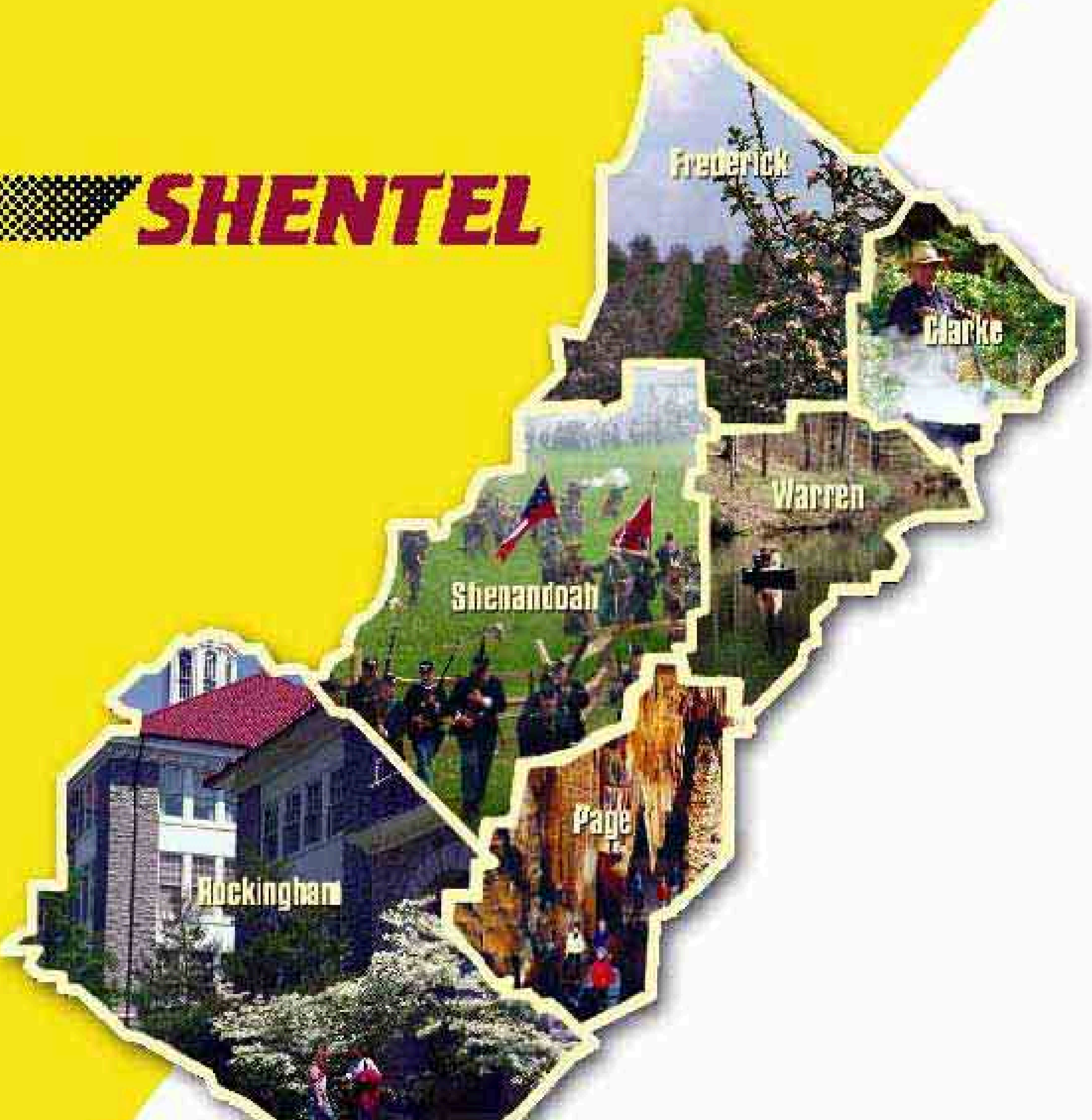
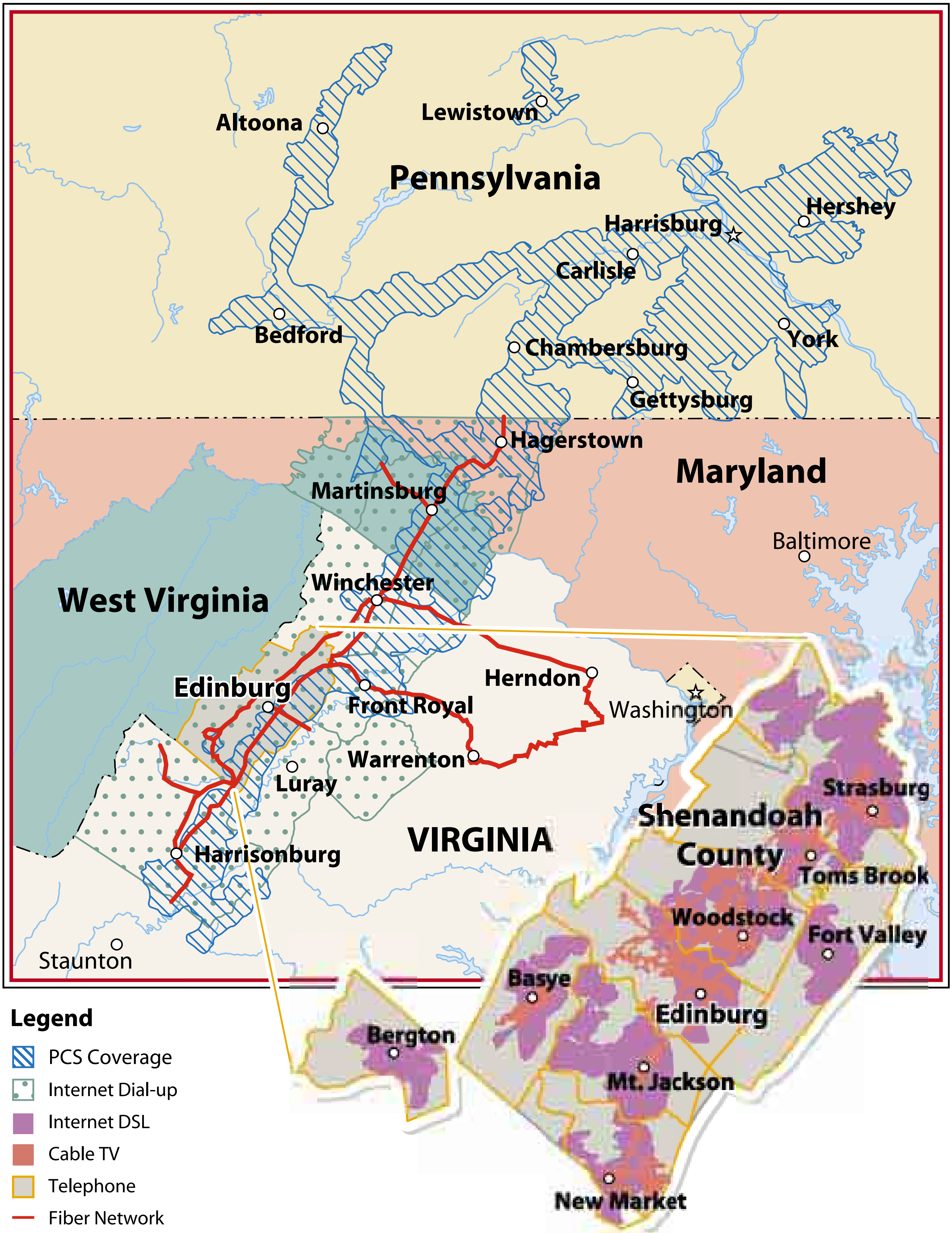


Shenandoah Telecommunications Company 2003 Annual Report



Legend

- PCS Coverage
- Internet Dial-up
- Internet DSL
- Cable TV
- Telephone
- Fiber Network

March 22, 2004

Dear Shareholder:

Christopher E. French

I am pleased to report on an excellent year for your Company, one in which we achieved strong financial results and reached several significant accomplishments.

Our financial performance was very positive in 2003. For the first time in our history, revenues exceeded $100 million, reaching a total of $105.9 million for the year. While revenues increased by $12.9 million, our operating expenses only increased by $3.6 million, resulting in a $9.3 million improvement in operating income which reached $18.6 million. Helped by the one-time gain from the sale of our cellular partnership interest, our net income was a record $32.1 million. Our net income from continuing operations, which excludes the cellular impact, reached $9.8 million.

