (APC), and then as an affiliate of Sprint after their acquisition of APC. Under our affiliate agreements, we are the exclusive provider of PCS services in our market area, operating under the

Sprint brand. The merger of Sprint and Nextel has led many affiliates, including Shentel, to conclude that the merger has violated the terms of their affiliate agreement. As a result, Sprint and its affiliates initiated discussions to resolve this issue and possibly develop a new relationship. In some cases, however, the outcome of those discussions has resulted in Sprint acquiring the affiliate.

It is our belief that a new long-term and profitable relationship between Sprint Nextel and our Company can be developed. Although the structure of the old affiliate relationship cannot be sustained, we have continued to work with Sprint Nextel to determine if a new mutually beneficial relationship can be created. Despite our desires and Sprint Nextel's willingness to continue discussions toward creating such a relationship, there can be no guarantee that the Company will ultimately be successful in pursuing this goal. If we are unsuccessful in meeting this objective, we would most likely have to pursue our claims against Sprint Nextel for the breach of our affiliate agreements. This process could be long and expensive with no guarantee of an ultimately successful resolution.

Some industry analysts have taken the position that Sprint Nextel will ultimately acquire all of its affiliates, and although not currently desirable for us, it remains a possibility. At this point the Company does not know what the ultimate outcome will be but will continue to work for an outcome that is in the best long-term interest of our shareholders.

Despite the uncertainty about what may or may not happen with our PCS business, the market value of our stock performed very well during the year. Although finishing the year below the high price levels reached around the beginning of August, the year-end closing price of $39.84 per share was an increase of 33.0% over the previous year's close. The gain for the year helped continue the great long-term performance of your investment, as evidenced by the total return graph contained in the proxy statement.

Although significant changes are likely to occur during 2006, the Company will continue its efforts to diversify and generate long-term profitable growth in earnings for our shareholders. We appreciate the support you have given management and the Board of Directors and trust that this support will continue as we work to increase the value of your investment.

For the Board of Directors,

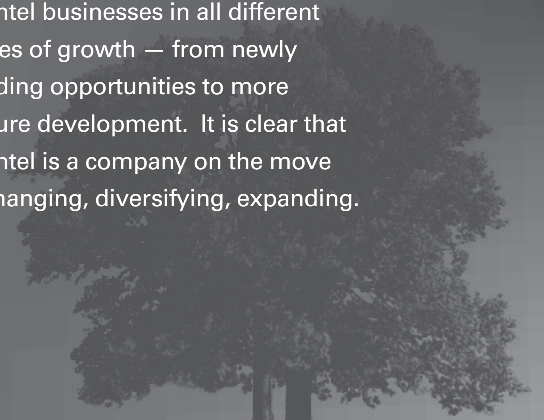
Christopher E. French

Christopher E. French
President

Progress & Development

Shentel's strategy of long-term profitable growth and diversification is dependent upon change. With each day that passes we are less reliant on our regulated businesses. The world in which we live has changed, and we must change with it.

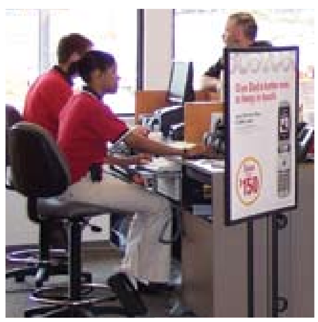
The following pages depict several Shentel businesses in all different stages of growth — from newly budding opportunities to more mature development. It is clear that Shentel is a company on the move — changing, diversifying, expanding.

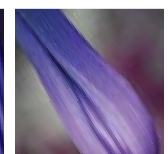


Events of 2005

DSL Milestone

DSL made availabile to 100% of local exchange subscribers





NTC Integration

Merging NTC into the Shentel organization was a major focus

PCS Growth

Growth and expansion of PCS operation continues to have positive impact on Shentel

Fiber-to-the-Home

Fiber-to-the-Home prospecting lands Tackley Mill development

The art of progress is to preserve order amid **change** and to preserve **change** amid order.

DSL Milestones

Growth in DSL (Digital Subscriber Line) remains a central component of Shentel's overall strategic plan. The year began with two primary goals in mind: achieving 100% DSL availability to our local exchange customers, and generating double-digit growth in DSL sales.

Achieving the first goal of 100% network availability was a particularly important step in solidifying Shentel's position as a growth partner in the region.

Considering the challenges of providing top-rate technology services in rural areas makes the achievement even more remarkable. Local officials recongize the importance of broadband access.

Senior Planner, Tom Christoffel of the Northern Shenandoah Valley Regional Commission said, "Shentel's sophisticated regional growth strategy has created a huge advantage for Shenandoah County. Warren, Page and even Frederick counties

"Shentel's sophisticated regional growth strategy has created a huge advantage for Shenandoah County."

Tom Christoffel, Northern Shenandoah Valley Regional Commission

“When it comes to bringing business to this area, having access to high-speed Internet is critical from an economic standpoint.”

Joe Paxton, County Administrator Rockingham County

are at a disadvantage because they are small territories served by big companies. DSL access doesn’t just help the economy, it helps everybody.”

Joe Paxton, the county administrator in Rockingham County, called the achievement a quality of life advantage to the northern Rockingham citizens and businesses that are served by Shentel. “When it comes to bringing business to this area, having access to high-speed Internet is critical from an economic standpoint.”

Achieving the second goal of double-digit growth in DSL sales was an equally important accomplishment. An aggressive marketing campaign helped close out the year with particularly strong growth in the fourth quarter. Shentel ended the year with an 82% increase in its DSL customer base.

NTC Integration

Late in 2004, Shentel purchased NTC, a provider of bundled telephone, cable television and high-speed Internet service primarily to the off-campus student housing market. The integration of NTC was a major focus for Shentel in 2005.

Work began immediately to apply Shentel's focus on customer service and reliability to its NTC customer base. Increasing access to customer service, expanding real-time technical support, and improving network infrastructure were just a few of the many initiatives that were put into action.

To successfully manage the rush of students returning to school last fall, Shentel more than doubled its number of customer care representatives. Internet technical support hours were expanded to seven days a week, and service issues can now be reported to live operators 24/7.

Considerable investments were made in the replacement and upgrading of equipment in order to handle more traffic, enhance system performance, reduce service problems and improve network security. At several properties, available bandwidth increased by more than 100%.

The Mill Apartments in Harrisonburg, Virginia primarily leases to students at James Madison University. Community Manager Ron Turner has been managing the property for more than eight years. "Shentel has made a major difference this past year," Turner said. "We have far less problems than before. Shentel has done an outstanding job responding to our requests to resolve any issues and customer service has greatly improved!"

With the successful integration of NTC behind us, the Company's focus has shifted to growing this part of the business. The acquisition of NTC not only gave Shentel an immediate presence in the Mid-Atlantic and southeastern United States, but also provided a jump start for growth in the multiple-dwelling unit market segment.

"Shentel has done an outstanding job responding to our requests to resolve any issues..."

Ron Turner, Community Manager

It takes courage to **change**.
To let loose the familiar and take up the new.
What security is there in that which is no longer meaningful?

"We switched to Sprint because Shentel has a strong network. That gives us peace of mind."
Nicole Lytton, Lantz Controller

PCS Growth

The continued growth and expansion of our PCS business is evidenced by three years of consecutive double-digit growth in wireless customers. As a Sprint PCS Affiliate of Sprint Nextel, the Company's PCS operations added 20,381 net retail customers for the year. Year end 2005 retail customers numbered 122,975, an increase of 19.8%.

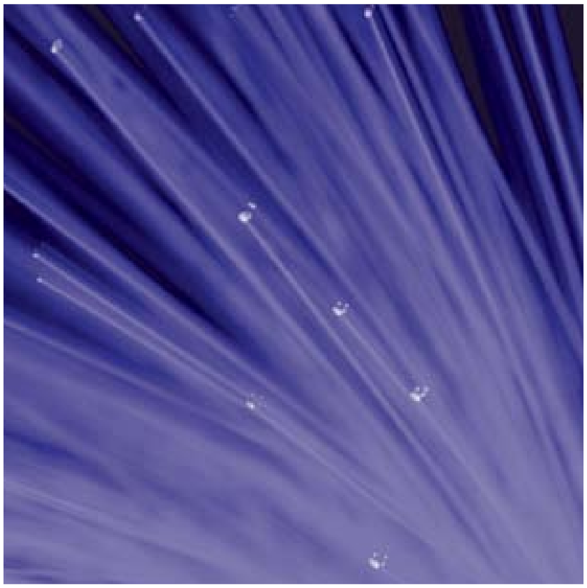
Lantz Construction Company of Winchester recently left Verizon for Sprint. "We switched to Sprint because Shentel has a strong network. That gives us peace of mind," said Lantz Controller Nicole Lytton. "We've got guys in the field in some pretty rural areas who rely on being able to use their phones."

Shentel opened its ninth full-service Sprint Store in Martinsburg, West Virginia, on May 2, 2005. By the time of its grand opening celebration a month later, the store located adjacent to the Martinsburg Mall was exceeding all expectations. Our newest Sprint Store adds to retail locations in Virginia, Maryland and Pennsylvania.

Shentel successfully owns and operates retail stores in a four state region, and has supported this growth with additional expansion of its wireless coverage areas. When it comes to mobile telephone service, our customers demand a strong signal and large coverage area. Throughout the year, more than 40 new cell sites were established in our wireless service area for a total of 311.

The Nationwide Sprint PCS Network is the most complete, all-digital wireless network in the nation, connecting more than 250 million people with innovative services like Sprint Power Vision℠, Sprint Music Store℠, Sprint PCS Picture Mail℠, Sprint PCS® Video Mail, Sprint TV℠ and Sprint PCS Ready Link℠.

Companies who look only to the past or present are certain to miss the future



“Partnering with Shentel will enable us to provide premier telecommunications services to Tackley Mill residents...”

Jeffery Kayden, CEO of Legacy Custom Homes

Fiber-to-the-Home

As the demand for high-speed broadband increases and achieves the status of a conventional must-have utility, in-home access to reliable and scalable bandwidth has become a major purchasing consideration for new homebuyers.

Realizing the opportunity, Shentel began marketing fiber optic technology (commonly referred to as Fiber-to-the-Home) to real estate development companies in early 2005. This state-of-the-art solution provides a superior platform to deliver a comprehensive suite of telecommunications solutions such as local and long distance telephone service, cable TV, video on demand, high-speed Internet access and security monitoring.

Negotiations began in the fourth quarter of 2005 with RCMS/Legacy Custom Homes to build an advanced fiber optic network for Legacy's newest community – Tackley Mill in Ranson, West Virginia. All 600 single-family homes and 400 town homes in Tackley Mill will enjoy a full portfolio of advanced media and communications solutions such as local and long distance telephone service, a full channel line-up of video including High Definition TV and pay-per-view, home security, and high-speed Internet with the advantage of scalable bandwidth for telecommuters and home offices.

“Partnering with Shentel will enable us to provide premier telecommunications services to Tackley Mill residents today and ensures they will be able to readily take advantage of future technology as it becomes available,” said Jeffery Kayden, CEO of Legacy. “We believe this level of service clearly sets Tackley Mill apart from other new developments and communities. The residents of Tackley Mill will find themselves at the forefront of the technology revolution.”

Board & Management

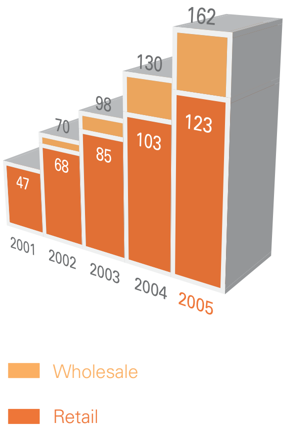
2005 saw the retirement of two long-term members of the Board of Directors. Zane Neff joined the board in 1976 and Harold "Buddy" Morrison in 1979. During their combined 55 years of service on the Board, Shentel grew from a rural telephone company with about $4 million in revenue to a diversified telecommunications provider with total revenues of $120 million. Their replacements on the board are Tracy Fitzsimmons and William A. Truban Jr. Fitzsimmons is Vice President of Academic Affairs at Shenandoah University and Truban practices law in Winchester in the areas of tax, business and estate planning.

Board of Directors

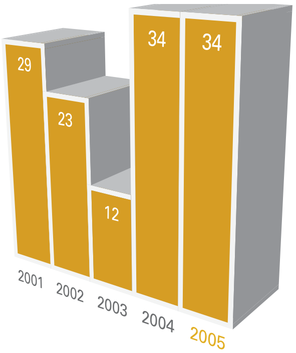
Standing, left to right: **Dale S. Lam** CFO, Comsonics, Inc.; **Noel M. Borden** Retired President, H.L. Borden Lumber Company; **Douglas C. Arthur** Attorney, Arthur and Allamong; **William A. Truban, Jr.** Attorney, Owen and Truban, PLC

Seated, left to right: **Ken L. Burch** Farmer; **Grover M. Holler Jr.** President, Valley View; **Christopher E. French** President, Shentel; **Tracy Fitzsimmons** VP, Academic Affairs, Shenandoah University; **James E. Zerkel II** VP, James E. Zerkel, Inc.

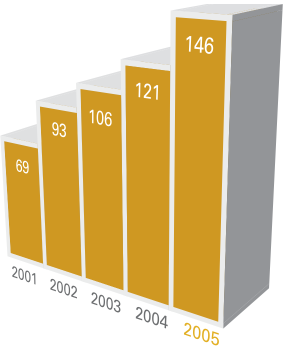
PCS Customers
(thousands)



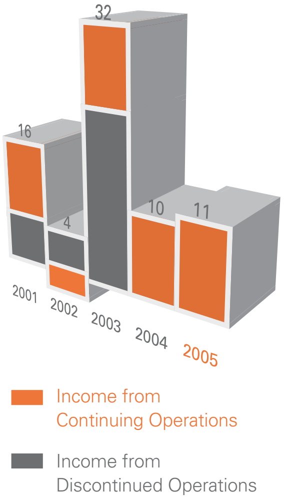
Capital Expenditures
($ millions)



Revenue
($ millions)



Net Income
($ millions)



Executive Officers

Standing, left to right: **William Pirtle** VP Sales; **Jeff Pompeo** VP Technology; **David Ferguson** VP Customer Service; **Earle MacKenzie** EVP COO/CFO; **Nancy Stadler** VP Marketing; **Jonathan Spencer** VP General Counsel; **David Lasier** VP Broadband

Seated, left to right: **David MacDonald** VP Operations; **Chris French** President; **Laurence Paxton** VP Information Technology

Directors

Standing, left to right: **Chris Kyle** Planning; **Tom Whitaker** Operations; **Dan Detamore-Hunsberger** Compliance; **Ed McKay** Wireline Technology

Seated, left to right: **Dexter Torculas** RF Engineering; **Marlene Williams** Controller; **Bobby Gadams** Human Resources

Five-Year Summary of Selected Financial Data
(in thousands, except share and per share data)

	2005	2004[1,3] (Restated)	2003[1,3] (Restated)	2002[2,3] (Restated)	2001[2,3] (Restated)
Operating revenues	$ **146,391**	$ 120,994	$ 105,661	$ 92,764	$ 68,778
Operating expenses	**127,015**	102,983	87,740	83,878	62,609
Interest expense	**3,076**	3,129	3,510	4,195	4,127
Income taxes (benefit)	**6,716**	5,921	5,166	(2,223)	5,723
Income (loss) from continuing operations	$ **10,735**	$ 10,038	$ 9,539	(3,150)	$ 9,534
Discontinued operations, net of tax	**-**	-	22,389	7,412	6,678
Cumulative effect of a change in accounting, net of tax	**-**	-	(76)	-	-
Net income	$ **10,735**	$ 10,038	$ 31,852	4,262	$ 16,212
Total assets	**204,921**	211,421	185,520	163,927	166,026
Total debt – including current maturities	**35,918**	52,291	43,346	52,043	56,436

Shareholder Information

Shares outstanding	**7,687,045**	7,629,810	7,592,768	7,551,818	7,530,956
Income (loss) per share from continuing operations-diluted	$ **1.39**	$ 1.31	$ 1.25	$ (0.42)	$ 1.26
Income per share from discontinued operations-diluted	**-**	-	2.94	0.98	0.88
Loss per share from cumulative effect of a change in accounting	**-**	-	(0.01)	-	-
Net income per share-diluted	**1.39**	1.31	4.18	0.56	2.14
Cash dividends per share	$ **0.46**	$ 0.43	$ 0.39	$ 0.37	$ 0.35

Notes

[1] These selected financial data have been derived from the Company's consolidated financial statements which, as described in Note 2 to the consolidated financial statements appearing elsewhere in this report, have been restated.

[2] These selected financial data have been restated for the matters described in Note 2 to the consolidated financial statements appearing elsewhere in this report.

[3] These selected financial data have reclassifications described in Note 1 to the consolidated financial statements appearing elsewhere in this report.

Selected Statistics (unaudited)

The following table shows selected operating statistics of the Company for the most recent five quarters. The table does not include information related to NTC Communications acquired on November 30, 2004.

Three Month Period Ended	*Dec. 31 2005*	*Sept. 30 2005*	*Jun. 30 2005*	*Mar. 31 2005*	*Dec. 31 2004*
Telephone Access Lines	24,740	24,811	24,877	24,802	24,691
Cable Television Subscribers	8,684	8,677	8,627	8,607	8,631
Dial-Up Internet Subscribers	12,514	13,273	14,052	14,829	15,051
DSL Subscribers	4,748	4,062	3,427	2,923	2,646
Retail PCS Subscribers	122,975	116,460	112,090	106,924	102,613
Wholesale PCS Users[1]	38,726	33,848	32,733	31,504	27,337
Long Distance Subscribers	10,418	10,318	10,258	10,055	9,918
Fiber Route Miles	616	579	576	574	557
Total Fiber Miles	33,201	29,734	29,566	29,462	28,830
Long Distance Calls (in thousands)[2]	6,686	6,808	6,808	6,326	6,265
Total Switched Access Minutes (in thousands)	75,209	74,515	70,419	67,824	66,449
Originating Switched Access Minutes (in thousands)	21,807	20,627	19,570	19,376	18,870
Employees (full time equivalents)[3]	387	375	408	358	374
CDMA Base Stations (sites)	311	301	288	280	271
Towers (100 ft. and over)	85	82	81	81	80
Towers (under 100 ft.)	13	13	11	11	11
PCS Market POPS (in thousands)[4]	2,236	2,199	2,199	2,199	2,199
PCS Covered POPS (in thousands)[4]	1,704	1,658	1,649	1,642	1,629
PCS Average Monthly Churn %[5]	1.9%	2.1%	1.9%	2.1%	2.2%

Plant Facility Statistics at Dec. 31, 2005[6]

	Telephone	*CATV*
Route Miles	2,219	565
Miles of Distribution Wire	613	177
Utility Poles	7,620	36
Miles of Aerial Copper Cable	328	163
Miles of Buried Copper Cable	1,357	368
Miles of Underground Copper Cable	39	2
Fiber Miles Regulated	265	-
Fiber Miles Unregulated	249	-
Fiber Miles Network	90	-

Notes

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

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

[3] The June 30, 2005 employee count includes 44 interns.

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

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

[6] Excludes information for NTC Communications.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of our Chief Executive Officer and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2005, based on the framework and criteria established in Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

A material weakness is a control deficiency or combination of control deficiencies that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

Our management has identified two material weaknesses in the Company's internal control over financial reporting as of December 31, 2005:

- Ineffective controls over the selection and monitoring of appropriate assumptions and factors affecting lease accounting practices. The Company's controls did not detect that the Company had incorrectly excluded the consideration of renewal periods in the recording of operating lease expense or in the recording of operating lease revenue. This material weakness resulted in errors in operating revenues, cost of goods and services, deferred charges and other assets, deferred lease payables, deferred income tax liabilities and retained earnings, as of and for the years ended December 31, 2003 and 2004, for each of the quarters in the year ended December 31, 2004 and for the first three quarters of the year ended December 31, 2005, for which the Company restated its consolidated financial statements.

- Inadequate controls over the accounting for income taxes. Specifically, the Company lacked sufficient personnel with adequate technical skills related to accounting for income taxes. In addition, the Company's policies and procedures did not provide for effective supervisory review of the analysis of income tax accounting amounts, including the review of the calculation of current income tax expense and the calculation of the appropriate deferred tax liability. These deficiencies resulted in a material misstatement of income tax expense and deferred tax liabilities in the Company's preliminary 2005 consolidated financial statements. These errors have been corrected by management in the Company's consolidated financial statements as of and for the year ended December 31, 2005 included in this Annual Report.

As a result of these material weaknesses, our management has determined that our internal control over financial reporting was not effective as of December 31, 2005.

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

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) did not maintain effective internal control over financial reporting as of December 31, 2005, because of the effect of material weaknesses identified in management's assessment, 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.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment as of December 31, 2005:

- Ineffective controls over the selection and monitoring of appropriate assumptions and factors affecting the Company's lease accounting practices. The Company's controls did not detect that the Company had incorrectly excluded the consideration of renewal periods in the recording of operating lease expense or in the recording of operating lease revenue. This material weakness resulted in errors in operating revenues, cost of goods and services, deferred charges and other assets, deferred lease payables, deferred income tax liabilities and retained earnings, as of and for the years ended December 31, 2003 and 2004, for each of the quarters in the year ended December 31, 2004 and for the first three quarters of the year ended December 31, 2005, for which the Company restated its consolidated financial statements.

- Inadequate controls over the accounting for income taxes. Specifically, the Company lacked sufficient personnel with adequate technical skills related to accounting for income taxes. In addition, the Company's policies and procedures did not provide for effective supervisory review of the analysis of income tax accounting amounts, including the review of the calculation of current income tax expense and the calculation of the appropriate deferred tax liability. These deficiencies resulted in a material misstatement of income tax expense and deferred tax liabilities in the Company's preliminary 2005 consolidated financial statements.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Shenandoah Telecommunications Company and subsidiaries, as of December 31, 2005 and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the year then ended. The aforementioned material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2005 consolidated financial statements, and this report does not affect our report dated March 15, 2006, which expressed an unqualified opinion on those consolidated financial statements.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2005, 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, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control–Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

KPMG LLP

Richmond, Virginia
March 15, 2006

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, 2005, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Telecommunication Company and subsidiaries as of December 31, 2005, 2004 and 2003, 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 2 to the consolidated financial statements, the Company has restated its 2004 and 2003 consolidated financial statements.

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, 2005, 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 15, 2006 expressed an unqualified opinion on management's assessment of, and an adverse opinion on the effective operation of, internal control over financial reporting.

KPMG LLP

Richmond, Virginia
March 15, 2006

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Balance Sheets

December 31, 2005, 2004 (Restated) and 2003 (Restated)

ASSETS (in thousands)

	2005	2004 (Restated)	2003 (Restated)
Current Assets			
Cash and cash equivalents	$ **2,572**	$ 14,172	$ 28,696
Accounts receivable, net	**11,864**	9,019	6,488
Escrow receivable	**-**	5,000	-
Income taxes receivable	**795**	2,341	1,526
Materials and supplies	**2,702**	2,108	2,062
Prepaid expenses and other	**2,336**	1,877	1,669
Deferred income taxes	**532**	-	522
Total current assets	**20,801**	34,517	40,963
Securities and Investments			
Available-for-sale securities	**-**	232	199
Other investments	**7,365**	7,018	7,268
Total securities and investments	**7,365**	7,250	7,467
Property, Plant and Equipment			
Plant in service	**248,321**	227,004	197,431
Plant under construction	**9,061**	3,319	2,261
	257,382	230,323	199,692
Less accumulated amortization and depreciation	**95,144**	74,071	72,006
Net property, plant and equipment	**162,238**	156,252	127,686
Other Assets			
Intangible assets, net	**3,346**	3,547	-
Cost in excess of net assets of businesses acquired	**10,103**	8,863	3,313
Deferred charges and other assets, net	**1,068**	992	6,089
Net other assets	**14,517**	13,402	9,402
Total assets	$ **204,921**	$ 211,421	$ 185,518

(continued)

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Balance Sheets

December 31, 2005, 2004 (Restated) and 2003 (Restated)

LIABILITIES AND SHAREHOLDERS' EQUITY (in thousands)

	2005	2004 (Restated)	2003 (Restated)
Current Liabilities			
Current maturities of long-term debt	$ **4,526**	$ 4,372	$ 4,230
Accounts payable	**6,928**	6,003	4,729
Advanced billings and customer deposits	**4,247**	3,566	3,326
Accrued compensation	**3,294**	1,785	1,015
Deferred income taxes	**-**	1,453	-
Accrued liabilities and other	**3,746**	4,667	2,496
Total current liabilities	**22,741**	21,846	15,796
Long-term debt, less current maturities	**31,392**	47,919	39,116
Other Long-Term Liabilities			
Deferred income taxes	**24,599**	24,162	20,312
Pension and other	**2,359**	2,859	3,425
Deferred lease payable	**2,230**	1,878	1,496
Total other liabilities	**29,188**	28,899	25,233
Shareholders' Equity			
Common stock, no par value, authorized 16,000 shares; issued and outstanding 7,687 shares in 2005, 7,630 shares in 2004, and 7,593 shares in 2003	**8,128**	6,319	5,733
Retained earnings	**113,576**	106,373	99,614
Accumulated other comprehensive income (loss)	**(104)**	65	26
Total shareholders' equity	**121,600**	112,757	105,373
Total liabilities and shareholders' equity	$ **204,921**	$ 211,421	$ 185,518

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Income
Years Ended December 31, 2005, 2004 (Restated) and 2003 (Restated)

(in thousands, except per share amounts)	**2005**	*2004* *(Restated)*	*2003* *(Restated)*
Operating revenues	$ **146,391**	$ 120,994	$ 105,661
Operating expenses:			
Cost of goods and services, exclusive of depreciation and amortization shown separately below	**60,299**	45,847	39,769
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	**44,334**	38,116	31,340
Depreciation and amortization	**22,382**	19,020	16,631
Total operating expenses	**127,015**	102,983	87,740
Operating income	**19,376**	18,011	17,921
Other income (expense):			
Interest expense, net	**(3,076)**	(3,129)	(3,510)
Loss on investments, net	**(152)**	(57)	(64)
Non-operating income, net	**1,303**	1,134	358
Income before income taxes, cumulative effect of a change in accounting and discontinued operations	**17,451**	15,959	14,705
Income tax expense	**6,716**	5,921	5,166
Income from continuing operations	**10,735**	10,038	9,539
Discontinued operations, net of income taxes	**-**	-	22,389
Cumulative effect of a change in accounting, net of income taxes	**-**	-	(76)
Net income	$ **10,735**	$ 10,038	$ 31,852
Income (loss) per share:			
Basic net income (loss) per share:			
Continuing operations	$ **1.40**	$ 1.32	$ 1.26
Discontinued operations	**-**	-	2.95
Cumulative effect of a change in accounting, net of income taxes	**-**	-	(0.01)
	$ **1.40**	$ 1.32	$ 4.20
Weighted average shares outstanding, basic	**7,659**	7,611	7,577
Diluted net income (loss) per share:			
Continuing operations	$ **1.39**	$ 1.31	$ 1.25
Discontinued operations	**-**	-	2.94
Cumulative effect of a change in accounting, net	**-**	-	(0.01)
	$ **1.39**	$ 1.31	$ 4.18
Weighted average shares, diluted	**7,703**	7,657	7,608

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Shareholders' Equity & Comprehensive Income
Years Ended December 31, 2005, 2004 (Restated) and 2003 (Restated)

(in thousands, except per share amounts)	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance as originally reported	7,552	$ 5,246	$ 71,335	$ (4)	$ 76,577
Effect of restatement on periods ending on or prior to December 31, 2002	-	-	(613)	-	(613)
Balance, December 31, 2002, as restated	7,552	$ 5,246	$ 70,722	$ (4)	$ 75,964
Comprehensive income:					
Net income, as restated	-	-	31,852	-	31,852
Net unrealized change in securities available-for-sale, net of tax of $(18)	-	-	-	30	30
Total comprehensive income, as restated	-	-	-	-	31,882
Dividends declared ($0.39 per share)	-	-	(2,960)	-	(2,960)
Common stock issued through exercise of incentive stock options and stock grants	41	487	-	-	487
Balance, December 31, 2003, as restated	7,593	$ 5,733	$ 99,614	$ 26	$ 105,373
Comprehensive income:					
Net income, as restated	-	-	10,038	-	10,038
Net unrealized change in securities available-for-sale, net of tax of $(21)	-	-	-	39	39
Total comprehensive income, as restated	-	-	-	-	10,077
Dividends declared ($0.43 per share)	-	-	(3,279)	-	(3,279)
Common stock issued through exercise of incentive stock options	37	586	-	-	586
Balance, December 31, 2004, as restated	7,630	$ 6,319	$ 106,373	$ 65	$ 112,757
Comprehensive income:					
Net income	-	-	10,735	-	10,735
SERP additional minimum pension liability	-	-	-	(104)	(104)
Net unrealized change in securities available-for-sale, net of tax of $(40)	-	-	-	(65)	(65)
Total comprehensive income	-	-	-	-	10,566
Dividends declared ($0.46 per share)	-	-	(3,532)	-	(3,532)
Stock based compensation	-	347	-	-	347
Common stock issued through exercise of incentive stock options	57	1,169	-	-	1,169
Excess tax benefit from stock options exercised	-	293	-	-	293
Balance, December 31, 2005	7,687	$ 8,128	$ 113,576	$ (104)	$ 121,600

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Cash Flows

Years Ended December 31, 2005, 2004 (Restated) and 2003 (Restated)

(in thousands)	2005	2004 (Restated)	2003 (Restated)
Cash Flows from Operating Activities from Continuing Operations			
Net income	$ **10,735**	$ 10,038	$ 31,852
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:			
Income from discontinued operations	**-**	-	(22,389)
Cumulative effect of change in accounting principle	**-**	-	76
Depreciation	**21,920**	18,976	16,612
Amortization	**462**	44	19
Stock based compensation expense	**347**	-	-
Deferred income taxes	**(1,511)**	5,803	5,527
Loss on disposal of assets	**383**	1,251	348
Net (gain) loss on disposal of investments	**(74)**	(144)	3
Net (gain) loss from patronage and equity investments	**(8)**	33	52
Other	**(962)**	(777)	399
Changes in assets and liabilities, exclusive of acquired businesses:			
(Increase) decrease in:			
Accounts receivable	**(2,374)**	(2,140)	1,069
Materials and supplies	**(589)**	75	(275)
Increase (decrease) in:			
Accounts payable	**925**	(172)	(275)
Deferred lease payable	**353**	382	404
Other prepaids, deferrals and accruals	**2,642**	1,047	(2,823)
Net cash provided by operating activities from continuing operations	$ **32,249**	$ 34,416	$ 30,599
Cash Flows From Investing Activities			
Purchase and construction of plant and equipment, net of retirements	$ **(29,527)**	$ (34,095)	$ (12,476)
Acquisition of businesses, net of cash acquired	**(600)**	(9,153)	-
Purchase of investment securities	**(536)**	(736)	(796)
Proceeds from investment activities	**403**	416	714
Proceeds from sale of equipment	**147**	39	109
Net cash used in investing activities from continuing operations	$ **(30,113)**	$ (43,529)	$ (12,449)

(continued)

See accompanying notes to consolidated financial statements.