While the last few years have not been kind to many companies in the telecommunications industry, your Company has not just survived, it has thrived. In addition to the operating results, our balance sheet became even stronger. Total debt was again reduced, decreasing by $12.2 million to $43.3 million as of the end of the year. At the same time, our cash and equivalents at the end of the year was $28.7 million, while total assets were $185.4 million. With our total long-term debt equaling only 23.4 percent of total assets, your Company's balance sheet is envied in an industry where many companies have encountered problems just meeting their debt obligations, much less being able to invest in their future.

As previously announced, the Company completed the sale of our cellular partnership interest on February 28, 2003. While our participation in cellular, a subset of the wireless industry, had been very profitable, competitive pressures in the wireless industry were having an increasing impact. We had already lost half of our customers, and growth in revenues and profits had begun to slow. Exiting the cellular segment through the sale allows the Company to focus on our significantly larger digital PCS operation. It also made available a large source of cash to finance our other operating needs and future growth opportunities.

Our wireless priorities are now focused on improving results within our PCS operation. After many years of multiple-million dollar losses, our PCS business produced a slight profit in 2003. While many non-recurring factors contributed to this small profit, the basic operating results within this subsidiary showed significant improvement during 2003. PCS revenues grew 20.8 percent to a total of $67.0 million. Operating income in this subsidiary was $2.9 million, an $8.2 million change from the previous year's loss. Despite these improvements, we still have a long way to go before we are earning a satisfactory return on our investment.

The Company continued its efforts to successfully grow revenues and profits from other lines of business and by furnishing more and newer services in our enlarged footprint extending beyond Shenandoah County. Revenues from our information access services, which includes contract work on the 511Virginia Travel Project and Internet access services, increased $0.6 million, to $7.0 million during 2003. The Virginia Department of Transportation has requested proposals to continue the 511 project for future years, as well as to expand it to cover all the interstate highways throughout the Commonwealth. The success of the project to date has attracted many other bidders competing against our Company to win the contracts. Our recently launched regional phone book, Shentel Pages, exceeded our initial revenue expectations. It is hoped that a single source of phone listings and Yellow Page advertising, in both printed and online versions, will increasingly be demanded by residents and businesses in the northern Shenandoah Valley region.

While our 2003 results have been good, we recognize we still have many challenges to overcome in order to continue our history of profitable long-term growth. Foremost is sustaining profitability in our PCS business which is so heavily dependent on Sprint's decisions and overall success with PCS. Our recently announced amendment to our Sprint agreements will provide some cost savings and allow us greater certainty in fees paid to Sprint. The recently announced merger between two of Sprint's competitors may provide some much needed consolidation in the U.S. wireless industry.

We believe our commitment to good customer service, and our expanding PCS coverage area, will provide an advantage as we strive to profitably add customers.

The telecommunications industry remains in a period of rapid change, both from technological and regulatory perspectives. While these changes present challenges to our existing operations, they present opportunities as well. As an organization we need to address the continuing shift of minutes and customers away from our traditional networks to newer wireless and Internet Protocol (IP)-based networks. Finding a way to profitably offer Voice Over IP services will be one of our immediate goals. We have rapidly deployed broadband data capabilities, now making DSL access available to over 80 percent of our telephone customers. While DSL is currently provided over our wireline network, we need to look to wireless technologies to deliver broadband services to more customers in a larger footprint. Our video service offerings are increasingly in competition with satellite based services, and thus need enhancements in order to be the preferred choice of our customers. As we work to identify new services to offer, a major objective will also be to find ways to do so profitably.

Being able to deliver good financial results over the long term requires the efforts of many talented and dedicated employees. In the pages of this annual report, you will get a glimpse of how many of our employees also make a contribution to their communities. Our Company strives to be a good corporate citizen, a goal which is enhanced by our employees' own effort to make a positive impact with their volunteer activities.

We have had a history of investing heavily in the capabilities of our networks, expanding and enhancing them in order to offer the best service possible. As our business has continued to grow and become more complex, we also need to invest in additional management resources. One of the recent steps in this direction was to hire Earle MacKenzie, who joined our organization as Executive Vice President in June. Earle brings 30 years of telecommunications experience to our Company, having worked for a range of organizations, including Contel, Arthur Andersen, startup ventures, and consulting firms. In his position, he will serve as Chief Financial Officer of the organization, freeing up Larry Paxton to focus on our information technology needs. In addition to the new management positions, we have underway a reorganization of our management structure to more closely align it with our functional areas.

In addition to the normal challenges of managing a growing business, our Board of Directors and members of management have spent considerable time and effort to ensure compliance with the numerous new rules and requirements resulting from the various corporate scandals over the past few years. While a valid argument can be made as to whether all the new requirements are necessary, or even if they would have avoided the scandals that were uncovered, we have approached these efforts as an additional opportunity to further improve what we hope is already a well governed organization. The cost of complying with the new rules will be significant, but the cost of not doing what is right would be worse, and certainly not acceptable to you as owners of the Company.

As announced last October, the Board of Directors declared a two-for-one stock split to shareholders of record as of January 30, 2004. The certificates for the new shares were distributed to shareholders February 20, 2004 and the stock began trading on a post-split basis February 23, 2004. With the split, shareholders received one new share for each existing share they held on the record date. While the split results in no change to a shareholder's ownership of the Company, it is hoped that the lower post-split trading price will make the shares more affordable to a larger number of potential investors.

While we cannot predict how our stock's price will perform, we know that over the long term the price should be a function of our ability to steadily increase earnings for our shareholders. We have generally been successful at doing that in the past, and while our future is always uncertain, generating long-term earnings growth will remain our primary objective.

For the Board of Directors,

Christopher E. French

Christopher E. French
President

For over 100 years Shenandoah Telecommunications Company has been committed to providing outstanding service to our customers. Our employees take that same dedication after hours to make a difference in their community.

We take this opportunity to share with you, our shareholders, the stories of just a few of your dedicated employees.

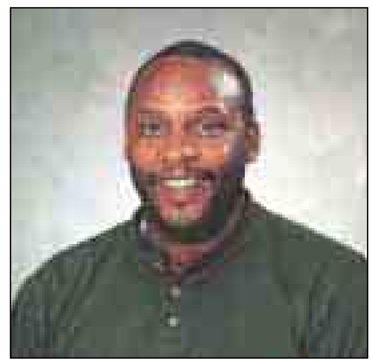
Patty Pomeroy

Volunteerism is in Patty Pomeroy's blood. Her grandfather was a dispatcher for the rescue squad in Middletown, VA for 25 years and her grandmother was in the ladies auxiliary. Her father was a charter member of the Middletown Rescue Squad. In 1997, Patty, a customer service representative at Shentel for four years, continued the family tradition by earning her Emergency Medical Technician certification and going to "work" for the Strasburg Rescue Squad. Patty is the administrator of membership recruitment and retention for the squad and is the liaison coordinator for junior squad members under 18. It is her job to make sure that new members are brought in to the squad and current members stay active.

"There is a great satisfaction that comes from knowing that what you can do will help people."

Jeff Beard has been an installer repairman with Shentel for almost five years. Two years ago, Jeff helped start Project Isaiah 58, a faith-based recovery ministry that reaches out to people who are struggling with addiction. Project Isaiah 58 has weekly group meetings in Winchester, Woodstock and Warrenton, VA. Jeff, who lives in Winchester, participates in the group meetings and also makes time to meet one-on-one with people who need personal attention.

"I feel the need to reach out to people who are suffering."



Jeff Beard

John Gardner

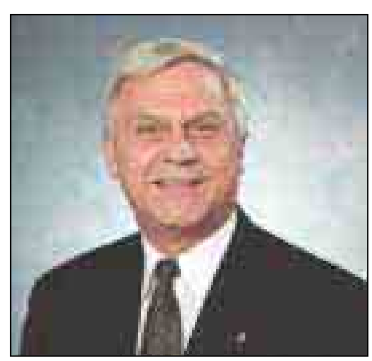
John Gardner has been with Shentel for two years as a PCS technician in Central Pennsylvania, but for almost a year of that time he was on Naval Reserve duty in Sasebo, Japan. John joined the Reserves after serving 10 years of active duty. In October 2002, he was activated under Noble Eagle-Enduring Freedom as part of the increase in security at bases around the world. John worked on Motorola radios and repeater systems while stationed in Japan. It was tough for the serviceman to be away from his wife and children, but John believes very strongly in serving his country.

"Being in the Reserves is a way for me to be a civilian and still serve my country."

At Shentel, George Brinkley, the store manager in Front Royal, VA, is known for being one of the biggest fund-raisers for the Shenandoah County American Cancer Society Relay for Life event. In his six years at the Company, George has raised nearly $20,000. In 2003, he raised $4,246 and was recognized as the top individual fund-raiser for the entire event.

In 2002, George was chairman of the parade committee for the Woodstock, VA 250th anniversary celebration. Under George's leadership, the 26-member committee worked for a year preparing for the parade, which was the largest in the town's history.

"I just have a knack for volunteering. I want to make my community better any way I can."



George Brinkley

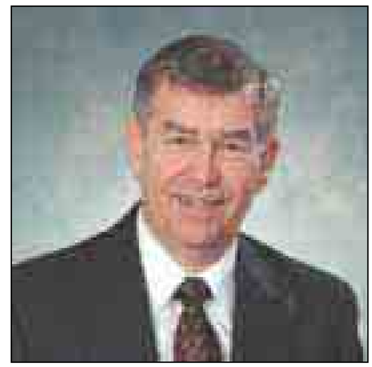
Tarinda Showman

Tarinda Showman has worked part-time in the Shentel Communications Center since she was a summer intern in 1998. She initially joined the Conicville, VA Volunteer Fire Department to help raise funds, but when she ran her first emergency call she was hooked. During her six years in the Department, she served a two-year stint as captain and currently holds the office of secretary. In 1999, she joined the Mount Jackson, VA Rescue Squad. Each week she pulls two 12-hour shifts with the rescue squad and spends at least 10 hours at the fire department.

"I do it because one day it might be my family. It's always somebody's family."

During his 36 years at Shentel, David Ferguson, Vice President-Customer Services, has been involved in a variety of community, civic and church organizations such as the Woodstock Rotary Club, the American Cancer Society and the March of Dimes. David is a charter member of the Board of Directors of the Shenandoah County Free Clinic and served as chairman of the fund-raising drive. The clinic opened its doors in June 2002, offering medical, dental and pharmaceutical services to county citizens who would not otherwise receive these services. In the first six months, more than 300 patients were served.

For their work at the clinic, David and his wife, Janet, received the Unsung Hero Award from Governor Mark Warner in 2003, and David earned the 2003 Beyond the Call Award from the United States Telecommunications Association.



David Ferguson

"It is so rewarding - you can see it on the faces of the people."

Brian Bosley

Brian Bosley, a Sprint PCS business-to-business sales representative with Shentel for the past three years, has always enjoyed sports. He takes his passion, knowledge and experience in sports, and volunteers his time with young people in his community. Brian has been active in the very successful Bridgewater, Virginia Community Little League program for the past four years. He currently serves as vice president of the Girls Minor League Softball. Brian also finds time to coach his daughters' T-ball and basketball teams.

"I get a great sense of satisfaction from teaching kids and watching them grow and learn."

Cindy Rinker, corporate content editor at Shentel since October 2002, was recently named the 2004 chairman of the Woodstock, Virginia Downtown Enhancement Committee's Promotion Committee. The Downtown Enhancement group was established to find ways to revitalize downtown Woodstock. As a member for the past four years, Cindy has helped develop, plan and promote an impressive list of events from Light Up Woodstock at Christmastime to a street dance in spring, to Halloween on Court Square in October. The ultimate goal is to create a downtown area that is lively, attractive and reflective of Woodstock's important historical significance to the Shenandoah Valley and the Commonwealth of Virginia.

Cindy Rinker

"It is important to preserve the beauty and history of this area for the generations to come."

Ronnie Royster

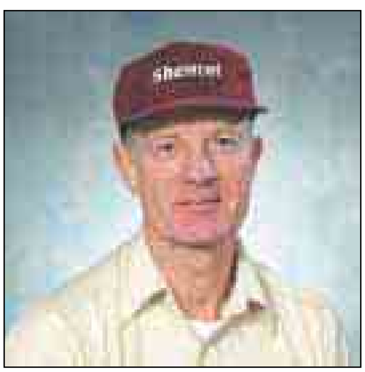
Ronnie Royster and his wife Ellen, not only open their hearts to children in need, they open their home to children in need of a place to stay. Ronnie, a staff accountant with Shentel for five years, became a foster parent 10 years ago when he lived in Danville, VA. Currently, he and Ellen are members of the Warren County, VA Foster Parent organization. They have hosted two children since moving to Warren County. In the past, they hosted three international children; one from the Philippines and two from Brazil. Ronnie and Ellen have one birth child, but they have chosen to officially adopt six other children ranging in age from an infant to 8 years old.

"The Lord blessed us, so when there are children out there who need help, we are able to offer it to them."

Dawn Sager, office assistant in the marketing department, has worked for Shentel since 1996. Her former job as a dispatcher with the Strasburg Police Department led to 21 years of volunteering with the Strasburg Rescue Squad. Dawn has served as secretary and building and grounds lieutenant for the squad. She currently is serving another term as the organization's treasurer. As an Emergency Medical Technician, she pulls regular duty; devoting up to 24 hours a month volunteering with the squad.

"The potential is there to make a real difference for someone."

Dawn Sager



Gary Shipe

There aren't many corners of Wakeman's Grove Church of the Brethren that Gary Shipe, who has worked as an installer repairman for Shentel since 1986, doesn't know. At Wakeman's Grove he serves on the executive committee, teaches Sunday school and sings in the choir. He does whatever is necessary to keep this tight-knit country church in good shape. Gary believes it is important to not just sit in the pew on Sunday.

"I believe that you should help where you can."

Ann Masland has been a business-to-business sales representative in Central Pennsylvania for Shentel's PCS business for the past three years. In 2002, Ann joined the United Way of Carlisle and Cumberland County. In 2003, she was appointed to the United Way's Needs Assessment Committee. This nine-member group is responsible for reviewing data collected about community needs to provide an overview for the United Way board. The board uses the information as a basis for its strategic plan. Ann also finds the time to serve on the Board of Directors of the Carlisle, PA YWCA and is Chairperson of its Marketing Committee.

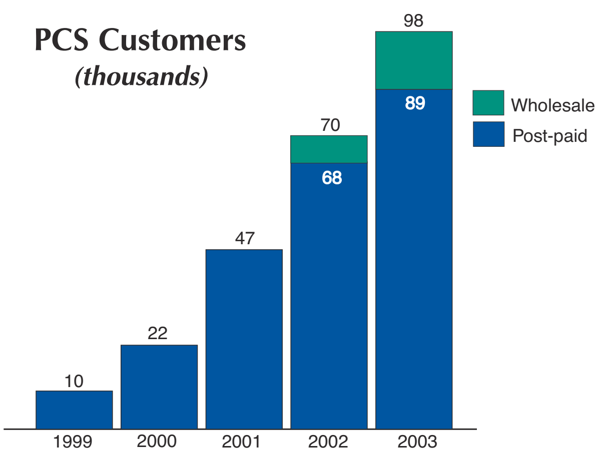
"I've lived in Carlisle a long time. My kids are now old enough where I have some time to give and that's what I do."