Shenandoah Telecommunications Company & Subsidiaries
Consolidated Statements of Cash Flows
Years Ended December 31, 2005, 2004 (Restated) and 2003 (Restated)

(in thousands)	2005	2004 (Restated)	2003 (Restated)
Cash Flows from Financing Activities			
Proceeds from issuance of long-term debt	$ **-**	$ 13,177	$ -
Principal payments on long-term debt	**(4,373)**	(15,895)	(8,697)
Net payments of lines of credit	**(12,000)**	-	(3,503)
Dividends paid	**(3,532)**	(3,279)	(2,960)
Proceeds from exercise of incentive stock options	**1,169**	586	487
Net cash used in financing activities from continuing operations	$ **(18,736)**	$ (5,411)	$ (14,673)
Net cash provided by (used in) continuing operations	$ **(16,600)**	$ (14,524)	$ 3,477
Net cash provided by operating activities from discontinued operations (as revised)[1]	**5,000**	-	3,530
Net cash provided by investing activities from discontinued operations (as revised)[1]	**-**	-	19,480
Net increase (decrease) in cash and cash equivalents	$ **(11,600)**	$ (14,524)	$ 26,487
Cash and cash equivalents:			
Beginning	**14,172**	28,696	2,209
Ending	$ **2,572**	$ 14,172	$ 28,696
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest, net of capitalized interest of $20 in 2005; $30 in 2004, and $26 in 2003	$ **3,072**	$ 3,112	$ 3,577
Income taxes	$ **6,296**	$ 935	$ 15,569

[1] See Note 1 “Reclassifications” for further discussion on the revised disclosure of discontinued operations.

See accompanying notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Description of business: Shenandoah Telecommunications Company and its subsidiaries (collectively, the "Company") provide telephone service, wireless personal communications service ("PCS") under the Sprint brand name, cable television, unregulated communications equipment sales and services, Internet access, and paging services. In addition, the Company leases towers and operates and maintains an interstate fiber optic network. As a result of the NTC Communications, L.L.C. ("NTC") acquisition on November 30, 2004, the Company, through its subsidiary Shentel Converged Services, provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to multi-dwelling unit ("MDU") communities (primarily off-campus college student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. In September 2005, the Company began an initiative to market wireless broadband services. The Company plans to move forward with its initiative to build networks and market wireless broadband to customers in selected markets 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 Nextel Communications Company and its related parties (collectively, "Sprint Nextel"), the Company is the exclusive Sprint PCS Affiliate of Sprint Nextel providing wireless mobility communications network products and services on the 1900 megahertz spectrum range in the geographic area extending from Altoona, Harrisburg and York, Pennsylvania, south through Western Maryland, and the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is licensed to use the Sprint brand name in this territory, and operates its network under the Sprint Nextel radio spectrum license (See Note 8). A summary of the Company's significant accounting policies follows:

Stock split: All share and per share information reflect the two for one stock split announced in October 2003, to shareholders of record as of the close of business on January 30, 2004. The additional shares were distributed on February 20, 2004. The effective date of the split is February 23, 2004. All previously reported share and per share data included herein are retroactively adjusted to reflect the split.

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.

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

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

Cash and cash equivalents: The Company considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. At times, these investments may be in excess of FDIC insurance limits. Cash equivalents were $2.1 million, $14.1 million, and $27.9 million at December 31, 2005, 2004 and 2003, respectively.

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

Changes in the allowance for doubtful accounts for trade accounts receivable for the years ended December 31, 2005, 2004 and 2003 are summarized as set forth in the adjacent table:

(in thousands)		**2005**		2004		2003
Balance at beginning of year	$	**351**	$	478	$	926
Bad debt expense		**2,780**		1,426		1,392
Losses charged to allowance		**(2,839)**		(1,695)		(2,098)
Recoveries added to allowance		**281**		142		258
Balance at end of year	$	**573**	$	351	$	478

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 classifications 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 classifications of those securities and the related accounting policies are as follows:

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

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

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

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

Property, plant and equipment: Property, plant and equipment is stated at cost. The Company capitalizes all costs associated with the purchase, deployment and installation of property, plant and equipment, including interest on major capital projects during the period of their construction. Expenditures, including those on leased assets, which extend the useful life or increase its utility, are capitalized. Maintenance expense is recognized when repairs are performed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization is not included in the income statement line items "Costs of goods and services" or "Selling, general and administrative." Depreciation lives are assigned to assets based on their estimated useful lives. Leasehold improvements are depreciated over the lesser of their useful lives or respective lease terms. The Company takes technology changes into consideration as it assigns the estimated useful lives, and monitors the remaining useful lives of asset groups to reasonably match the remaining economic life with the useful life and makes adjustments when necessary. During the years ended December 31, 2005 and 2004, the estimated useful lives of certain asset classes were decreased to reflect the remaining estimated economic useful lives of these assets and as a result, the Company recorded a $0.4 and $0.5 million charge, respectively, for the change in estimated useful lives.

Valuation of long-lived assets: Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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

Asset retirement obligations: The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations" effective January 1, 2003. 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 obli-

Note 1. (cont.)

gation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The 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 is estimated based on the size of the towers. The Company's cost to remove the tower is amortized over the life of the tower. On December 31, 2005, 2004 and 2003, the liability was $375 thousand, $334 thousand and $300 thousand, respectively. Accretion and depreciation expense for the years ended December 31, 2005, 2004 and 2003 was approximately $46, $20 and $8 thousand before taxes, respectively.

Cost in excess of net assets of business acquired and intangible assets: SFAS No.142, "Goodwill and Other Intangible Assets," eliminates amortization of goodwill and intangible assets that have indefinite useful lives and requires annual tests of impairment of those assets. SFAS No. 142 also provides specific guidance about how to determine and measure goodwill and intangible asset impairments, and requires additional disclosures of information about goodwill and other intangible assets. Goodwill is assessed annually , at November 30, for impairment and in interim periods if certain events occur indicating that the carrying value may be impaired. No impairment of goodwill was required to be recorded in the years ended December 31, 2005, 2004 or 2003. Goodwill is allocated to the reporting segment responsible for the acquisition that gave rise to the goodwill. The following presents the goodwill balance allocated by segment and changes in the balances for the years ended December 31, 2005, 2004 and 2003:

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

Notes

[1] Goodwill recorded for the NTC acquisition (Note 15).

[2] During the third quarter of 2005, the Company recorded an adjustment to the initial allocation of the purchase price for the November 30, 2004 acquisition of NTC (Note 15). Property, plant and equipment was reduced by approximately $1.5 million with a corresponding increase to goodwill. In addition, goodwill was reduced by approximately $0.5 million as a result of settling the escrow funds dispute.

[3] Goodwill recorded for the Broadband Metro Communications acquisition (Note 15).

There were no changes in the goodwill balance for the year ended December 31, 2003.

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

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

For the years ended December 31, 2005 and 2004, amortization expense related to intangible assets was $0.5 million and $35 thousand, respectively. There was no intangible asset amortization expense for the year ended December 31, 2003.

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

Year Ending	*Amount* (in thousands)
2006	$ 485
2007	485
2008	476
2009	267
2010	213

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 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 pretax basis, up to the allowable federal maximum. The Company may make matching and discretionary contributions to this plan. Neither of the funded retirement plans holds Company stock in the plan's portfolio.

Income taxes: Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the recoverability of tax assets generated on a state-by-state basis from net operating losses apportioned to that state. Management uses a more likely than not threshold to make that determination and has concluded that at December 31, 2005, a valuation allowance against the deferred tax assets is no longer necessary (see Note 7).

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

Nonrefundable PCS activation fees and the portion of the activation costs deemed to be direct costs of acquiring new customers (primarily activation costs and credit analysis costs) are deferred and recognized ratably over the estimated life of the customer relationship of 30 months in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104. Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a bundled transaction, and the consideration will be measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 has required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition would need to be made in the future. The adoption of EITF 00-21 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 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 SAB 104 at December 31, 2005, 2004 and 2003 were $0.6 million, $0.8 million and $1.2 million, respectively. The deferred costs at December 31, 2005, 2004 and 2003 were $0.2 million, $0.3 million and $0.4 million, respectively.

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, "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 in accordance with APB Opinion No. 25 and related interpretations. Accordingly, no compensation expense has been recognized under the Plan for years prior to 2004 since all such options were granted with an exercise price equal to the market price at the date of the grant. During 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. During 2005, the Company issued tandem awards of stock options and stock appreciation rights with a net-share settlement feature. The cash-settlement feature has been eliminated for the 2005 option grants. However, due to the net-share settlement feature, the Company accounts for these awards, in the same manner as the 2004 grants, as stock appreciation rights and recognizes compensation expense over the vesting period to the extent the current stock price exceeds the exercise price of the options. As a result of the tandem awards, the Company recognized compensation expense for the vested portion of the awards of $1.3 million and $0.2 million for the years ended December 31, 2005 and 2004.

Note 1. (cont.)

The adjustments to net income in the table below reflect the impact of compensation related to the 2005 equity classified stock appreciation rights and the impact of the pro forma compensation expense, both net of the income tax effect. No adjustments to net income have been made for the 2004 liability classified stock appreciation rights since there are no differences between APB Opinion No. 25 and SFAS No. 123 pro forma compensation expense. Had compensation expense been recorded for the options based on fair values of the awards at the grant date (the method prescribed in SFAS No. 123), reported net income and earnings per share would have been reduced to the pro forma amounts shown in the following table for the years ended December 31, 2005, 2004 and 2003:

Net Income (in thousands, except per share amounts)	***2005***	*2004* (Restated)	*2003* (Restated)
As reported	$ **10,735**	$ 10,038	$ 31,852
Add: Recorded stock based compensation expense included in reported net income, net of related income tax effects	**211**	-	-
Deduct: Pro forma compensation expense, net of related income tax effects	**199**	143	185
Pro forma	$ **10,747**	$ 9,895	$ 31,667
Earnings per share, basic and diluted			
As reported, basic	$ **1.40**	$ 1.32	$ 4.20
As reported, diluted	**1.39**	1.31	4.18
Pro forma, basic	**1.40**	1.30	4.18
Pro forma, diluted	**1.40**	1.29	4.16

Earnings per share: Basic net income per share was computed on the weighted average number of shares outstanding. Diluted net income per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period, for all dilutive stock options. For the year ended December 31, 2005, the dilutive net income per share was exclusive of approximately 160,000 stock options that were anti-dilutive. 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, 2005, 2004 and 2003:

Basic income per share (in thousands, except per share amounts)	***2005***	*2004* *(Restated)*	*2003* *(Restated)*
Net income from continuing operations	$ **10,735**	$ 10,038	$ 9,539
Weighted average shares outstanding	**7,659**	7,611	7,577
Basic income per share - continuing operations	$ **1.40**	$ 1.32	$ 1.26
Effect of stock options outstanding:			
Weighted average shares outstanding	**7,659**	7,611	7,577
Assumed exercise, at the strike price at the beginning of year	**96**	170	172
Assumed repurchase of options under treasury stock method	**(52)**	(124)	(141)
Diluted weighted average shares	**7,703**	7,657	7,608
Diluted income per share - continuing operations	$ **1.39**	$ 1.31	$ 1.25

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, 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 January 1, 2006. The Company will record a cumulative effect of a change in accounting principle for its stock appreciation rights upon application of SFAS 123 (R). The Company does not anticipate that the implementation of SFAS 123 (R) will have a material impact on its consolidated statement of income for 2006.

In March 2005, the FASB issued FASB Interpretation ("FIN") No. 47 "Accounting for Conditional Asset Retirement Obligations—an Interpretation of FASB Statement No. 143" ("FIN No. 47"). FIN No. 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. FIN No. 47 is effective for us no later than December 31, 2005. The adoption of FIN No. 47 did not have a material impact on the Company's consolidated results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in an accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005.

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

- The Company combined, for all periods presented, the income statement line items "network operating costs" and "costs of goods and services." Costs of goods and services consists primarily of the cost of equipment sold, cost of long distance service resold, cost of video, phone and network services, cost of PCS travel and roaming services and cost of operating and maintaining the various networks. To conform to the current period presentation, for the years ended December 31, 2004 and 2003, the Company reclassified $29.2 million and $26.0 million, respectively, in network operating costs to costs of goods and services.
- During 2005, the Company recorded commission expense to selling, general and administrative expense. In prior periods, a portion of these costs was recorded to costs of goods and services. To conform to the current period presentation, for the years ended December 31, 2004 and 2003, the Company reclassified $0.7 million and $0.4 million, respectively, in commission expense to selling, general and administrative expense.
- In January, 2005 the Company implemented a new affiliate agreement approved by the Virginia State Corporation Commission that moved all of the Company's employees and shared expenses into a new company to provide services to all the Company's operating segments. The new method was designed to provide a more equitable allocation of shared resources and costs between the Company's segments. The change allocates to each segment employees' time and shared costs on drivers that are representative of the level of benefit each segment receives. The new method has moved costs between segments and expense classifications in a different pattern than the previous allocation method, causing expenses to increase in one classification while decreasing in another classification. To conform to the current period presentation, for the years ended December 31, 2004 and 2003, the Company reclassified $7.1 million and $5.6 million, respectively, of labor and benefit expenses from the income statement line items "Network operating costs" and "Cost of goods and services" to "Selling, general and administrative."
- During 2005, the Company recorded gains and losses on the sale of equipment in the income statement line item "Cost of goods and services." To conform to the current period presentation, for the years ended December 31, 2004 and 2003, the Company reclassified $1.3 million and $0.4 million, respectively, from "Non-operating income, net" to "Cost of goods and services."
- During 2005, the Company recorded gains and losses on the sale of investments and partnership equity in the income statement line item "Loss on investments, net." To conform to the current period presentation, for the years ended December 31, 2004 and 2003, the Company reclassified $149 thousand and $379 thousand, respectively, from "Non-operating income, net" to "Loss on investments, net."
- In 2005, the Company has separately disclosed the operating and investing portions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount. For all years presented, there were no cash flows from financing activities for discontinued operations. Amounts in 2003 have been revised to conform with the 2005 presentation.