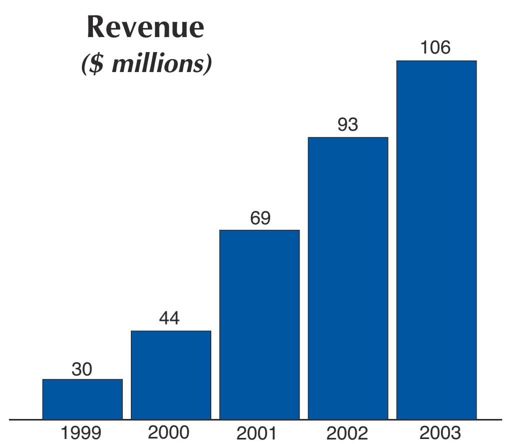
Ann Masland

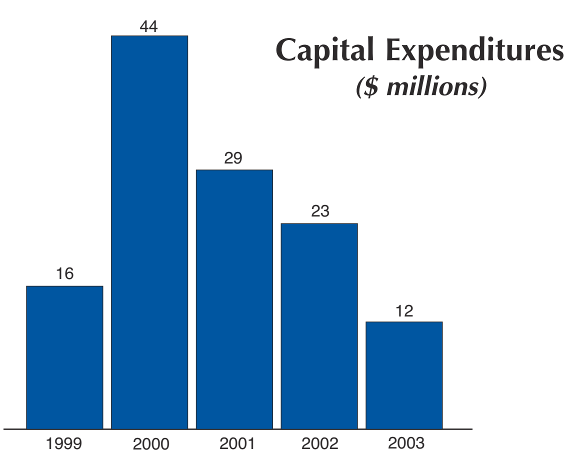
MANAGEMENT TEAM

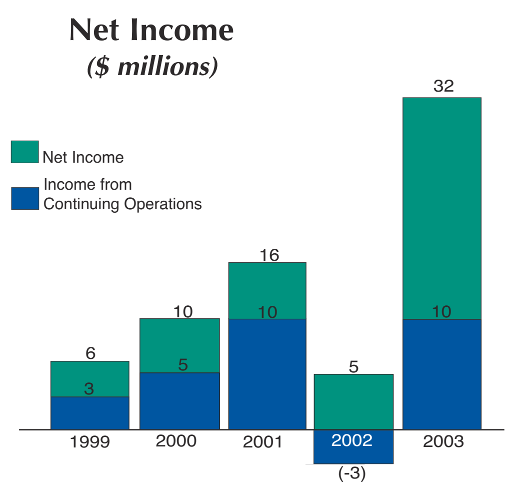
(Front, left to right): Earle A. MacKenzie, Executive VP, Len L. Greisz, Director of Internal Control, Christopher E. French, President, Daniel R. Detamore-Hunsberger, Controller, Marcy J. Engle, Human Resources Manager.

(Back, left to right): David K. MacDonald, VP – Operations, David E. Ferguson, VP – Customer Services, Lori W. Warren, Director of Regulatory Affairs, Chris S. Kyle, Director of Planning, William L. Pirtle, VP – Sales, Laurence F. Paxton, VP – Information Technology



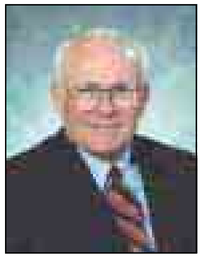






BOARD OF DIRECTORS

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



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

Dick D. Bowman
President
Bowman Bros., Inc.
(a farm equipment dealer)

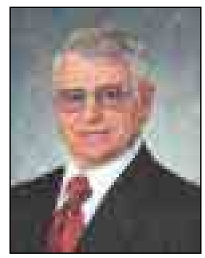
Ken L. Burch
Farmer

Christopher E. French
President
Shenandoah Telecommunications Company and its subsidiaries

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

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

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



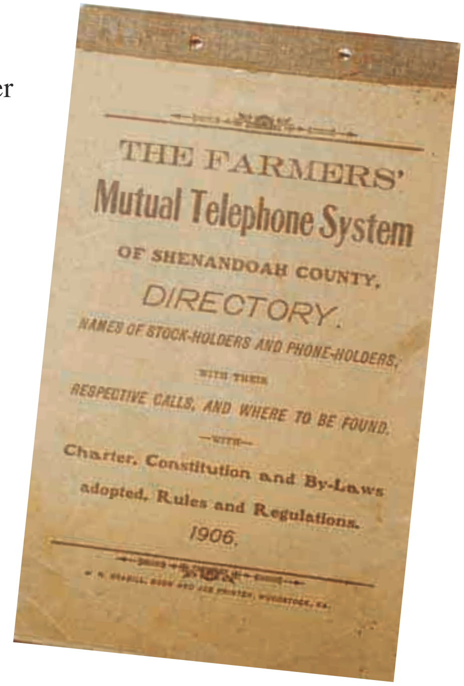
James E. Zerkel II
Vice President
James E. Zerkel, Inc.
(a hardware firm)

FIVE-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

	2003	2002	2001	2000	1999
Operating Revenues	**$ 105,861**	$ 92,974	$ 68,722	$ 44,445	$ 29,701
Operating Expenses	**87,233**	83,636	62,298	39,067	24,624
Income Taxes (Benefit)	**5,304**	(2,109)	5,811	2,975	1,729
Interest Expense	**3,510**	4,195	4,127	2,936	1,951
Income (Loss) from Continuing Operations	**$ 9,761**	$ (2,893)	$ 9,694	$ 5,091	$ 2,927
Discontinued Operations, net of tax	**22,389**	7,412	6,678	4,764	3,501
Cumulative effect of a change in accounting, net of tax	**(76)**	-	-	-	-
Net Income	**32,074**	4,519	16,372	9,855	6,428
Total Assets	**$ 185,364**	$ 164,004	$ 167,372	$ 152,585	$ 133,644
Long-term Obligations	**43,346**	52,043	56,436	55,487	33,030
Salary and Wages	**11,115**	10,051	8,994	7,402	6,637
Shareholder Information:					
Number of Shareholders	**3,930**	3,954	3,752	3,726	3,683
Shares Outstanding	**7,592,768**	7,551,818	7,530,956	7,518,462	7,511,520
Income (Loss) per share from Continuing Operations-diluted	**$ 1.28**	$ (0.38)	$ 1.28	$ 0.68	$ 0.39
Income per share from Discontinued Operations-diluted	**2.94**	0.98	0.88	0.63	0.47
Loss per share from cumulative effect of a change in accounting-diluted	**(0.01)**	-	-	-	-
Net Income per share-diluted	**4.22**	0.60	2.17	1.31	0.86
Cash dividends per share	**$ 0.39**	$ 0.37	$ 0.35	$ 0.33	$ 0.28

The Shenandoah Telephone Directory has undergone many changes since we published our first directory in 1906, as The Farmers' Mutual Telephone System of Shenandoah County. In 1906, the entire phone number listings were on 15 pages. The first Company directory to include yellow pages was distributed in 1946. That year local businesses invested in a new way to reach their potential customers.



The goal has always been to provide a useful tool for our customers. The pace of change has quickened in the last few years. In 2000, for the first time, Shenandoah Telephone's directory expanded from telephone listings for only Shenandoah County and Bergton, to include business and residential listings for Rockingham, Frederick, Clarke, and Warren counties. In 2001, Page County listings were added. The name of our directory was changed to ShentelPages in 2002 to reflect the expanded listing area. Although we included additional information in our directory, we continued to only furnish it to our local telephone customers.

Early in 2003, we conducted a customer survey to measure potential public acceptance of a regional phone directory for the six-county area. The findings of the survey indicated almost 60% would likely use an expanded six-county directory, with a fourth of all respondents saying they would use a regional directory more often than the directory they currently had in their home or business. Based on these positive results, Shentel launched an expanded directory to meet the demand.

An extensive public-awareness campaign was launched on television and radio, in a variety of daily and weekly newspapers and at regional county fairs. The campaign helped build anticipation for the directory and increase awareness of yellow page advertising opportunities. As a result of the added value of the expanded distribution area, ShentelPages' yellow page advertising revenues increased 21%, to $1.8 million for the 2004 book.

In December 2003, Shentel mailed out 120,000 ShentelPages directories to every home and business in Shenandoah, Rockingham, Frederick, Page, Clarke and Warren counties. ShentelPages now has a potential audience that exceeds 300,000 readers. The 2004 directory continues to be an important local resource. In addition to telephone listings, it contains both general and county-specific information - from ZIP codes to area codes, and from international dialing instructions to the listing of regional interstate exits.

Through ShentelPages, businesses have a new way of reaching thousands more potential customers within the six-county area to sell their products and services. ShentelPages is bundled with our electronic version, ShentelPages.com. This service allows area residents to use their computer and the Internet to let their fingers do the walking.

Just like our first book in 1906, the 2004 ShentelPages provides area residents with a quick and easy way to stay in touch.

2003 was the 10th anniversary of Shentel's decision to enter the PCS business and the 8th year operating as a Sprint PCS Affiliate. This year was a significant milestone for Shentel's PCS business, as we posted our first profitable quarter and recorded net income for the year of $0.3 million versus a net loss of $5.4 million in 2002.

Our Sprint PCS wireless customer base continues to grow, with year-end customers at 85,139 spread from Harrisonburg, Virginia to Harrisburg, Pennsylvania. Our customers are averaging approximately 700 minutes of usage per month and we have one of the lowest customer churn rates in the industry. To keep up with this growth and improve our service, we continued investing in additional network facilities. We added capacity to 26 existing tower sites and installed 16 new tower locations bringing our total sites to 253. Our plan is to add capacity and build additional sites in 2004 in order to meet expected growth.

We added a new type of customer in 2003. Through Sprint's relationship with its wholesale cutomers, more than 11,000 pre-paid customers were added to our network. These pre-paid accounts, usually for customers with no established credit, are a low cost method to increase customers. They can purchase phones and some minutes at various convenience, electronic or department stores in addition to one of our company locations. When needed, they can easily purchase additional minutes.