Note 2. Restatements

The Company's financial statements as of and for the years ended December 31, 2004 and 2003, including the beginning retained earnings for the year ended December 31, 2003, all quarters in 2004 and the first three quarters of the year ended December 31, 2005, have been restated to correct errors relating to the Company's accounting for operating leases. While management believes that the impact of this error is not material to any previously issued financial statements, it determined that the cumulative adjustment required to correct this error was too large to record in 2005.

The Company's method of accounting for operating leases did not comply with the requirements of SFAS No. 13, "Accounting for Leases" and FASB Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases." Historically, the Company has not assumed the exercise of available renewal options in accounting for operating leases. The Company has operating leases, primarily for cell sites owned by third parties, land leases for towers owned by the Company and leases with third parties for space on the Company's towers that have escalating rentals during the initial lease term and during succeeding optional renewal periods. In light of the Company's investment in each site, including acquisition costs and leasehold improvements, the Company determined that the exercise of certain renewal options was reasonably assured at the inception of the leases. Accordingly, the Company will correct its accounting to recognize rent expense on a straight-line basis over the initial lease term and renewal periods that are reasonably assured. Where the Company is the lessor, it will recognize revenue on a straight-line basis over the current term of the lease.

The impact of these restatements to the Company's statements of income for the years ended December 31, 2004 and December 31, 2003 was a decrease to net income of $0.2 million for both years. The impact associated with correcting the Company's accounting for operating leases was an increase to lease expense of $0.4 million reflected in "Cost of goods and services" for both years. The restatements also impacted the consolidated balance sheet lines for "Deferred charges and other assets, net," "Deferred income taxes," "Deferred lease payable" and "Retained earnings." For the years ended December 31, 2004 and 2003, the Company's consolidated statements of shareholders' equity and comprehensive income were impacted by the restatement adjustments by a decrease in net income of $0.2 million for both years, as well as a decrease to retained earnings of $0.6 million as of December 31, 2002. The adjustments do not affect historical net cash flows from operating, investing or financing activities, future cash flows or the timing of payments under related leases.

In the "Reclassifications" column, in the tables presented below, certain amounts reported in prior period financial statements have been reclassified to conform to the current year presentation, with no effect on net income or shareholders' equity.

Note 2. (cont.)

The reclassification and restatement adjustments to amounts previously presented in the consolidated statements of income are summarized below (in thousands except per share data):

Year Ended December 31, 2004 (in thousands except per share data)		(Reported)		Reclassifications		Restatement Adjustments		(Restated)
Operating revenues	$	120,974	$	-	$	20	$	120,994
Cost of goods and services		15,793		29,672		382		45,847
Network operating costs		36,220		(36,220)		-		-
Selling, general and administrative		30,316		7,800		-		38,116
Operating income		19,625		(1,252)		(362)		18,011
Income tax provision		6,078		-		(157)		5,921
Net income	$	10,243	$	-	$	(205)	$	10,038
Net income per share, basic	$	1.35	$	-	$	(0.03)	$	1.32
Net income per share, diluted	$	1.34	$	-	$	(0.03)	$	1.31

Year Ended December 31, 2003 (in thousands except per share data)		(Reported)		Reclassifications		Restatement Adjustments		(Restated)
Operating revenues	$	105,617	$	-	$	44	$	105,661
Cost of goods and services		13,386		25,979		404		39,769
Network operating costs		31,666		(31,666)		-		-
Selling, general and administrative		25,306		6,034		-		31,340
Operating income		18,628		(347)		(360)		17,921
Income tax provision		5,304		-		(138)		5,166
Net income	$	32,074	$	-	$	(222)	$	31,852
Net income per share, basic	$	4.23	$	-	$	(0.03)	$	4.20
Net income per share, diluted	$	4.22	$	-	$	(0.04)	$	4.18

The reclassifications and restatement adjustments to amounts previously presented in the Company's consolidated balance sheets are summarized below:

As of December 31, 2004 (in thousands)		(Reported)		Reclassification		Restatement Adjusted		(Restated)
Deferred charges and other assets, net	$	964	$	(146)	$	174	$	992
Long-term deferred income tax liability		24,826		-		(664)		24,162
Deferred lease payable		-		-		1,878		1,878
Retained earnings	$	107,413	$	-	$	(1,040)	$	106,373

As of December 31, 2003 (in thousands)		(Reported)		Restatement Adjusted		(Restated)
Deferred charges and other assets, net	$	5,935	$	154	$	6,089
Long-term deferred income tax liability		20,819		(507)		20,312
Deferred lease payable		-		1,496		1,496
Retained earnings	$	100,449	$	(835)	$	99,614

See Note 17 for the Company's restatement of the four quarters of 2004 and the first three quarters of 2005, to correct errors relating to the Company's accounting for operating leases.

Note 3. 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 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 sale was approximately $35.0 million.

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 set forth in the adjacent table:

(in thousands)	2003
Revenues	$ 3,056
Operating expenses	453
Income before minority interest and taxes	2,603
Minority interests	(773)
Sale of partnership interest	34,973
Income taxes	(14,414)
Net income from discontinued operations	$ 22,389

Note 4. Securities and Investments

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

Available-for-sale securities at December 31, 2004 and 2003 are set forth in the adjacent table:

2004 (in thousands)	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
Deutsche Telekom, AG	$ 85	$ 101	$ -	$ 186
Other	46	-	-	46
	$ 131	$ 101	$ -	$ 232
2003 (in thousands)				
Deutsche Telekom, AG	$ 85	$ 64	$ -	$ 149
Other	73	-	23	50
	$ 158	$ 64	$ 23	$ 199

Gross realized gains for the year ended December 31, 2005 was $76 thousand. There were no gross realized gains on available-for-sale securities included in income for the years ended December 31, 2004 and 2003. Gross realized losses included in income for the years ended December 31, 2005, 2004 and 2003 were $2 thousand, $28 thousand and $3 thousand, respectively.

Changes in the unrealized gains (losses) on available-for-sale securities during the years ended December 31, 2005, 2004 and 2003 are reported as a separate component of shareholders' equity are as set forth in the adjacent table:

Available-for-sale securities: (in thousands)	2005	2004	2003
Beginning Balance	$ **101**	$ 41	$ (7)
Unrealized holding gains (losses) during the year, net	**(27)**	32	48
Reclassification of recognized (gains) during the year, net	**(74)**	28	-
	-	101	41
Deferred tax effect related to net unrealized gains	**-**	36	15
Ending Balance	$ **-**	$ 65	$ 26

At December 31, 2005, 2004 and 2003, other investments, comprised of equity securities, which do not have readily determinable fair values, consist of the following:

Cost method: (in thousands)	2005	2004	2003
Rural Telephone Bank	$ **796**	$ 796	$ 796
NECA Services, Inc.	**500**	500	500
CoBank	**1,716**	1,486	1,321
Other	**197**	151	182
	3,209	2,933	2,799
Equity method:			
South Atlantic Venture Fund III L.P.	**33**	52	89
South Atlantic Private Equity Fund IV L.P.	**539**	513	541
Dolphin Communications Parallel Fund, L.P.	**150**	190	184
Dolphin Communications Fund II, L.P.	**1,870**	1,870	1,290
Burton Partnership	**1,409**	1,252	1,149
NTC Communications LLC (Note 15)	**-**	-	971
Virginia Independent Telephone Alliance	**113**	173	228
ValleyNet	**42**	35	17
	4,156	4,085	4,469
Total investments	$ **7,365**	$ 7,018	$ 7,268

Note 4. (cont.)

On August 4, 2005, the board of directors of the Rural Telephone Bank (the "RTB") adopted a number of resolutions for the purpose of dissolving RTB as of October 1, 2005. The Company held 10,821,770 shares of Class B and Class C RTB Common Stock ($1.00 par value) which is reflected on the Company's books at $796,000 under the cost method at December 31, 2005. In 2006, the Company will recognize a gain of approximately $6.5 million, net of tax, related to the dissolution of the RTB. In 2006, the Company will receive $11.3 million in proceeds, and recognize a gain of approximately $6.5 million, net of tax, related to the dissolution of the RTB, and the redemption of the stock.

The Company's investment in CoBank increased $230 thousand, $165 thousand and $195 thousand in the years ended December 31, 2005, 2004 and 2003, 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, 2005, the Company received distributions from its equity investments totaling $126 thousand in cash and invested $428 thousand in two equity investments, Dolphin Communications Parallel Fund, LP and Dolphin Communications Fund II, LP. These two investments recorded a net loss of approximately $469 thousand in the year ended December 31, 2005. Other equity investments had a net gain of $235 thousand in the year ended December 31, 2005.

The Company is committed to invest an additional $0.7 million at December 31, 2005 in various equity method investees pursuant to capital calls from the fund managers.

The Company's ownership interests in Virginia Independent Telephone Alliance and ValleyNet at December 31, 2005 were approximately 22% and 20%, respectively, which is consistent with the Company's ownership interests at December 31, 2004 and 2003. The Company purchases services from Virginia Independent Telephone Alliance and ValleyNet at rates comparable to those charged to other customers. Other equity method investees are investment limited partnerships, in each of which the Company had an ownership interest ranging from approximately 0.7% to 4% at December 31, 2005.

Note 5. Plant in Service

Plant in service December 31, 2005, 2004 and 2003 is shown in table at right:

(in thousands)	Estimated Useful Lives	**2005**	*2004*	*2003*
Land		$ **1,141**	$ 802	$ 802
Buildings and structures	15 – 40.0 years	**40,511**	36,626	30,956
Cable and wire	15 – 40.0 years	**61,986**	61,674	51,041
Equipment and software	3 – 16.6 years	**144,683**	127,902	114,632
		$ **248,321**	$ 227,004	$ 197,431

Note 6. Long-Term Debt and Revolving Lines of Credit

Total debt consists of the following at December 31, 2005, 2004 and 2003:

(in thousands)		*Weighted Average Interest Rate*	**2005**	*2004*	*2003*
Rural Telephone Bank ("RTB")	Fixed	6.02%	$ **4,613**	$ 5,120	$ 5,599
Rural Utilities Service ("RUS")	Fixed	5.00%	**134**	142	149
CoBank (term loan)	Fixed	7.56%	**29,794**	33,652	37,398
CoBank revolving credit facility	Variable	5.96%	**1,177**	13,177	-
RUS Development Loan		Interest free	**200**	200	200
			35,918	52,291	43,346
Current maturities			**4,526**	4,372	4,230
Total long-term debt			$ **31,392**	$ 47,919	$ 39,116

On November 30, 2004, the Company amended the terms of its Master Loan Agreement with CoBank, ACB to provide for a $15.0 million revolving reducing credit facility. Under the terms of the amended credit facility, the Company can borrow up to $15.0 million for use in connection with the 2004 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 $332 thousand plus interest. The final maturity of the CoBank term loan is in 2013.

The CoBank long-term debt is secured by a pledge of the stock of the Company's subsidiaries. The outstanding balance of the CoBank term loan at December 31, 2005 is $29.8 million, which is at fixed rates ranging from approximately 6.67% to 8.05%. The stated rate excludes patronage credits that are received from CoBank. These patronage credits are a distribution of profits of CoBank, which is a cooperative required to distribute its profits to its members. During the first quarter of 2005 and 2004, the Company received patronage credits of approximately 100 and 81 basis points, respectively, on its outstanding CoBank debt balance. The Company accrued 100 basis points in the year ended December 31, 2005, in anticipation of the early 2006 distribution of the credits by CoBank.

The Company is required to meet financial covenants for the CoBank debt measured at the end of each quarter, based on a trailing 12-month basis and calculated on continuing operations. The Company was in compliance with all covenants related to its debt agreements at December 31, 2005.

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2005 are as set forth in the adjacent table:

Year Ending		*Amount* (in thousands)
2006	$	4,526
2007		4,689
2008		4,864
2009		5,053
2010		5,256
Later years		11,530
	$	35,918

The estimated fair value of fixed rate debt instruments as of December 31, 2005, 2004 and 2003 was $33.6 million, $37.9 million and $42.6 million, respectively, determined by discounting the future cash flows of each instrument at rates offered for similar debt instruments of comparable maturities as of the respective year-end dates.

Note 7. Income Taxes

Total income taxes for the years ended December 31, 2005, 2004 and 2003 were allocated as set forth in the adjacent table:

Years Ended December 31, (in thousands)		***2005***		*2004* (Restated)		*2003* (Restated)
Income tax expense on continuing operations	$	**6,716**	$	5,921	$	5,166
Income taxes on discontinued operations		**-**		-		14,414
Income tax from cumulative effect of an accounting change		**-**		-		(47)
Accumulated other comprehensive income for unrealized holding gains (losses) on equity securities		**(40)**		21		18
	$	**6,676**	$	5,942	$	19,551

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

Years Ended December 31, (in thousands)		***2005***		*2004* (Restated)		*2003* (Restated)
Current expense						
Federal taxes	$	**7,356**	$	(323)	$	762
State taxes		**868**		442		147
Total current provision (benefit)		**8,224**		119		909
Deferred expense						
Federal taxes		**(851)**		5,402		3,981
State taxes		**(657)**		400		276
Total deferred provision		**(1,508)**		5,802		4,257
Income tax expense	$	**6,716**	$	5,921	$	5,166

A reconciliation of income taxes determined by applying the Federal and state tax rates to income from continuing operations for the years ended December 31, 2005, 2004 and 2003 is set forth in the adjacent table:

Years Ended December 31, (in thousands)		***2005***		*2004* (Restated)		*2003* (Restated)
Computed "expected" tax expense (35% for 2005 and 34% for 2004 and 2003)	$	**6,107**	$	5,426	$	5,000
State income taxes, net of federal tax effect		**137**		556		279
Effect of change of tax rates on deferred taxes		**671**		-		-
Other, net		**(199)**		(61)		(113)
Income tax provision	$	**6,716**	$	5,921	$	5,166

Note 7. (cont.)

Net deferred tax assets and liabilities consist of the following at December 31, 2005, 2004 and 2003:

Deferred tax assets: (in thousands)	2005	2004 (Restated)	2003 (Restated)
State net operating loss carryforwards, net of federal	$ **1,310**	$ 1,583	$ 1,569
Lease obligations	**843**	690	535
Deferred revenues	**154**	212	304
Accrued pension costs	**166**	175	476
Allowance for doubtful accounts	**228**	129	192
Accrued compensation costs	**380**	61	-
Other, net	**306**	128	81
Total gross deferred tax assets	**3,387**	2,978	3,157
Less valuation allowance	**-**	754	892
Net deferred tax assets	$ **3,387**	$ 2,224	$ 2,265
Deferred tax liabilities:			
Plant-in-service	$ **27,204**	$ 25,844	$ 20,058
Escrowed gain on sale of discontinued operations	**-**	1,859	1,859
Unrealized gain on investments	**-**	38	15
Gain on investments, net	**250**	98	123
Total gross deferred tax liabilities	**27,454**	27,839	22,055
Net deferred tax liabilities	$ **24,067**	$ 25,615	$ 19,790

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 deferred tax assets and has eliminated the valuation allowance at December 31, 2005. The Company has generated net operating loss carryforwards of approximately $22.0 million from its PCS operations in several states. These carryforwards expire at varying dates beginning in the year 2018 and ending in 2023.

Note 8. Significant Contractual Relationship

In 1999, the Company executed a Management Agreement (the "Agreement") with Sprint Nextel whereby the Company committed to construct and operate a PCS network using CDMA air interface technology. Under the Agreement, the Company is the exclusive Sprint PCS Affiliate of Sprint Nextel providing wireless mobility communications network products and services on the 1900 MHz band in its territory which extends from Altoona, York and Harrisburg, Pennsylvania, and south along the Interstate 81 corridor through Western Maryland, the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is authorized to use the Sprint brand in its territory, and operate its network under the Sprint Nextel radio spectrum license. As an exclusive Sprint PCS Affiliate of Sprint Nextel, the Company has the exclusive right to build, own and maintain its portion of Sprint Nextel's nationwide PCS network, in the aforementioned areas, to Sprint Nextel's specifications. The initial term of the Agreement is for 20 years and is automatically renewable for three 10-year options, unless terminated by either party under provisions outlined in the Agreement.

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

Historically, Sprint Nextel determined charges for services provided at the beginning of each calendar year. Sprint Nextel 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 Nextel's network partners, Sprint Nextel issued a credit for these amounts. If the costs to provide the services were more that the amounts paid by Sprint Nextel's network partners, Sprint Nextel 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 Nextel.

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 Nextel's nationwide digital wireless network. Sprint Nextel provides back-office and other services including travel clearing-house functions, to the Company. For periods before January 1, 2004, there was no prescribed formula defined in the agreements with Sprint Nextel for the calculation of the fee charged to the Company for these services. Sprint Nextel adjusted these fees at least annually. This situation changed with the execution of an amendment to the Agreement which occurred on January 31, 2004, retroactive to January 1, 2004 (the "Amended Agreement"). By simplifying the formulas used and fixing certain fees, the Amended Agreement 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 Nextel.

The Company entered into an amendment to the Amended Agreement with Sprint Nextel 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 Nextel 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 Nextel for back office services and certain network services.

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

The Company receives and pays travel fees for inter-market usage of the network by Sprint Nextel wireless subscribers not homed in a market in which they may use the service. Sprint Nextel and its PCS Affiliates pay the Company for the use of its network by their wireless subscribers, while the Company pays Sprint Nextel and its PCS Affiliates reciprocal fees for Company subscribers using other segments of the network not operated by the Company. The rates paid on inter-market travel have been reduced to $0.058 per minute since January 1, 2003. The rate will remain in effect through December 31, 2006.

In connection with execution of the Amended Agreement, effective January 1, 2004, the Company and Sprint Nextel resolved several outstanding issues. The result of the resolution of these disputes was a favorable adjustment to revenue of $0.4 million in 2004 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 in 2004 that resulted from a re-allocation of the fees from Sprint Nextel on a per subscriber basis versus the prior allocation which was on a per switch basis.

The Sprint Nextel agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all material respects with these requirements as of December 31, 2005.

Sprint Nextel Merger

On August 12, 2005, Sprint Corporation and Nextel Communications, Inc. merged to form Sprint Nextel Corporation. Nextel and its affiliate Nextel Partners, Inc., are providers of digital wireless communications services in the Company's PCS service area.

The Company's PCS subsidiary is one of a number of companies we refer to as the "Sprint PCS Affiliates," which had entered into substantially similar management and affiliation agreements with Sprint Communications, Inc., prior to the Sprint Nextel merger. In connection with the merger, a number of the Sprint PCS Affiliates filed suit against Sprint Nextel alleging that the merger would result in a breach of the exclusivity provisions of their agreements with Sprint Nextel. A number of these legal proceedings are pending. In addition, since the Sprint Nextel merger was announced, Sprint Nextel has acquired several of the Sprint PCS Affiliates.

Prior to the Sprint Nextel merger, the Company and Sprint Nextel entered into a forbearance agreement which sets forth Sprint Nextel's agreement to observe specified limitations in operating Nextel's wireless business in the Company's PCS service area. The agreement also sets forth the Company's agreement not to initiate litigation or seek certain injunctive or equitable relief under certain circumstances, in each case during the period in which the agreement remains in effect. Sprint Nextel and the Company are engaged in discussions concerning potential changes to the management agreement necessary to reflect the merger of Sprint and Nextel Communications, Inc and the acquisition of Nextel Partners, Inc. by Sprint Nextel. Unless extended, the forbearance agreement is currently set to expire on April 15, 2006.

The Company believes that a significant portion of its PCS service area overlaps the service area operated by Nextel Partners under the Nextel brand. Nextel Partners was not a party to the Sprint Nextel merger. The agreements between Nextel Partners and Nextel contain exclusivity and other provisions that remain in place following the Sprint Nextel merger until such time that the acquisition of Nextel Partners by Sprint Nextel is completed. The Company believes that the provisions under the agreements between Nextel and Nextel Partners conflict with the Company's rights under its management and affiliation agreements. Even if such provisions do not conflict, as long as Nextel Partners remains an independent entity, the Company's ability to fully realize any of the benefits from the merger of Sprint and Nextel may be limited. Further, the continued operation by Nextel Partners of a competing network could have a negative impact on the Company's results of operations. Sprint Nextel has entered into an agreement to acquire Nextel Partners. The acquisition of Nextel Partners by Sprint Nextel is subject to certain regulatory approvals, the timing of which are uncertain.

Note 8. (cont.)

The Company has had discussions with Sprint Nextel regarding the continuance of their long-term relationship and the impact of the Sprint Nextel merger. As a result of the Sprint Nextel merger, Sprint Nextel may require the Company to meet additional program requirements, which the Company anticipates would increase capital expenditures and operating expenses. The Company is committed to working with Sprint Nextel to reach mutually acceptable arrangements with respect to the foregoing matters. There can be no assurance, however, that the Company and Sprint Nextel will be able to reach mutually acceptable arrangements, or as to the terms of any such arrangements, or the likely impact on the Company of any such arrangements.

Note 9. Related Party Transactions

ValleyNet, an equity method investee of the Company, resells capacity on the Company's fiber network under an operating lease agreement. Facility lease revenue from ValleyNet was approximately $3.8 million, $2.7 million and $3.1 million in the years ended December 31, 2005, 2004 and 2003, respectively. At December 31, 2005, 2004 and 2003, the Company had accounts receivable from ValleyNet of approximately $0.3 million, $0.3 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 $1.0 million, $0.8 million and $0.8 million in the years ended December 31, 2005, 2004 and 2003, 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, 2005, 2004 and 2003.

Two then current directors of the Company, along with their family members, collectively held 2.1% of the outstanding membership units of NTC which were acquired by the Company on November 30, 2004 when the Company purchased the remaining 83.9% of NTC that it did not already own. See Note 15 for additional information about the purchase of NTC.

Note 10. 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 financial statements.

Change in benefit obligation: (in thousands)	***2005***	*2004*	*2003*
Benefit obligation, beginning	$ **13,594**	$ 11,650	$ 9,585
Service cost	**744**	604	486
Interest cost	**774**	691	615
Actuarial (gain) loss	**1,467**	910	1,211
Benefits paid	**(305)**	(261)	(247)
Change in plan provisions	**148**	-	-
Benefit obligation, ending	**16,422**	13,594	11,650
Change in plan assets:			
Fair value of plan assets, beginning	**10,717**	7,853	6,705
Actual return on plan assets	**1,024**	1,154	948
Benefits paid	**(305)**	(261)	(247)
Contributions made	**1,219**	1,971	447
Fair value of plan assets, ending	**12,655**	10,717	7,853
Funded status	**(3,767)**	(2,876)	(3,797)
Unrecognized net (gain) loss	**3,667**	2,501	2,229
Unrecognized prior service cost	**337**	220	252
Unrecognized net transition asset	**-**	-	(9)
Accrued benefit cost	$ **237**	$ (155)	$ (1,325)
Components of net periodic benefit costs:			
Service cost	$ **744**	$ 604	$ 486
Interest cost	**774**	691	615
Expected return on plan assets	**(793)**	(579)	(494)
Amortization of prior service costs	**31**	31	31
Amortization of net loss	**71**	62	32
Amortization of net transition asset	**-**	(9)	(29)
Net periodic benefit cost	$ **827**	$ 800	$ 641

The accumulated benefit obligation for the qualified retirement plan was $10,824, $9,115 and $7,872 at December 31, 2005, 2004 and 2003, respectively.

Weighted average assumptions used by the Company in the determination of benefit obligations at December 31, 2005, 2004 and 2003 are shown at right:

	2005	*2004*	*2003*
Discount rate	**5.50%**	5.75%	6.00%
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, 2005, 2004, and 2003 were as set forth in the adjacent table:

	2005	*2004*	*2003*
Discount Rate	**5.75%**	6.00%	6.50%
Rate of increase in compensation level	**4.50%**	4.50%	4.50%
Expected long-term rate of return on plan assets	**7.50%**	7.50%	7.50%

The Company's pension plan asset allocations based on market value at December 31, 2005 and 2004, by asset category were as set forth in the adjacent table:

Asset Category	***2005***	*2004*
Equity securities	**64.4%**	64.9%
Debt securities	**34.4%**	20.5%
Cash and cash equivalents	**1.2%**	14.6%
	100%	100%

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid by the plan as set forth in the adjacent table:

Year Ending	*Amount* (in thousands)
2006	$ 309
2007	302
2008	305
2009	305
2010	343
2011 - 2015	3,186
	$ 4,750

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 at least $0.7 million to the noncontributory defined benefit plan in 2006 and contributed $1.2 million in the year ended December 31, 2005 and $2.0 million in the year ended December 31, 2004.

The Company's matching contributions to the defined contribution plan were approximately $305 thousand, $254 thousand and $228 thousand for the years ended December 31, 2005, 2004 and 2003, respectively.

In May 2003, the Company adopted an unfunded nonqualified Supplemental Executive Retirement Plan (the "SERP") for named executives. The plan was established to provide retirement benefits in addition to those provided under the Retirement Plan that covers all employees. The following table presents the actuarial information for the SERP at December 31, 2005, 2004 and 2003.

Change in benefit obligation: (in thousands)	***2005***	*2004*	*2003*
Benefit obligation, beginning	$ **1,235**	$ 869	$ -
Service cost	**152**	113	22
Interest cost	**71**	52	23
Actuarial loss	**497**	201	278
Plan adoption	**-**	-	546
Benefit obligation, ending	**1,955**	1,235	869
Funded status	$ **(1,955)**	$ (1,235)	$ (869)
Unrecognized net loss	**942**	465	278
Additional minimum liability	**(553)**	(387)	(380)
Intangible asset	**449**	387	380
Unrecognized prior service cost	**449**	485	521
Accumulated other comprehensive income	**104**	-	-
Accrued benefit cost	**(564)**	(285)	(70)
Components of net periodic benefit costs:			
Service cost	$ **152**	$ 113	$ 22
Interest cost	**71**	52	23
Amortization of prior service costs	**36**	36	25
Amortization of net loss	**20**	14	-
Net periodic benefit cost	$ **279**	$ 215	$ 70

Note 10. (cont.)

Assumptions used by the Company in the determination of benefit obligations for the SERP consisted of the rates found at right on December 31, 2005, 2004 and 2003 :

	2005	*2004*	*2003*
Discount rate	**5.50%**	5.75%	6.00%
Rate of increase in compensation levels	**4.50%**	4.50%	4.50%

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

Year Ending	*Amount* (in thousands)
2006	$ -
2007	-
2008	-
2009	-
2010	1
2011 – 2015	124
	$ 125

Note 11. Stock Incentive Plan

The Company maintains a shareholder-approved Company Stock Incentive Plan appoved in 1996 (the "1996 Plan"), providing for the grant of incentive compensation to essentially all employees in the form of stock options. The 1996 Plan authorizes grants of options to purchase up to 480,000 shares of common stock over a ten-year period beginning in 1996. The term of the 1996 Plan expired in February of 2006. During 2005, a new Company Stock Incentive Plan was approved, the "2005 Plan", under which 480,000 shares may be issued over a ten-year period beginning in 2005. The option price for all grants has been at the current market price at the time of the grant. Grants 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 years ended December 31, 2005 and 2004, the Company also made grants pursuant to which the options are vested over a four-year period beginning on the third anniversary of the grant date. 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 weighted average assumptions set forth in the adjacent table:

	2005	*2004*	*2003*
Dividend rate	**1.42%**	1.77%	2.35%
Risk-free interest rate	**4.30%**	2.74%	3.00%
Expected lives of options	**3.5 years**	5 years	5 years
Price volatility	**45.73%**	49.68%	38.83%

In 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 is adjusted each period to reflect the vested portion of the intrinsic value of the award. If employees subsequently choose to receive shares of stock rather than cash, the liability is settled by issuing stock. During 2005, the Company issued tandem awards of stock options and stock appreciation rights with a net-share settlement feature. The cash-settlement feature has been eliminated for the 2005 option grant. However, due to the net-share settlement feature, the Company accounts for these awards as stock appreciation rights and recognizes compensation expense over the vesting period to the extent the current stock price exceeds the exercise price of the options.

A summary of the status of the Plans at December 31, 2005, 2004 and 2003 and changes during the years ended on those dates is as set forth in the adjacent table:

	Options	*Weighted Average Grant Price Per Option*	*Fair Value Per Option*
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	
Granted	79,031	31.59	10.51 to 18.11
Cancelled	(20,262)	25.32	
Exercised	(56,717)	18.23	
Outstanding December 31, 2005	240,863	$ 24.73	

There were options for 86,000, 88,626 and 85,670 shares exercisable at December 31, 2005, 2004 and 2003, at weighted average exercise prices per share of $19.47, $17.13, and $15.94, respectively. The table at right summarizes information about stock options outstanding at December 31, 2005:

	Exercise Prices	Shares Outstanding	Option Life Remaining	Shares Exercisable
2001	$ 15.79	10,118	1 year	10,118
2002	17.59	20,707	2 years	20,707
2003	17.98-22.01	49,853	3 to 8 years	29,853
2004	23.00-26.46	85,644	4 to 6 years	25,322
2005	30.29-40.53	74,541	5 to 7 years	-

Note 12. Major Customer

The Company has one major customer relationship that is a significant source of revenue. During the year ended December 31, 2005, as during the past number of years, the Company's relationship with Sprint Nextel continued to increase, due to growth in the PCS business segment. Approximately 65% of total operating revenues for the year ended December 31, 2005, 63.5% of total operating revenues for the year ended December 31, 2004, and 61.3% of total operating revenues for the year ended December 31, 2003 were generated by or through Sprint Nextel and its customers using the Company's portion of Sprint Nextel's nationwide PCS network. No other customer relationship generated more than 2.5% of the Company's total operating revenues for the years ended December 31, 2005, 2004 or 2003.

Note 13. 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 14. Lease Commitments

The Company leases land, buildings and tower space under various non-cancelable agreements, which expire between the years 2006 and 2030 and require various minimum annual rental payments. These leases typically include renewal options and escalation clauses. In general, tower leases have 5 or 10 year initial terms with 4 renewal terms of 5 years. The other leases generally contain certain renewal options for periods ranging from 5 to 20 years.