Camera phones and e-mailing pictures were hot in 2003. We now offer phones that can take and send a 15 second video. Late in the year, we launched Spirit PCS ReadyLink^{sm}, the Sprint walkie-talkie style service. It is hoped that these new services will be major sales drivers in 2004.

In 2003, we focused on improving our distribution channels. We expanded and relocated our stores in Harrisonburg and Winchester, Virginia to handle our growing customer base. At our Edinburg, Virginia store, we expanded both our hours and office space. We continue to increase our direct sales force to expand our base of business customers. To make it convenient for our potential customers, we also grew the number of local third-party sales partners.

A much publicized development in our industry was the introduction of Wireless Local Number Portability (WLNP) on November 24th, 2003. Starting on that day, customers in the 100 largest population centers in the United States were able to change wireless carriers while keeping their existing phone number. WLNP will be available in the entire country on May 24, 2004. To date, this change has had only a minor impact on Shentel's customer base.

We continue to work to make PCS a growth vehicle of revenue and net income for Shenandoah Telecommunications Company.

SELECTED STATISTICS
(unaudited)

	Three Month Period Ended				
	Dec. 31, 2003	Sept. 30, 2003	Jun. 30, 2003	Mar. 31, 2003	Dec. 31, 2002
Telephone Access Lines	24,877	24,951	24,972	24,903	24,879
Cable Television Subscribers	8,696	8,796	8,750	8,704	8,677
Dial-up Internet Subscribers	17,420	17,616	17,798	18,174	18,050
DSL Subscribers	1,298	1,163	1,080	852	646
Retail PCS Subscribers	85,139	81,015	77,398	72,480	67,842
Wholesale PCS Users (1)	12,858	7,531	4,690	3,280	1,672
Paging Subscribers	1,989	2,107	2,315	2,805	2,940
Long Distance Subscribers	9,526	9,517	9,520	9,312	9,310
Fiber Route Miles	552	552	552	552	549
Total Fiber Miles	28,740	28,740	28,739	28,729	28,403
Wholesale PCS Minutes (000)	4,974	3,207	2,303	1,562	530
Long Distance Calls (000) (2)	5,851	6,078	5,001	5,074	5,969
Total Switched Access Minutes (000)	55,932	54,349	51,124	48,380	46,627
Originating Switched Access MOU (000) (2)	17,829	18,285	18,343	18,685	18,476
Employees (full time equivalents)	268	264	266	267	268
CDMA Base Stations (sites)	253	248	246	240	237
Towers (100 foot and over)	77	76	73	72	72
Towers (under 100 foot)	11	10	10	10	10
(See note (3) for definitions of terms)					
PCS Market POPS (000)	2,048	2,048	2,048	2,048	2,048
PCS Covered POPS (000)	1,581	1,581	1,574	1,574	1,555
PCS Average Revenue Per User (ARPU) (ex. Travel)	\$52.05	\$55.09	\$52.84	\$52.22	\$51.38
PCS Travel Revenue per Subscriber (4)	\$20.84	\$16.50	\$17.18	\$17.39	\$31.21
PCS Average Management. Fee per Subscriber	\$4.02	\$4.62	\$4.58	\$4.40	\$4.64
PCS Average Monthly Churn %	2.0%	2.2%	1.9%	2.3%	2.8%
PCS Cost Per Gross Add (CPGA)	\$387.47	\$418.22	\$376.98	\$276.97	\$390.66
PCS Cash Cost Per User (CCPU) (4)	\$36.31	\$40.05	\$ 44.23	\$45.87	\$53.52

PLANT FACILITIES AT DEC. 31, 2003	Telephone	CATV
Route Miles	2,134	551
Customers Per Route Mile	12	16
Miles of Distribution Wire	579	158
Telephone Poles	7,675	36
Miles of Aerial Copper Cable	337	162
Miles of Buried Copper Cable	1,314	353
Miles of Underground Copper Cable	39	2
Fiber Optic Cable-Fiber Miles	257	-
Inter-toll Circuits to Interexchange Carriers	1,622	-
Special Service Circuits to Interexchange Carriers	313	-

(1) – Wholesale Digital PCS Users are private label subscribers homed in the Company’s wireless network service area.

(2) – Originated by customers of the Company’s Telephone subsidiary

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

(4) - On a normalized basis, the 4th quarter PCS travel revenue per subscriber would be \$19.25 and PCS CCPU would be approximately \$38.66 if adjustments and true-ups recorded in December 2003 were excluded.

INDEPENDENT AUDITOR'S REPORT

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, 2003, 2002, and 2001, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Telecommunications Company and subsidiaries as of December 31, 2003, 2002 and 2001, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting for goodwill in 2002. As further discussed in note 1 to the consolidated financial statements, the Company changed its method of accounting for asset retirement obligations in 2003.

KPMG LLP

Richmond, Virginia
February 6, 2004

December 31, 2003, 2002 and 2001
in thousands

ASSETS (Note 5)	2003	2002	2001
Current Assets			
Cash and cash equivalents	**$ 28,696**	$ 2,209	$ 2,037
Accounts receivable, net (Notes 1 and 8)	**6,488**	7,536	5,739
Income taxes receivable	**1,526**	12	1,205
Materials and supplies	**2,062**	1,787	2,934
Prepaid expenses and other	**1,669**	2,205	1,146
Deferred income taxes (Note 6)	**522**	1,197	575
Assets held for sale (Note 2)	**-**	5,548	2,973
Total current assets	**$ 40,963**	$ 20,494	$ 16,609
Securities and Investments (Notes 3 and 8)			
Available-for-sale securities	**$ 199**	$ 151	$ 12,025
Other investments	**7,268**	7,272	6,438
Total securities and investments	**$ 7,467**	$ 7,423	$ 18,463
Property, Plant and Equipment			
Plant in service (Note 4)	**$ 197,431**	$ 184,069	$ 154,345
Plant under construction	**2,261**	5,209	14,960
	$ 199,692	$ 189,278	$ 169,305
Less accumulated depreciation	**72,006**	57,126	44,473
Net property, plant and equipment	**$ 127,686**	$ 132,152	$ 124,832
Other Assets			
Assets held for sale (Note 2)	**$ -**	$ -	$ 3,272
Cost in excess of net assets of business acquired	**5,105**	5,105	5,105
Deferred charges and other assets (Notes 1 and 2)	**5,999**	667	1,452
	$ 11,104	$ 5,772	$ 9,829
Less accumulated amortization	**1,856**	1,837	2,361
Net other assets	**$ 9,248**	$ 3,935	$ 7,468
Total assets	**$ 185,364**	$ 164,004	$ 167,372

See accompanying notes to consolidated financial statements.

December 31, 2003, 2002 and 2001
in thousands

LIABILITIES AND SHAREHOLDERS' EQUITY	**2003**	2002	2001
Current Liabilities			
Current maturities of long-term debt (Note 5)	**$ 4,230**	$ 4,482	$ 4,387
Revolving line of credit (Note 5)	**-**	3,503	6,200
Accounts payable (Note 7)	**4,729**	5,003	5,128
Advanced billings and customer deposits	**3,326**	3,538	2,652
Accrued compensation	**1,015**	1,268	1,084
Other current liabilities	**2,496**	1,564	1,455
Current liabilities held for sale (Note 2)	**-**	542	735
Total current liabilities	**$ 15,796**	$ 19,900	$ 21,641
Long-term debt, less current maturities (Note 5)	**$ 39,116**	$ 47,561	$ 52,049
Other Liabilities			
Deferred income taxes (Note 6)	**$ 20,819**	$ 15,859	$ 14,977
Pension and other (Note 9)	**3,425**	2,441	2,265
Total other liabilities	**$ 24,244**	$ 18,300	$ 17,242
Minority Interests in discontinued operations (Note 2)	**$ -**	$ 1,666	$ 1,838
Commitments and Contingencies (Notes 2,3,5,6,7,9,12, and 13)			
Shareholders' Equity (Notes 5 and 10)			
Common stock, no par value, authorized 16,000 shares; issued and outstanding 7,593 shares in 2003, 7,552 shares in 2002, and 7,530 shares in 2001	**$ 5,733**	$ 5,246	$ 4,950
Retained earnings	**100,449**	71,335	69,610
Accumulated other comprehensive income (loss) (Note 3)	**26**	(4)	42
Total shareholders' equity	**$ 106,208**	$ 76,577	$ 74,602
Total liabilities and shareholders' equity	**$ 185,364**	$164,004	$167,372