Future minimum lease payments under non-cancelable operating leases, including renewals that are reasonably assured at the inception of the lease, with initial variable lease terms in excess of one year as of December 31, 2005 are as set forth in the adjacent table:

Year Ending	Amount (in thousands)
2006	$ 5,237
2007	5,238
2008	5,209
2009	4,940
2010	4,418
2011 and beyond	23,780
	$ 48,822

The Company's total rent expense from continuing operations for each of the previous three years was $5.3 million in the year ended December 31, 2005, $4.8 million (as restated) in the year ended December 31, 2004, and $4.8 million (as restated) in the year ended December 31, 2003.

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, 2005 are as set forth in the adjacent table:

Year Ending	Amount (in thousands)
2006	$ 2,305
2007	2,067
2008	1,472
2009	1,014
2010	567
2011 and beyond	458
	$ 7,883

The Company's total rent income from continuing operations for each of the previous three years was $8.5 million in the year ended December 31, 2005, $8.0 million (as restated) in the year ended December 31, 2004, and $8.2 million (as restated) in the year ended December 31, 2003.

Note 15. Acquisitions

Broadband Metro Communications
In September 2005, the Company purchased the assets of Broadband Metro Communications, which marketed wireless broadband services, for $0.6 million in cash (see Note 1). The results of Broadband Metro Communication's operations have been included in the consolidated financial statements since that date. The Company plans to build networks and market wireless broadband to customers in selected markets in the mid-atlantic and southeastern United States. Unaudited pro forma results of the Company and Broadband Metro Communications have not been presented as the acquisition was not material to our financial position or results of operations.

NTC
On November 30, 2004, the Company purchased the 83.9% of NTC that it did not currently own for $10.0 million, of which $1.0 million was held in escrow for payment of specified potential liabilities, and the assumption of NTC's existing debt and other liabilities. For 2005, goodwill was reduced by approximately $0.5 million as a result of settling the escrow funds dispute (Note 1). The results of NTC's operations have been included in the consolidated financial statements since that date. NTC provides local and long distance voice, video, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities primarily located near colleges and universities.

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

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

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

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

The table at right reflects the unaudited pro forma results of the Company (as restated) 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:

	2004 *(Restated)*	*2003* *(Restated)*
Operating revenue	$ 129,884	$ 112,586
Income from continuing operations	9,165	9,064
Discontinued operations, net of income taxes	-	22,389
Cumulative effect of a change in accounting, net of income taxes	-	(76)
Net income	$ 9,165	$ 31,377
Diluted net income per share	$ 1.20	$ 4.12

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 16. Segment Reporting

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

In prior periods, the Company reported 11 segments, however, beginning with the September 30, 2005 quarterly report, the Company reported six segments with the following segments combined into "Other": ShenTel Service Company, Shenandoah Cable Television, Shenandoah Network Company, Shenandoah Long Distance Company, ShenTel Communications Company, Shentel Wireless Company and Converged Services of West Virginia. During the third quarter of 2005, Shenandoah Valley Leasing Company changed its name to

Shentel Wireless Company to reflect the activities associated with the Company's Wireless Broadband Group. The Company believes that the new presentation will allow for a more meaningful discussion of the segment results.

The results for the years ended December 31, 2004 and 2003 have been restated to reflect the correction of certain errors in the Company's accounting for operating leases. See Note 2 for additional discussion.

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

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

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

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

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

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

(in thousands)	*Holding*	*Telephone*	*Consolidated Totals*
2005	$ (283)	$ 57	$ (226)
2004	(179)	148	(31)
2003	(441)	65	(376)

Selected financial data for each segment is as follows:

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

Note 16. (cont.)

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

Year Ended December 31, 2003 (Restated) (In thousands)		PCS		Telephone		Mobile		Holding		Other		Eliminations		Consolidated Totals
External Revenues														
Service revenues	$	43,826	$	6,400	$	-	$	-	$	9,707	$	-	$	59,933
Access charges		-		9,420		-		-		-		-		9,420
Travel/roaming revenue		19,684		-		-		-		-		-		19,684
Facilities and tower lease		-		4,783		2,608		-		756		-		8,147
Equipment		1,835		39		-		-		449		-		2,323
Other		1,443		2,087		276		-		2,348		-		6,154
Total external revenues		66,788		22,729		2,884		-		13,260		-		105,661
Internal Revenues		1		3,062		1,238		-		710		(5,011)		-
Total operating revenues		66,789		25,791		4,122		-		13,970		(5,011)		105,661
Operating expenses														
Costs of goods and services, exclusive of depreciation and amortization shown separately below		32,688		3,286		1,623		-		5,854		(3,682)		39,769
Selling, general and administrative, exclusive of depreciation and amortization shown separately below		21,261		6,544		669		530		3,458		(1,122)		31,340
Depreciation and amortization		10,246		4,279		599		196		1,311		-		16,631
Total operating expenses		64,195		14,109		2,891		726		10,623		(4,804)		87,740
Operating income (loss)		2,594		11,682		1,231		(726)		3,347		(207)		17,921
Non-operating income (expense)		2		93		(220)		3,832		14		(3,427)		294
Interest (expense)		(2,920)		(443)		(26)		(3,070)		(685)		3,634		(3,510)
Income taxes		504		(4,268)		(332)		(29)		(1,041)		-		(5,166)
Discontinued Operations, net of income taxes		-		12		22,389		-		-		(12)		22,389
Cumulative effect of change in accounting, net of tax		-		-		(76)		-		-		-		(76)
Net income (loss)	$	180	$	7,076	$	22,966	$	7	$	1,635	$	(12)	$	31,852
Total Assets	$	68,773	$	57,533	$	18,552	$	141,658	$	19,692	$	(120,688)	$	185,520

Note 17. Quarterly Results (unaudited)

The following table shows selected quarterly results for the Company.

(in thousands except per share data)

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

For the year ended December 31, 2004 (Restated)		First (Restated)		Second (Restated)		Third (Restated)		Fourth (Restated)		Total (Restated)
Operating revenues	$	27,724	$	29,857	$	31,108	$	32,305	$	120,994
Operating income		4,110		4,877		5,668		3,356		18,011
Net income		2,253		2,823		3,058		1,904		10,038
Net income per share – basic		0.30		0.37		0.40		0.25		1.32
Net income per share - diluted	$	0.29	$	0.37	$	0.40	$	0.25	$	1.31

Note 17. (cont.)

Certain amounts have been restated to correct errors relating to the Company's accounting for operating leases as more fully discussed in Note 2. The reclassification and restatement adjustments to 2005 quarterly amounts previously reported in the Company's Form 10-Q's are summarized below:

(in thousands except per share data)	*(Reported)*	*Reclassifications*	*Restatement Adjustments*	*(Restated)*
Three Months Ended March 31, 2005:				
Operating revenues	$ 34,400	$ -	$ (5)	$ 34,395
Cost of goods and services	5,478	8,692	87	14,257
Network operating costs	9,807	(9,807)	-	-
Operating income	4,617	(20)	(92)	4,505
Income tax provision	1,393	-	(38)	1,355
Net income	2,395	-	(54)	2,341
Net income per share, basic	0.31	-	-	0.31
Net income per share, diluted	$ 0.31	$ -	$ (0.01)	$ 0.30
Three Months Ended June 30, 2005:				
Operating revenues	$ 35,464	$ -	$ (7)	$ 35,457
Cost of goods and services	5,674	9,189	92	14,955
Network operating costs	10,209	(10,209)	-	-
Operating income	4,659	(89)	(99)	4,471
Income tax provision	1,497	-	(40)	1,457
Net income	2,512	-	(58)	2,454
Net income per share, basic	0.33	-	(0.01)	0.32
Net income per share, diluted	$ 0.33	$ -	$ (0.01)	$ 0.32
Three Months Ended September 30, 2005:				
Operating revenues	$ 37,320	$ -	$ (6)	$ 37,314
Cost of goods and services	14,533	823	90	15,446
Operating income	5,752	-	(96)	5,656
Income tax provision	2,083	-	(39)	2,044
Net income	3,158	-	(57)	3,101
Net income per share, basic	0.41	-	(0.01)	0.40
Net income per share, diluted	$ 0.41	$ -	$ (0.01)	$ 0.40

The reclassification and restatement adjustments to 2004 quarterly amounts previously reported in the Company's Form 10-Q's are summarized below.

(in thousands except per share data)	(Reported)	Reclassifications	Restatement Adjustments	(Restated)
Three Months Ended March 31, 2004:				
Operating revenues	$ 27,719	$ -	$ 5	$ 27,724
Cost of goods and services	3,726	6,286	101	10,113
Network operating costs	8,311	(8,311)	-	-
Operating income	4,284	(78)	(96)	4,110
Income tax provision	1,380	-	(36)	1,344
Net income	2,313	-	(60)	2,253
Net income per share, basic	0.30	-	-	0.30
Net income per share, diluted	$ 0.30	$ -	$ (0.01)	$ 0.29
Three Months Ended June 30, 2004:				
Operating revenues	$ 29,852	$ -	$ 5	$ 29,857
Cost of goods and services	3,886	6,820	99	10,805
Network operating costs	9,156	(9,156)	-	-
Operating income	5,026	(55)	(94)	4,877
Income tax provision	1,709	-	(37)	1,672
Net income	2,880	-	(57)	2,823
Net income per share, basic	0.38	-	(0.01)	0.37
Net income per share, diluted	$ 0.38	$ -	$ (0.01)	$ 0.37
Three Months Ended September 30, 2004:				
Operating revenues	$ 31,103	$ -	$ 5	$ 31,108
Cost of goods and services	2,091	9,886	94	12,071
Network operating costs	9,182	(9,182)	-	-
Operating income	6,471	(714)	(89)	5,668
Income tax provision	1,844	-	(35)	1,809
Net income	3,111	-	(53)	3,058
Net income per share, basic	0.41	-	(0.01)	0.40
Net income per share, diluted	$ 0.41	$ -	$ (0.01)	$ 0.40
Three Months Ended December 31, 2004:				
Operating revenues	$ 32,300	$ -	$ 5	$ 32,305
Cost of goods and services	6,090	6,680	88	12,858
Network operating costs	9,571	(9,571)	-	-
Operating income	3,844	(405)	(83)	3,356
Income tax provision	1,145	-	(49)	1,096
Net income	1,939	-	(35)	1,904
Net income per share, basic	0.25	-	-	0.25
Net income per share, diluted	$ 0.25	$ -	$ -	$ 0.25

Note 18. Verizon Settlement

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

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

General

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

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

During the third quarter of 2005, Shenandoah Valley Leasing Company changed its name to Shentel Wireless Company to record the activities associated with the Company's Wireless Broadband Group.

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 Chambersburg, Pennsylvania; Hagerstown, Maryland; Martinsburg, West Virginia; and Harrisonburg and Winchester, Virginia markets as its Quad States markets. The Company refers to the Altoona, Harrisburg, and York, Pennsylvania markets as its Central Penn markets. The Company's primary service area for the telephone, cable television and long-distance business is Shenandoah County, Virginia. The county is a rural area in northwestern Virginia, with a population of approximately 38,000 inhabitants, which has increased by approximately 3,000 since 2000. While a number of new housing developments are being planned for Shenandoah County, the Company believes that the potential for significant numbers of additional wireline customers in the Shenandoah County operating area is limited. In 2002, the Company established a competitive local exchange carrier in Virginia to provide services on a limited basis.

As a result of the November 30, 2004 acquisition of the 83.9% of NTC Communications, L.L.C. ("NTC") that the Company did not already own, the Company, through its subsidiary Shentel Converged Services, provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to MDU communities, consisting primarily of off-campus college student housing throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. In September 2005, the Company began an initiative to market wireless broadband products and services. The Company plans to extend this initiative to build networks and market wireless broadband to customers in selected markets in the mid-atlantic and southeastern United States.

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

Restatement of Financial Results: The Company's financial statements as of and for the years ended December 31, 2004 and 2003, including the beginning retained earnings for the year ended December 31, 2003, all quarters in 2004 and the first three quarters of the year ended December 31, 2005, have been restated to correct errors relating to the Company's accounting for operating leases. While management believes that the impact of this error is not material to any previously issued financial statements, it determined that the cumulative adjustment required to correct this error was too large to record in 2005.

The Company's method of accounting for operating leases did not comply with the requirements of SFAS No. 13, "Accounting for Leases" and FASB Technical Bulletin No. 85-3, "Accounting for Operating Leases with Scheduled Rent Increases". Historically, the Company has not assumed the exercise of available renewal options in accounting for operating leases. The Company has operating leases, primarily for cell sites owned by third parties, land leases for towers owned by the Company and leases with third parties for space on the Company's towers that have escalating rentals during the initial lease term and during succeeding optional renewal periods. In light of the Company's investment in each site, including acquisition costs and leasehold improvements, the Company determined that the exercise of certain renewal options was reasonably assured at the inception of the leases. Accordingly, the Company will correct its accounting to recognize rent expense on a straight-line basis over the initial lease term and renewal periods that are reasonably assured. Where the Company is the lessor, it will recognize revenue on a straight-line basis over the current term of the lease.

The impact of these restatements to the Company's statements of income for the years ended December 31, 2004 and December 31, 2003 was a decrease to net income of $0.2 million for both years. The impact associated with correcting the Company's accounting for operating leases was an increase to lease expense of $0.4 million reflected in "Cost of goods and services" for both years. The restatements also impacted the consolidated balance sheet lines for "Deferred charges and other assets, net," "Deferred income taxes," "Deferred lease payable" and "Retained earnings." For the years ended December 31, 2004 and 2003, the Company's consolidated statements of shareholders' equity and comprehensive income were impacted by the restatement adjustments by a decrease in net income of $0.2 million for both years, as well as a decrease to retained earnings of $0.6 million as of December 31, 2002. The adjustments do not affect historical net cash flows from operating, investing or financing activities, future cash flows or the timing of payments under related leases.

See Note 2 to the Company's consolidated financial statements appearing elsewhere in this report for additional information.

The following management's discussion and analysis for the years ended December 31, 2004 and 2003 has been revised to reflect the effects of the restatements.

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

Significant Transactions

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

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

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

Subsequent Event

On August 4, 2005, the board of directors of the Rural Telephone Bank ("RTB") adopted resolutions for the purpose of dissolving RTB as of October 1, 2005. The Company holds 10,821,770 shares of Class B and Class C RTB Common Stock ($1.00 par value) which is reflected on the Company's books at $796,000 under the cost method at December 31, 2005. In 2006, the Company will receive $11.3 million in proceeds, and recognize a gain of approximately $6.5 million, net of tax, related to the dissolution of the RTB, and the redemption of the stock.

Critical Accounting Policies

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

Allowance for Doubtful Accounts

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

The allowance for doubtful accounts balance as of December 31, 2005, 2004 and 2003 was $0.5 million, $0.4 million and $0.5 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, 2005, the Sprint Nextel PCS subscriber base in the Company's market area consisted of 14.4% sub-prime credit quality subscribers compared to 15.0% at December 31, 2004, which represented an improvement in the credit quality of the subscribers of 0.6%. Since the fourth quarter of 2004, the Company has, several times, adopted less restrictive credit criteria in order to evaluate the impact of such criteria on sales performance. This policy change has generated additional activations and is being closely monitored. Although the credit policy change could result in additional bad debt in the future, management believes that the added revenues attributable to the change offset the bad debt risk.