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2003, 2002 and 2001

in thousands, except per share amounts

	2003	2002	2001
Operating revenues:			
Wireless (Notes 7 and 8)	**$ 69,872**	$ 57,867	$ 36,133
Wireline	**29,022**	28,755	27,486
Other	**6,967**	6,352	5,103
Total operating revenues	**$ 105,861**	$ 92,974	$ 68,722
Operating expenses:			
Cost of goods and services (Note 7)	**$ 10,943**	$ 10,502	$ 7,410
Network operating costs (Note 8)	**33,630**	32,512	26,756
Depreciation and amortization	**16,631**	14,482	11,263
Selling, general and administrative (Note 7)	**26,029**	26,140	16,869
Total operating expenses	**$ 87,233**	$ 83,636	$ 62,298
Operating income	**$ 18,628**	$ 9,338	$ 6,424
Other income (expense):			
Interest expense	**$ (3,510)**	$ (4,195)	$ (4,127)
Net gain (loss) on investments (Note 3)	**(443)**	(10,004)	12,943
Non-operating income (expense), net	**390**	(141)	265
	$ (3,563)	$ (14,340)	$ 9,081
Income (loss) before income taxes, cumulative effect of a change in accounting and discontinued operations	**$ 15,065**	$ (5,002)	$ 15,505
Income tax provision (benefit) (Note 6)	**5,304**	(2,109)	5,811
Income (loss) from continuing operations	**$ 9,761**	$ (2,893)	$ 9,694
Discontinued operations, net of income taxes (Note 2)	**22,389**	7,412	6,678
Cumulative effect of a change in accounting, net of income taxes (Note 1)	**(76)**	-	-
Net income	**$ 32,074**	$ 4,519	$ 16,372
Income (loss) per share:			
Basic Net income (loss) per share:			
Continuing operations	**$ 1.29**	$ (0.38)	$ 1.29
Discontinued operations	**2.95**	0.98	0.89
Cumulative effect of a change in accounting, net of income taxes	**(0.01)**	-	-
	$ 4.23	$ 0.60	$ 2.18
Weighted average shares outstanding, basic	**7,577**	7,542	7,523
Diluted Net income (loss) per share:			
Continuing operations	**$ 1.28**	$ (0.38)	$ 1.28
Discontinued operations	**2.94**	0.98	0.88
Cumulative effect of a change in accounting, net	**(0.01)**	-	-
	$ 4.22	$ 0.60	$ 2.17
Weighted average shares, diluted	**7,608**	7,542	7,549

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2003, 2002 and 2001
in thousands, except per share amounts

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total
Balance, January 1, 2001	7,518	$4,817	$ 55,873	$5,645	$ 66,335
Comprehensive income:					
Net income	-	-	16,372	-	16,372
Net unrealized change in securities available-for-sale, net of tax of $3,482	-	-	-	(5,603)	(5,603)
Total comprehensive income					$ 10,769
Dividends declared ($0.35 per share)	-	-	(2,635)	-	(2,635)
Common stock issued through exercise of incentive stock options	12	133	-	-	133
Balance, December 31, 2001	7,530	$4,950	$ 69,610	$ 42	$ 74,602
Comprehensive income:	-	-	4,519	-	4,519
Net income					
Net unrealized change in securities available-for-sale, net of tax of $29	-	-	-	(46)	(46)
Total comprehensive income					$ 4,473
Dividends declared ($0.37 per share)	-	-	(2,794)	-	(2,794)
Common stock issued through exercise of incentive stock options and stock grants	22	296	-	-	296
Balance, December 31, 2002	7,552	$5,246	$ 71,335	$ (4)	$ 76,577
Comprehensive income					
Net income	-	-	32,074	-	32,074
Net unrealized change in securities available-for-sale, net of tax of $(18)	-	-	-	30	30
Total comprehensive income					$ 32,104
Dividends declared ($0.39 per share)	-	-	(2,960)		(2,960)
Common stock issued through exercise of incentive stock options	41	487	-	-	487
Balance, December 31, 2003	**7,593**	**$5,733**	**$100,449**	**$ 26**	**$106,208**

See accompanying notes to consolidated financial statements.

Years Ended December 31, 2003, 2002 and 2001
in thousands

	2003	2002	2001
Cash Flows from Operating Activities			
Income (loss) from continuing operations	**$ 9,761**	$ (2,893)	$ 9,694
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**16,612**	14,476	10,540
Amortization	**19**	6	723
Deferred income taxes	**5,664**	289	8,666
Loss on disposal of assets	**348**	739	506
Net (gain) loss on disposal of investments	**3**	9,034	(14,162)
Net (gain) loss from patronage and equity investments	**52**	393	789
Other	**403**	443	987
Changes in assets and liabilities:			
(Increase) decrease in:			
Accounts receivable	**1,069**	(1,797)	(864)
Materials and supplies	**(275)**	1,147	(307)
Increase (decrease) in:			
Accounts payable	**(275)**	1,067	(3,968)
Other prepaids, deferrals and accruals	**(2,778)**	120	(2,263)
Net cash provided by operating activities	**$ 30,599**	$ 23,024	$ 10,341
Cash Flows From Investing Activities			
Purchase and construction of plant and equipment, net of retirements	**$ (12,476)**	$ (22,612)	$ (27,972)
Purchase of investment securities	**(796)**	(1,775)	(1,250)
Proceeds from sale of equipment	**109**	77	482
Proceeds from sale of radio spectrum license	**-**	-	1,133
Proceeds from investment activities (Note 3)	**714**	3,301	5,842
Net cash used in investing activities	**$ (12,449)**	$ (21,009)	$ (21,765)

(Continued)

Years Ended December 31, 2003, 2002 and 2001
in thousands

	2003	2002	2001
Cash Flows From Financing Activities			
Proceeds from issuance of long-term debt	**$**	$ -	$ 24,641
Principal payments on long-term debt	**(8,697)**	(4,393)	(23,692)
Net proceeds from (payments of) lines of credit	**(3,503)**	(2,697)	6,200
Debt issuance costs	**-**	-	(175)
Dividends paid	**(2,960)**	(2,794)	(2,635)
Proceeds from exercise of incentive stock options	**487**	296	133
Net cash provided by (used in) financing activities	**$(14,673)**	$ (9,588)	$ 4,472
Net cash used in continuing operations	**$ 3,477**	$ (7,573)	$ (6,952)
Net cash provided by discontinued operations	**23,010**	7,745	6,444
Net increase (decrease) in cash and cash equivalents	**$ 26,487**	$ 172	$ (508)
Cash and cash equivalents:			
Beginning	**2,209**	2,037	2,545
Ending	**$ 28,696**	$ 2,209	$ 2,037
Supplemental Disclosures of Cash Flow Information			
Cash payments for:			
Interest, net of capitalized interest of $26 in 2003; $93 in 2002, and $134 in 2001	**$ 3,577**	$ 4,274	$ 4,217
Income taxes	**$ 15,569**	$ 1,045	$ 506

Non-cash transactions:

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

In December 2001, the Company received 310,158 shares of VeriSign Inc. common stock in exchange for 333,504 shares of Illuminet Holdings, Inc. stock as a result of the merger of the two entities.

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

See accompanying notes to consolidated financial statements.

Note 1. Summary of Significant Accounting Policies

Description of business: Shenandoah Telecommunications Company and subsidiaries (the Company) provides telephone service, wireless personal communications service (PCS) under the Sprint brand name, cable television, unregulated communications equipment sales and services, Internet access, and paging services. In addition, the Company leases towers and operates and maintains an interstate fiber optic network. The Company's operations are located in the four state region surrounding the Northern Shenandoah Valley of Virginia. Pursuant to a management agreement with Sprint Communications Company and its related parties (collectively, "Sprint"), the Company is the exclusive PCS Affiliate of Sprint providing wireless mobility communications network products and services in the geographic area extending from Altoona, Harrisburg and York, Pennsylvania, south through Western Maryland, and the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is licensed to use the Sprint brand name in this territory, and operates its network under the Sprint radio spectrum license (Note 7). 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.

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 and cash equivalents were $28.7million, $2.2 million, and $2.0 million at December 31, 2003, 2002 and 2001, respectively.

Accounts receivable: Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience and by industry and national economic data. The Company reviews its allowance for doubtful accounts monthly. Past due balances meeting specific criteria are reviewed individually for collectibility. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts receivable are concentrated among customers within the Company's geographic service area and large telecommunications companies. The Company's allowance for uncollectable receivables related to continuing operations was $477 thousand, $914 thousand and $650 thousand at December 31, 2003, 2002 and 2001, respectively.

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

income until realized. Realized gains and losses are determined on a specific identification basis. A decline in the market value of any available-for-sale security below cost that is deemed to be other than temporary results in a reduction in the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established.

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

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

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

Property, plant and equipment: Property, plant and equipment is stated at cost. The Company capitalizes all costs associated with the purchase, deployment and installation of property, plant and equipment, including interest on major capital projects during the period of their construction. Expenditures, including those on leased assets, which extend the useful life or increase its utility, are capitalized. Maintenance expense is recognized when repairs are performed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation expense for continuing operations was approximately 8.7%, 8.6% and 8.3% of average depreciable assets for the years 2003, 2002 and 2001, respectively. Depreciation lives are assigned to assets based on their estimated useful lives in conjunction with industry and regulatory guidelines, where applicable. Such lives, while similar, may exceed the lives that would have been used if the Company did not operate certain segments of the business in a regulated environment. The Company takes technology changes into consideration as it assigns the estimated useful lives, and monitors the remaining useful lives of asset groups to reasonably match the remaining economic life with the useful life and makes adjustments when necessary.

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

The Company recorded the retirement obligation on towers owned where there is a legal obligation to remove the tower at the time the Company discontinues its use. The obligation was estimated based on the size of the tower. The Company’s cost to remove the towers is amortized over the life of the tower. The pro forma liability on January 1, 2002 would have been $236 thousand, and was $249 thousand on December 31, 2002. On December 30, 2003, the liability was $300 thousand. The current year expense for the accretion and depreciation related to the adoption of SFAS No.143 is approximately $20 thousand before taxes.

Cost in excess of net assets of business acquired: In June 2001, the Financial Accounting Standards Board (FASB) issued Statements of Financial Accounting Standards (SFAS) No.142, “Goodwill and Other Intangible Assets,” which eliminates amortization of goodwill and intangible assets that have indefinite useful lives and requires annual tests of impairment of those assets. SFAS No. 142 also provides specific guidance about how to determine and measure

Note 1. Summary of Significant Accounting Policies (Continued)

goodwill and intangible asset impairments, and requires additional disclosures of information about goodwill and other intangible assets. The provisions of SFAS No. 142 were required to be applied starting with fiscal years beginning after December 15, 2001 and applied to all goodwill and other intangible assets recognized in financial statements at that date. In connection with SFAS No. 142 transitional goodwill impairment evaluation, the Statement required the Company to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company identified its reporting units and determined the carrying value of each unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002.

Goodwill represents the excess of purchase price over fair value of tangible and identifiable intangible net assets acquired. Prior to adoption of SFAS No. 142, goodwill was amortized on a straight-line basis over the expected periods to be benefited, which was 15 years for the Company. SFAS No. 142 required a transitional goodwill impairment evaluation beginning January 1, 2002. Subsequent to adoption, amortization of goodwill ceased, and the goodwill balance is reviewed annually for impairment. No impairment of goodwill was required to be recorded in 2003 and 2002. With the implementation of SFAS No. 142, there was no goodwill amortization charged to operations in 2003 or 2002, while amortization expense was $360 thousand in 2001.

The following table reconciles previously reported net income as if the provisions of SFAS No. 142 were in effect for the years ended prior to 2002.

	2003	2002	2001
		(in thousands)	
Reported net income	**$ 32,074**	$ 4,519	$16,372
Add back goodwill amortization	-	-	360
Deduct income tax benefit	-	-	(137)
Adjusted net income	**$ 32,074**	$ 4,519	$16,595

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 2003, the Company adopted an Executive Supplemental Retirement Plan for selected employees. This is an unfunded plan and is maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees. The Company also maintains a defined contribution plan under which substantially all employees may defer a portion of their earnings on a pre-tax basis, up to the allowable federal maximum. The Company may make matching and discretionary contributions to this plan. Neither of the funded retirement plans holds Company stock in the respective portfolios.

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

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

Beginning in 2000, coinciding with the inception of activation fees in its PCS segment, nonrefundable PCS activation fees and the portion of the activation costs deemed to be direct costs of acquiring new customers (primarily activation costs and credit analysis costs) were deferred and recognized ratably over the estimated life of the customer relationship of 30 months in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin

Note 1. Summary of Significant Accounting Policies (Continued)

101, (SAB No.101). Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a bundled transaction, and the consideration will be measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 has required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition would need to be made in the future. The adoption of EITF 00-21 has resulted in substantially all of the activation fee revenue generated from Company-owned retail stores and associated direct costs being recognized at the time the related wireless handset is sold and is classified as equipment revenue and cost of equipment, respectively. Upon adoption of EITF 00-21, previously deferred revenues and costs will continue to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. Revenue and costs for activations at other retail locations will continue to be deferred and amortized over their estimated lives as prescribed by SAB 101. 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 2003, which otherwise would have been deferred and amortized. The amounts of deferred revenue under SAB 101 at December 31, 2003, 2002 and 2001 were $1.2 million, $1.5 million and $1.2 million, respectively. The deferred costs at December 31, 2003, 2002 and 2001 were $0.4 million, $0.7 million and $0.7 million, respectively.

The Company records its PCS service revenue net of the 8% of collected revenue that is paid to Sprint. Under the management agreement with Sprint, through December 31, 2003 Sprint is entitled to retain 8% of all collected service revenue from subscribers whose service home is in the Company's territory, and 8% of the collected roaming revenue generated by non-Sprint wireless subscribers who use the Company's network. With the adoption of the new Amended Agreement, the Company will record its service revenue and receive payment from Sprint based on billed revenue, net of 8% of billed revenue retained by Sprint, customer credits, and allocated write-offs.

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

Grants of options under the Plan are accounted for following the APB Opinion No. 25 and related interpretations. Accordingly, no compensation expense has been recognized under the Plan. Had compensation expense been recorded, 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:

	2003	2002	2001
Net Income	*(in thousands, except per share amounts)*		
As reported	**$ 32,074**	$ 4,519	$ 16,372
Pro forma	**$ 31,889**	$ 4,307	$ 16,115
Earnings per share, basic and diluted			
As reported, basic	**$ 4.23**	$ 0.60	$ 2.18
As reported, diluted	**$ 4.22**	$ 0.60	$ 2.17
Pro forma, basic	**$ 4.21**	$ 0.57	$ 2.14
Pro forma, diluted	**$ 4.19**	$ 0.57	$ 2.13

Earnings per share: Basic income (loss) per share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted income (loss) per share is computed by dividing the income (loss) by the sum of the weighted average number of common shares outstanding and potential dilutive common shares determined using the treasury stock method. Because the Company reported a net loss from continuing operations in 2002, the diluted income (loss) per share is the same as basic income (loss) per share since including any

Note 1. Summary of Significant Accounting Policies (Continued)

potentially dilutive securities would be antidilutive to the net loss per share from continuing operations. In 2003 and 2001, 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 2003, 2002 and 2001:

	2003	2002	2001
Basic income (loss) per share	*(in thousands, except per share amounts)*		
Net income (loss) from continuing operations	**$ 9,761**	$ (2,893)	$ 9,694
Weighted average shares outstanding	**7,577**	7,542	7,523
Basic income (loss) per share - continuing operations	**$ 1.29**	$ (0.38)	$ 1.29
Effect of stock options outstanding:			
Weighted average shares outstanding	**7,577**	7,542	7,522
Assumed exercise, at the strike price at the beginning of year	**172**	-	104
Assumed repurchase of options under treasury stock method	**(141)**	-	(78)
Diluted weighted average shares	**7,608**	7,542	7,549
Diluted income (loss) per share - continuing operations	**$ 1.28**	$ (0.38)	$ 1.28

Recently Issued Accounting Standards:

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

Reclassifications: Certain amounts reported in the 2002 and 2001 financial statements have been reclassified to conform with the 2003 presentation, with no effect on net income or shareholders' equity.

Note 2. Discontinued Operations

In November 2002, the Company entered into an agreement to sell its 66% General Partner interest in the Virginia 10 RSA Limited Partnership (cellular operation) to Verizon Wireless for $37.0 million. The closing of the sale took place at the close of business on February 28, 2003. The total proceeds received were $38.7 million, including $5.0 million held in escrow, and a $1.7 million adjustment for estimated working capital at the time of closing. There was a post closing adjustment based on the actual working capital balance as of the closing date, which resulted in a $39 thousand charge for the Company. The $5.0 million escrow was established for any contingencies and indemnification issues that may arise during the two-year post-closing period and is included in deferred charges and other assets in the 2003 consolidated balance sheet. The Company's gain on the transaction was approximately $35 million. Post closing, the Company provided transition services to Verizon for a period of approximately three months, with compensation for those services being approximately $40 thousand per month during the transition period.