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

The table at right shows bad debt expense, net of recoveries, for the three-year period ended December 31, 2005:

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

Year Ended December 31, (in thousands)	*2005*	*2004*	*2003*
PCS subscribers	$ **2,265**	$ 1,560	$ 1,716
Interexchange carriers	**20**	(71)	48
Other subscribers and entities	**273**	64	76
Total bad debt expense	$ **2,558**	$ 1,553	$ 1,840

Revenue Recognition

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

Nonrefundable PCS activation fees and the portion of the activation costs deemed to be direct costs of acquiring new customers (primarily activation costs and credit analysis costs) are deferred and recognized ratably over the estimated life of the customer relationship of 30 months in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin ("SAB") No. 104. Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, are presumed to be a bundled transaction, and the consideration is measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 has required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition would need to be made in the future. The adoption of EITF 00-21 has resulted in substantially all of the activation fee revenue generated from Company-owned retail stores and associated direct costs being recognized at the time the related wireless handset is sold and is classified as equipment revenue and cost of goods and services, respectively. Upon adoption of EITF 00-21, previously deferred revenues and costs continue to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. Revenue and costs for activations at other retail locations continue to be deferred and amortized over their estimated lives as prescribed by SAB 104. The 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 SAB 104 at December 31, 2005, 2004 and 2003 were $0.6 million, $0.8 million and $1.2 million, respectively. The deferred costs at December 31, 2005, 2004 and 2003 were $0.2 million, $0.3 million and $0.4 million, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the recoverability of deferred tax assets generated on a state-by-state basis from net operating losses apportioned to that state. Management uses a more likely than not threshold to make that determination if a valuation allowance is warranted for tax assets in each state. As a result of the evaluation of the tax assets, the Company has established a valuation allowance against the tax assets. For 2005, the Company's valuation allowance decreased $0.7 million due to the improved operating performance of the Company's PCS segment. The valuation allowance has been eliminated as of December 31, 2005. Management will evaluate the effective rate of taxes based on apportionment factors, the Company's operating results, and the various state income tax rates. Currently, management anticipates that the future effective income tax rate will be approximately 39%.

Leases

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

Other

The Company does not have any unrecorded off-balance sheet transactions or arrangements, however, the Company has commitments under operating leases and is subject to certain capital calls under one of its investments.

Results of Continuing Operations

2005 compared to 2004

Consolidated Results

The results for the year ended December 31, 2004 have been restated to reflect the correction of certain errors in the Company's accounting for operating leases. See Note 2 to the consolidated financial statements appearing elsewhere in this report for additional information. The effect of these restatements was to increase operating revenues by $20 thousand and costs of goods and services by $382 thousand and to decrease the income tax provision by $157 thousand and net income by $205 thousand.

The Company's consolidated results for the years ended December 31, 2005 and 2004 are summarized as set forth in the adjacent table:

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

Operating revenues

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

Operating expenses

For the year ended December 31, 2005, operating expenses increased $24.0 million, or 23.3%, primarily due to the growth in the Company's PCS and Converged Services segments. For the year ended December 31, 2005, PCS operating expenses increased $10.7 million, or 14.5%, and Converged Services operating expenses increased $12.8 million, compared to 2004, which only included one month Converged Services operating expenses. Due to the significant increase in the share price of the Company's common stock in 2005, the Company recorded an increase of $1.1 million in compensation expense related to the Stock Appreciation Rights ("SARs")held by employees. The increase in operating expenses was offset in part by the Company's receipt of $0.8 million for the settlement of a claim against Verizon. See Note 18 to the consolidated financial statements appearing elsewhere in this report for additional information.

Segment Results

The restatement discussed in Note 2 to the consolidated financial statements appearing elsewhere in this report, is reflected in those segments affected by the restatement, which are the PCS segment and the Mobile segment. The other segments, Telephone, Converged Services, Holding and other were not affected by the restatement.

PCS

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

The results for the year ended December 31, 2004 have been restated to reflect the correction of certain errors in the Company's accounting for operating leases. See Note 2 to the consolidated financial statements appearing elsewhere in this report for additional information. The effect of these restatements on the PCS segment's operating income for the year ended December 31, 2004 was to increase the cost of goods and services and decrease segment operating income by $210 thousand.

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

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

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

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

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

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

The Company's average PCS retail customer turnover, or churn rate, was 2.0% in 2005, compared to 2.1% in 2004. In 2005, there was an increase in PCS bad debt expense to 4.0% of PCS service revenues compared to 3.0% in 2004. Although management continues to monitor receivables, collection efforts and new subscriber credit ratings, there is no certainty that the bad debt expense will not continue to increase in the future.

Operating Revenues

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

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

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

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

Cost of goods and services

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

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

The increase in cost of goods and services was offset in part by the Company's receipt of $0.8 million for the settlement of a claim from Verizon. See Note 18 to the consolidated financial statements appearing elsewhere in this report for additional information.

Selling, general and administrative

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

Telephone

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

Shenandoah Telephone Company provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the northern Shenandoah Valley. The telephone segment's results were not affected by the restatement discussed in Note 2 to the consolidated financial statements appearing elsewhere in this report.

Although growth in new housing starts in the Company's local telephone area resulted in a net increase of 49 access lines during 2005, the trend over past periods has been a decline in subscribers, principally, due to consumer migration to wireless and DSL services from traditional telephone services. The construction of new homes within Shenandoah County appears to have moderated and even reversed this trend in the short term. Based on industry experience, however, the Company anticipates that the long-term trend toward declining telephone subscriber counts may dominate for the foreseeable future.

Operating Revenues

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

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

Cost of goods and services

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

Selling, general and administrative

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

Converged Services

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

The Converged Services segment primarily consists of the operations of NTC, which provides local and long distance voice, data and video services on an exclusive and non-exclusive basis to MDU communities throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. The Converged Services segment's results were not affected by the restatement detailed in Note 2 to the consolidated financial statements appearing elsewhere in this report.

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

The following table shows selected operating statistics for NTC at December 31, 2005:

		Subscribers		
At December 31, 2005	*Accounts*	*Network*	*Video*	*Phone*
Bulk Accounts[1]	41	10,701	2,997	6,423
Retail Accounts[2]	10,009	11,625	5,464	3,491
NTC Properties Served[3]	109			

Notes

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

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

[3] Indicates MDU complexes where NTC provides service.

Operating Revenues

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

Cost of goods and services

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

Mobile

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

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

The results for the year ended December 31, 2004 have been restated to reflect the correction of certain errors in the Company's accounting for operating leases. See Note 2 to the consolidated financial statements appearing elsewhere in this report for additional information. The effect of these restatements on the Mobile segment's operating income for the year ended December 31, 2004 was to increase tower lease revenue-non-affiliate by $20 thousand and cost of goods and services by $171 thousand and to decrease segment operating income by $151 thousand.

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

Operating Revenues

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

Cost of goods and services

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

Selling, general and administrative

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

Depreciation and amortization

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

Continuing Operations

2004 Compared to 2003
Consolidated Results

The results for the years ended December 31, 2004 and 2003 have been restated to reflect the correction of certain errors in the Company's accounting for operating leases. See Note 2 to the consolidated financial statements appearing elsewhere in this report for additional information. The effect of these restatements on the Company's statements of income for the years ended December 31, 2004 and 2003 was to increase operating revenues by $20 thousand and $44 thousand, respectively, increase cost of goods and services by $382 thousand and $404 thousand, respectively, decrease the income tax provision by $157 thousand and $138 thousand, respectively, and decrease net income by $205 thousand and $222 thousand, respectively.

The Company's consolidated results for the years ended December 31, 2004 and 2003 are summarized as follows:

	Year Ended December 31,		*Change*	
(in thousands)	*2004 (Restated)*	*2003 (Restated)*	*$*	*%*
Operating revenues	$ 120,994	$ 105,661	$ 15,333	14.5
Operating expenses	102,983	87,740	15,243	17.4
Operating income	18,011	17,921	90	0.5
Other income (expense)	(2,052)	(3,216)	(1,164)	(36.2)
Income tax provision	5,921	5,166	755	14.6
Discontinued operations, net of income taxes	-	22,389	(22,389)	(100.0)
Cumulative effect of a change in accounting, net of income taxes	-	(76)	76	100.0
Net income	$ 10,038	$ 31,852	$ (21,814)	(68.5)

Operating revenues

For the year ended December 31, 2004, operating revenue increased $15.3 million, or 14.5%, due primarily to growth in the Company's PCS segment. For the year ended December 31, 2004, PCS operating revenue increased $13.4 million, or 20.0%, over 2003 operating revenue.

Operating expenses

For the year ended December 31, 2004, operating expenses increased $15.2 million, or 17.4%, due primarily to growth in the Company's PCS and Telephone segments. For the year ended December 31, 2004, PCS operating expenses increased $9.8 million, or 15.2%, and Telephone operating expenses increased $2.8 million, or 19.5%, compared to 2003. The 2004 results include $1.1 million of expenses for compliance with new Sarbanes-Oxley regulations.

Other income (expense)

For the year ended December 31, 2004, other income (expense) decreased $1.2 million, or 36.2%, primarily as a result of a decrease in interest expense of $0.4 million and an increase in investment income of $0.8 million.

Net income

For the year ended December 31, 2004, net income was $10.0 million, which represented a decrease of $21.8 million or 68.5% from 2003. The decrease is primarily reflected in the 2003 recording of $22.4 million in net income from discontinued operations for the sale of the Company's cellular operations. See Note 3 to the consolidated financial statements appearing elsewhere in this report for additional information.

Segment Results

The restatement discussed in Note 2 to the consolidated financial statements appearing elsewhere in this report, is reflected in those segments affected by the restatement, which are the PCS segment and the Mobile segment. The other segments, Telephone, Converged Services, Holding and other were not affected by the restatement.

PCS

(in thousands)	Year Ended December 31, 2004 (Restated)	2003 (Restated)	Change $	%
Segment operating revenues				
Wireless service revenue	$ 52,724	$ 43,827	$ 8,897	20.3
Travel and roaming revenue	22,863	19,684	3,179	16.2
Equipment revenue	3,190	1,835	1,355	73.8
Other revenue	1,389	1,443	(54)	(3.7)
Total segment operating revenues	80,166	66,789	13,377	20.0
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	39,112	32,688	6,424	19.7
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	22,952	21,261	1,691	8.0
Depreciation and amortization	11,915	10,246	1,669	16.3
Total segment operating expenses	73,979	64,195	9,784	15.2
Segment operating income	$ 6,187	$ 2,594	$ 3,593	138.5

The results for the years ended December 31, 2004 and 2003 have been restated to reflect the correction of certain errors in the Company's accounting for operating leases. See Note 2 to the consolidated financial statements appearing elsewhere in this report for additional information. The effect of these restatements on PCS's segment operating income for the years ended December 31, 2004 and 2003 was to increase cost of goods and services by $210 thousand and to decrease segment operating income by $240 thousand.

The Company had 271 PCS base stations in service at December 31, 2004, compared to 253 base stations in service at December 31, 2003. This increase in base stations was primarily the result of supplementing network capacity and further extending coverage along more heavily traveled secondary roads in the Company's market areas.

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

The Company's net travel and wholesale roaming, including the long distance and 3G data portions of that traffic, decreased to a $9.2 million net contribution to operating income for 2004, compared to a $9.3 million net contribution to operating income for 2003. The Company's travel receivable minutes increased 29.3% to 284.5 million and the travel payable minutes increased by 38.7% to 201.8 million. The increases in travel minutes receivable and payable were primarily the result of an increase in usage of the Company's network facilities by subscribers based in other markets and growth in subscribers in the Company's markets using PCS service outside of the Company's service area. On a per-subscriber basis, the Company's average of travel payable minutes increased to 179 minutes in 2004, which represented an increase of 20 minutes from 2003.

The Company experienced churn of 2.2% in 2004, compared to 2.1% in 2003, which reflected the Company's maintenance of rigorous credit screening for new subscribers as well as continued efforts to improve the after-sales support. Competition in the wireless industry continued to have a significant impact on the results of the Company's PCS operations.

Operating Revenues

As of December 31, 2004, the Company had 102,613 retail PCS subscribers compared to 85,139 subscribers at December 31, 2003. The PCS operations added 17,474 net retail customers in 2004 compared to 17,297 net retail subscribers added in 2003. In addition, net wholesale users increased by 14,479 in 2004 compared to 11,186 in 2003. In 2004, wireless service revenues from retail customers increased $8.9 million, or 20.3%.

PCS travel and roaming revenues increased $3.2 million, or 16.2% in 2004. The travel and roaming revenue increase resulted from an increase in travel usage. For 2004, the travel rate the Company receives from Sprint Nextel was $0.058, the same as 2003. Roaming revenue declined $1.2 million, or 14%, due to decreasing roaming rates and a decrease in volume as other carriers continue to expand their networks.

PCS equipment sales were $3.2 million, which represents an increase of $1.4 million or 73.8% over 2003. The equipment sales at Company stores in 2004 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, provision of a free second phone when a customer purchases one phone, or substantial price discounts.

Cost of goods and services

Cost of PCS goods and services increased $6.4 million, or 19.7%, primarily as the result of an increase in travel expense and higher volumes of handsets sold through Company-owned stores and PCS handset subsidies paid to Company-managed third-party retailers. Travel expense in 2004 increased by $3.6 million, to $14.4 million due to a significant increase in travel minutes. Travel expense is the cost of minutes used by the Company's PCS subscribers on Sprint Nextel or other Sprint Nextel Affiliates' networks. The travel rate for 2004 was $0.058 and did not change from 2003. In 2004, the average customer's travel usage of 179 minutes per month increased by 20 minutes from 159 minutes per month in 2003. The Company recorded approximately $2.1 million in handset costs related to existing subscribers upgrading their handsets, which represented an increase of $1.2 million, or 142%, over 2003.

In 2004, cost of goods and services experienced additional increases due to the costs of the PCS phones sold to new and existing customers. During 2004, the Company added 41,746 gross new PCS subscribers compared to 39,333 in 2003.

Selling, general and administrative

Selling, general and administrative costs increased $1.7 million, or 8.0%, compared to 2003, primarily as a result of:

- an increase in the amount paid to Sprint Nextel for the administration of the customer base of $1.6 million, due to an increase in the number of PCS customers, somewhat offset by a decrease in the rate charged per subscriber.
- a commission expense increase of $0.6 million due to increased phone sales.

Depreciation and amortization

The PCS operations had depreciation expense of $11.9 million, which represented an increase of $1.7 million, or 16.3%, over 2003. The 18 additional PCS base stations placed in service during 2004 resulted in higher depreciation expense for the year in addition to full year depreciation on assets added during the year in 2003.

Telephone

	Year Ended December 31,		*Change*	
(in thousands)	*2004*	*2003*	*$*	*%*
Segment operating revenues				
Service revenue - wireline	$ 6,817	$ 6,838	$ (21)	(0.3)
Access revenue	11,928	10,450	1,478	14.2
Facilities lease revenue	5,941	6,121	(180)	(2.9)
Equipment revenue	26	39	(13)	(33.3)
Other revenue	2,663	2,343	320	13.7
Total segment operating revenues	27,375	25,791	1,584	6.1
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	4,098	3,286	812	24.7
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	8,129	6,544	1,585	24.2
Depreciation and amortization	4,633	4,279	354	8.3
Total segment operating expenses	16,860	14,109	2,751	19.5
Segment operating income	$ 10,515	$ 11,682	$ (1,167)	(10.0)

During 2004, the Company's telephone access line count declined by 186 access lines. The decline was due to the migration to wireless and DSL services which has been, to some extent, offset by the increased customer base from the construction of new homes within Shenandoah County. The telephone segment's results were not affected by the restatement discussed in Note 2 to the consolidated financial statements appearing elsewhere in this report.

Operating Revenues

Access revenue increased $1.5 million or 14.2% to $11.9 million. The originating minutes increased 9.1% while the terminating minutes increased by 28.3% compared to 2003 traffic.

Directory revenue, included in "other revenues," increased by $0.4 million, or 23.9%, to $1.8 million.

Cost of goods and services

The segment's cost of goods increased due to a $0.4 million increase in directory expenses, and $0.3 million in maintenance and supplies and $0.1 million in access fees paid to other providers.

Selling, general and administrative

Selling, general and administrative expense increased in 2004 by $1.6 million, or 24.2%, primarily due to a $0.8 million increase in employee salaries and benefits, a $0.4 million increase in pension expense and a $0.4 million increase in other expenses.

Converged Services

(in thousands)	Year Ended December 31, 2004	2003	Change $
Segment operating revenues			
Service revenue - wireline	$ 731	$ -	$ 731
Equipment revenue	(1)	-	(1)
Other revenue	6	-	6
Total segment operating revenues	736	-	736
Segment operating expenses			
Cost of goods and services, exclusive of depreciation and amortization shown separately below	352	-	352
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	319	-	319
Depreciation and amortization	232	-	232
Total segment operating expenses	903	-	903
Segment operating income (loss)	$ (167)	$ -	$ (167)

The Converged Services segment primarily consists of NTC, which provides local and long distance voice, data and video services on an exclusive and non-exclusive basis to MDU communities throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee and Mississippi. The Converged Services segment's results were not affected by the restatement discussed in Note 2 to the consolidated financial statements appearing elsewhere in this report.

The Company purchased the remaining 83.9% of NTC that it did not previously own on November 30, 2004, and prior to that date had no other activities in this segment. Accordingly, 2004 operating results include one month of operating activity for NTC and 2003 operating results reflect no activity in this segment.

Operating Revenues

Service revenues consisted of voice, video and data services to MDU properties in the southeastern United States.

Cost of goods and services

Cost of goods and services reflects both the cost of purchasing video and voice services and the network costs to provide Internet services to customers and network maintenance and repair.

Mobile

(in thousands)	Year Ended December 31, 2004 (Restated)	2003 (Restated)	Change $	%
Segment operating revenues				
Tower lease revenue - affiliate	$ 1,298	$ 1,238	$ 60	4.8
Tower lease revenue - non-affiliate	2,915	2,608	307	11.8
Other revenue	178	276	(98)	(35.5)
Total segment operating revenues	4,391	4,122	269	6.5
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	1,114	1,623	(509)	(31.4)
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	632	669	(37)	(5.5)
Depreciation and amortization	611	599	12	2.0
Total segment operating expenses	2,357	2.891	(534)	(18.5)
Segment operating income	$ 2,034	$ 1,231	$ 803	65.2

The results for the years ended December 31, 2004 and 2003 have been restated to reflect the correction of certain errors in the Company's accounting for operating leases. See Note 2 to the consolidated financial statements appearing elsewhere in this report for additional information. The effect of these restatements on the Mobile segment's operating income for the years ended December 31, 2004 and 2003 was to increase tower lease revenue non-affiliate by $20 thousand and $44 thousand, respectively, to increase cost of goods and services by $171 thousand and $164 thousand, respectively, and to decrease segment operating income by $151 thousand and $120 thousand, respectively.

Operating Revenues

Operating revenues increased due to additional tower sites being leased by third parties, somewhat offset by a continued decline in other revenue, primarily due to the decline of paging revenue.

Cost of goods and services

Cost of goods and services decreased in 2004 by $0.5 million, or 31.4% due primarily to a $0.2 million decrease in maintenance and repairs as routine tower inspections performed in 2003 were not required in 2004. In addition, the Company received $0.2 million in credits from Verizon during 2004 related to the paging operations covering the period 2000 through 2004.

Discontinued Operations

The Company invested $2.0 million in the Virginia 10 RSA limited partnership in the early 1990's. 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 Verizon Wireless, one of the minority partners. The agreement was signed in November 2002, and the sale closing occurred on February 28, 2003. The Company's portion of the net income from its operations for 2003 was $1.2 million. There was no net income or loss from discontinued operations in 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.

Sources and Uses of Cash. The Company generated $32.2 million of net cash from operations in 2005, a $2.2 million decrease from $34.4 million generated in 2004. The primary changes in cash from operations was a $3.4 million increase in non-cash depreciation and amortization offset by a $7.3 million change in deferred taxes. In 2003, operations generated $30.6 million of cash, primarily the result of net income, non-cash depreciation and amortization and deferred taxes.

In 2005, the Company used $30.1 million in investing activities, primarily for the purchase and construction of plant and equipment for the operation of the Company's businesses. This is $13.4 million lower than 2004 spending of $43.5 million, which included $34.1 million for the purchase and construction of plant and equipment and $9.2 million used to purchase 83.9% of the NTC operation. In 2003, the capital spending was lower due in part to management's focus on selling the Virginia 10 RSA, and due to concerns about PCS profitability.

Net cash used in financing was $18.7 million in 2005, compared to a net $5.4 million in 2004. In 2005, the Company made an unscheduled payment on the revolving debt facility of $12.0 million, in addition to the scheduled principal payments of $4.4 million on the term debt facilities. The dividend increased by $0.3 million. In 2005, the Company received $1.2 million in cash for the exercise of incentive stock options, an increase of $0.6 million over 2004. In 2004, the Company secured the CoBank revolver facility to purchase NTC. The Company borrowed $13.1 million for the purchase and to pay off the acquired debt, in addition to funding the scheduled debt payments. In 2003, the Company made an accelerated payment on certain portions of its long-term debt, in addition to the scheduled debt payments to reduce the debt balance, as a result of the cash generated from the sale of the Virginia 10 RSA limited partnership interest.

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

Indebtedness. At December 31, 2005, the Company's indebtedness totaled $35.9 million and the annualized overall weighted average rate of such indebtedness was approximately 7.4%.

On November 30, 2004, the Company amended the terms of its Master Loan Agreement with CoBank, ACB to provide for a $15.0 million revolving reducing credit facility. Under the terms of the amended credit facility, the Company was able to borrow up to $15.0 million for use in connection with the acquisition of NTC Communications LLC and other corporate purposes. The revolving credit facility has a 12-year term with scheduled quarterly payments beginning June 2006. Borrowings under the facility accrue interest at an adjustable rate that can be converted to a fixed rate at the Company's option. As of December 31, 2005, interest accrued on outstanding borrowings at an annual rate of 5.96%. Repayment of the revolving credit facility is secured by a pledge of the stock of all of the subsidiaries of the Company and all of the outstanding membership interests in NTC. In May 2005, the Company made an unscheduled $12.0 million payment on the revolving debt facility, from funds invested in short-term cash investments, to reduce interest expense. At December 31, 2005, $1.2 million was outstanding under this facility.

The outstanding balance of the CoBank term loan is $29.8 million at December 31, 2005, all of which is at fixed rates ranging from approximately 6.67% to 8.05%. The stated rate excluded patronage credits that are received from CoBank. These patronage credits are a distribution of profits from CoBank, which is a cooperative required to distribute its profits to its members. During the first quarter of 2005 and 2004, the Company received patronage credits of approximately 100 and 81 basis points, respectively, on its outstanding CoBank debt balance. The CoBank term facility matures in 2013 and requires monthly payments of $332 thousand plus interest.

The CoBank loan agreements have three financial covenants that are measured on a trailing 12-month basis and are calculated on continuing operations. At December 31, 2005, the ratio of total debt to operating cash flow, which must be 2.5 or lower, was 0.8; the equity to total assets ratio, which must be 35% or higher, was 59.3%; and the ratio of operating cash flow to scheduled debt service, which must exceed 2.0, was 5.0. The Company was in compliance with all other covenants related to its debt agreements at December 31, 2005.

As of December 31, 2005, the Company had loans from the Rural Telephone Bank and the Rural Utilities Service totaling $4.7 million at fixed rates ranging from 5.0% to 6.0%. The RTB loans require monthly payments of $67 thousand including interest. RUS loans require quarterly payments of $4 thousand including interest. The RUS and RTB loans have maturities through 2019. 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.

On August 4, 2005, the board of directors of the Rural Telephone Bank adopted resolutions for the purpose of dissolving RTB as of October 1, 2005. The Company holds 10,821,770 shares of Class B and Class C RTB Common Stock ($1.00 par value) which is reflected on the Company's books at $796,000 under the cost method at December 31, 2005. In 2006, the Company will receive $11.3 million in proceeds, and recognize a gain of approximately $6.5 million, net of tax, related to the dissolution of the RTB, and the redemption of the stock.

Contractual Commitments. The Company is obligated to make future payments under various contracts it has entered into, including amounts pursuant to its various long-term debt facilities, and non-cancelable operating lease agreements for retail space, tower space and cell sites. Expected future minimum contractual cash obligations for the next five years and in the aggregate at December 31, 2005, are as follows:

Payments due by periods (in thousands)	*Total*	*Less than 1 year*	*1-3 years*	*4-5 years*	*After 5 years*
Long-term debt principal	$ 35,918	$ 4,526	$ 9,553	$ 10,309	$ 11,530
Interest on long–term debt	8,366	2,293	3,538	2,049	486
Retirement plan benefit contributions/payments	825	700	-	-	125
Operating leases[1]	48,822	5,237	10,447	9,358	23,780
Capital calls on investments	692	692	-	-	-
Purchase obligations[2]	3,100	3,100	-	-	-
Total obligations	$ 97,723	$ 16,548	$ 23,538	$ 21,716	$ 35,921

Notes

[1] Amounts include payments over reasonably assured renewals. See Note 14 to the consolidated financial statements appearing elsewhere in this report for additional information.

[2] Represents open purchase orders at December 31, 2005.

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

Capital Commitments. The Company spent $30.0 million on capital projects in 2005, or approximately $8.0 million less than the 2005 budgeted amount. The variance was primarily due to delays in the start dates for construction of a fiber route and various PCS related expenditures.

Capital expenditures budgeted for 2006 total approximately $42.8 million, including approximately $21.3 million for additional PCS base stations, additional towers, and switch upgrades to enhance the PCS network. Approximately $5.7 million is budgeted for NTC's network upgrades and new MDU build outs, improvements and replacements, approximately $5.3 million for the telephone operations, approximately $2.4 million for wireless broadband projects, and approximately $8.4 million for technology upgrades and other capital needs.

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

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

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 January 1, 2006. The Company expects to record a cumulative effect of a change in accounting principle of approximately $0.2 million upon application of SFAS 123 (R).

In March 2005, the FASB issued FASB Interpretation ("FIN") No. 47 "Accounting for Conditional Asset Retirement Obligations—an Interpretation of FASB Statement No. 143" ("FIN No. 47"). FIN No. 47 clarifies the timing of liability recognition for legal obligations associated with the retirement of a tangible long-lived asset when the timing and/or method of settlement are conditional on a future event. FIN No. 47 is effective for us no later than December 31, 2005. The adoption of FIN No. 47 did not have a material impact on the Company's consolidated results of operations or financial position.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS No. 154"). This Statement replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes in Interim Financial Statements," and changes the requirements for the accounting for and reporting of a change in accounting principle. SFAS No. 154 applies to all voluntary changes in an accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. When a pronouncement includes specific transition provisions, those provisions should be followed. SFAS No. 154 is effective for accounting changes and error corrections occurring in fiscal years beginning after December 15, 2005.

Quantitative and Qualitative Disclosures About Market Risk

The Company's market risks relate primarily to changes in interest rates on instruments held for other than trading purposes. The Company's interest rate risk involves three components. The first component is outstanding debt with variable rates. As of December 31, 2005, the Company's variable rate debt balance was $1.2 million. The Company's interest rate risk on the variable rate debt is $7 thousand based on a 10.0% increase in the interest rate. The Company's remaining debt has fixed rates through maturity. A 10.0% increase in interest rates would decrease the fair value of the Company's total debt by approximately $0.8 million, while the estimated fair value of the fixed rate debt was approximately $33.6 million as of December 31, 2005.

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

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

Management does not view market risk as having a significant impact on the Company's results of operations, although future results could be adversely affected if interest rates were to increase significantly for an extended period and the Company were to require external financing. Since the Company has no investments in publicly traded stock as of December 31, 2005, there is currently no risk related to the Company's available for sale securities. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

As of December 31, 2005, the Company has $7.3 million invested in privately held companies directly or through investments with portfolio managers. Most of the companies are in an early stage of development and significant increases in interest rates could have an adverse impact on their results, ability to raise capital and viability. The Company's market risk is limited to the funds previously invested and an additional $0.7 million committed under contracts the Company has signed with portfolio managers.

Shareholder Information

Our Business

Shenandoah Telecommunications Company is a diversified telecommunications holding company that provides a broad range of telecommunications services through its operating subsidiaries. These services include: wireline telephone service, primarily in Shenandoah County and small service areas in Rockingham, Frederick and Warren counties, all in Virginia; cable television service in Shenandoah County; unregulated telecommunications equipment sales and services; online information and Internet access provided to the multi-state region surrounding the northern Shenandoah Valley of Virginia; financing of purchases of telecommunications facilities and equipment; paging services in the northern Shenandoah Valley; resale of long distance services; operation and maintenance of an interstate fiber optic network; wireless personal communications services (PCS); wireless broadband services; a tower network in a four-state region from Harrisonburg, Virginia, to the Harrisburg, York and Altoona, Pennsylvania, markets; Fiber-to-the-Home (FTTH) and Fiber-to-the-Premises (FTTP) solutions for builders and developers in the Middle Atlantic and southeastern United States; and bundled video, voice and data services to multi-tenant unit housing and off-campus student housing in the Middle Atlantic and southeastern United States.

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

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

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

Market And Dividend Information

The Company's stock is traded on the NASDAQ National Market under the symbol "SHEN." Information on the high and low prices per share of common stock as reported by the NASDAQ National Market for the last two years is set forth below:

	2005				*2004*			
	Qtr 1	***Qtr 2***	***Qtr 3***	***Qtr 4***	*Qtr 1*	*Qtr 2*	*Qtr 3*	*Qtr 4*
High	**31.00**	**40.00**	**52.66**	**46.60**	27.36	30.71	27.27	34.69
Low	**25.28**	**28.05**	**36.65**	**37.02**	21.91	22.37	22.70	23.99

The Company historically has paid an annual cash dividend on or about December 1st of each year. The cash dividend per share was $0.46 in 2005 and $0.43 in 2004. The Company's ability to pay dividends is restricted by its long-term loan agreements. The loan agreements are not expected to limit dividends in amounts that the Company historically has paid.

As of March 1, 2006, there were approximately 4,167 holders of record of the Company's common stock.

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

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

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

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

2005

SHENANDOAH TELECOMMUNICATIONS COMPANY & SUBSIDIARIES

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

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

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

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