The assets and liabilities attributable to the cellular operation have been classified as held for sale in the consolidated balance sheets and consist of the following at December 31, 2002 and 2001:

	2002	2001
	(in thousands)	
Assets		
Accounts receivable	$ 2,608	$ 2,759
Other current assets	309	214
Property, plant and equipment, (net)	2,631	3,272
Total assets	$ 5,548	$ 6,245
Liabilities and minority interest		
Accounts payable and accrued expenses	$ 381	$ 499
Deferred revenue and deposits	161	236
Minority interest	1,666	1,838
Total liabilities and minority interest	$ 2,208	$ 2,573

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

	2003	2002	2001
		(in thousands)	
Revenues	**$ 3,056**	$ 20,895	$ 20,012
Operating expenses	**453**	3,618	4,674
Other income	**-**	3	16
Income before minority interest and taxes	**$ 2,603**	$ 17,280	$ 15,354
Minority interests	**(773)**	(5,200)	(4,526)
Sale of partnership interest	**34,973**	-	-
Income taxes	**(14,414)**	(4,668)	(4,150)
Net income from discontinued operations	**$ 22,389**	$ 7,412	$ 6,678

Note 3. Securities and Investments

The Company has three classifications of investments; available for sale securities, investments carried at cost, and equity method investments. See Note 1 for specific definitions of each classification of investment. The following tables present the investments of the Company for the three-year period ended December 31, 2003:

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

	Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Fair Value
	(in thousands)			
2003				
Deutsche Telekom, AG	**$ 85**	**$ 64**	**$ -**	**$ 149**
Other	**73**	**-**	**23**	**50**
	$ 158	**$ 64**	**$ 23**	**$ 199**
2002				
Deutsche Telekom, AG	$ 85	$ 20	$ -	$ 105
Other	73	-	27	46
	$ 158	$ 20	$ 27	$ 151
2001				
VeriSign, Inc.	$11,798	$ -	$ -	$11,798
Deutsche Telekom, AG	85	10	-	95
Other	74	58	-	132
	$11,957	$ 68	$ -	$12,025

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

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

There were no gross realized gains on available-for-sale securities included in income in 2003 or 2002, while there were $17.7 million for 2001. Gross realized losses included in income in 2003, 2002 and 2001 were $3 thousand, $9.0 million and $3.0 million, respectively.

Changes in the unrealized gains (losses) on available-for-sale securities during the years ended December 31, 2003, 2002 and 2001 reported as a separate component of shareholders' equity are as follows:

Note 3. Securities and Investments (Continued)

	2003	2002	2001
Available-for-sale securities:		*(in thousands)*	
Beginning Balance	**$ (7)**	$ 68	$ 9,153
Unrealized holding gains (losses) during the year, net	**48**	(75)	5,615
Reclassification of recognized (gains) during the year, net	**-**	-	(14,700)
	41	(7)	68
Deferred tax effect related to net unrealized gains	**15**	(3)	26
Ending Balance	**$ 26**	$ (4)	$ 42

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

	2003	2002	2001
Cost method:		*(in thousands)*	
Rural Telephone Bank	**$ 796**	$ 796	$ 796
NECA Services, Inc.	**500**	500	500
CoBank	**1,321**	1,126	768
NTC Communications (equity method in 2003 and 2002)	**-**	-	500
Other	**182**	241	254
	$ 2,799	$ 2,663	$ 2,818
Equity method:			
South Atlantic Venture Fund III L.P.	**$ 89**	$ 263	$ 393
South Atlantic Private Equity Fund IV L.P.	**541**	707	891
Dolphin Communications Parallel Fund, L.P.	**184**	273	441
Dolphin Communications Fund II, L.P.	**1,290**	1,024	518
Burton Partnership	**1,149**	988	970
NTC Communications (cost method in 2001)	**971**	1,089	-
Virginia Independent Telephone Alliance	**228**	248	400
ValleyNet	**17**	17	7
	$ 4,469	$ 4,609	$ 3,620
Total investments	**$ 7,268**	$ 7,272	$ 6,438

The Company's investment in CoBank increased $195 thousand in 2003 and $358 thousand in 2002, due to the ongoing patronage earned from the outstanding investment and loan balances the Company has with CoBank. For 2003 and 2002, the Company's allocated portions of losses, recorded on the investment in NTC were $118 thousand and $171 thousand, respectfully.

In 2003, the Company received distributions from its equity investments totaling $0.5 million in cash and invested $0.7 million in two equity investments, Dolphin Communications Parallel Fund, LP and Dolphin Communications Fund II, LP. These two investments recorded losses of approximately $0.4 million for the 2003 year. The Company recorded a loss from the Virginia Independent Telephone Alliance investment of $19 thousand, for 2003. The Company recorded a gain from the ValleyNet partnership of $84 thousand and received distributions of $84 thousand. Other equity investments lost an additional $0.4 million for 2003.

The Company was committed to invest an additional $1.8 million at December 31, 2003 in various equity method investees pursuant to capital calls from the fund managers. It is not practical to estimate the fair value of the other investments due to their limited market and restrictive nature of their transferability.

The Company's ownership interests in Virginia Independent Telephone Alliance and ValleyNet are approximately 22% and 20%, respectively. The Company purchases services from Virginia Independent Telephone Alliance and ValleyNet at rates comparable with other customers. The Company's ownership in NTC Communications is approximately 18%. Other equity method investees are investment limited partnerships which are approximately 2% owned each.

Note 4. Plant in Service

Plant in service consists of the following at December 31:

	Estimated Useful Lives	**2003**	2002	2001
			(in thousands)	
Land		**$ 802**	$ 792	$ 775
Buildings and structures	15 – 40 years	**30,956**	28,949	20,375
Cable and wire	15 – 50 years	**51,041**	49,495	45,188
Equipment and software	3 – 16.6 years	**114,632**	104,833	88,007
		$197,431	$184,069	$ 154,345

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

Total debt consists of the following at December 31:

		Weighted Average Interest Rate	**2003**	2002	2001
				(in thousands)	
Rural Telephone Bank (RTB)	Fixed	6.02%	**$ 5,599**	$ 10,645	$ 11,428
Rural Utilities Service (RUS)	Fixed	5.00%	**149**	159	224
CoBank (term loan)	Fixed	7.57%	**37,398**	41,039	44,584
RUS Development Loan		Interest free	**200**	200	200
			$ 43,346	$ 52,043	$ 56,436
Current maturities			**4,230**	4,482	4,387
Total long-term debt			**$ 39,116**	$ 47,561	$ 52,049
CoBank 1-year revolver	Variable	2.79% - 5.03%	**$ -**	$ 3,200	$ 6,200
SunTrust Bank revolver	Variable	2.05% - 2.53%	**$ -**	$ 303	$ -

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 $550 thousand, including interest. The final maturity of the CoBank facility is 2013.

The CoBank revolver was a $20.0 million facility, which the Company cancelled in May 2003 due to the receipt of the cash proceeds from the sale of the Virginia 10 RSA partnership interest.

The $2.5 million SunTrust Banks revolver was cancelled in May 2003. It was replaced in August 2003 with a SunTrust Bank Revolver facility of $0.5 million, which the Company uses to fund short-term liquidity variations due to the timing of customer receipts and vendor payments for services. This facility matures May 31, 2004, and is priced at the 30-day LIBOR rate plus 1.25%. The Company has not borrowed on this facility.

Substantially all of the Company's assets serve as collateral for the long-term debt. The Company's outstanding long-term CoBank debt is $37.4 million, all of which is at fixed rates ranging from approximately 6% to 8%. The stated rate excludes patronage credits that are received from CoBank. These patronage credits are a distribution of CoBank's profits, as it is a cooperative and is required to distribute its profits to its members. During the first quarter of 2003, the Company received patronage credits of approximately 60 basis points on its outstanding CoBank debt balance. The Company accrued a similar amount in the current year, in anticipation of the early 2004 distribution of the credits by CoBank. Repayment of the CoBank long-term debt facilities requires monthly payments on the debt through September 2013. The Company is required to meet financial covenants measured at the end of each quarter, based on a trailing 12-month basis and are calculated on continuing operations. At December 31, 2003, the covenant calculations were as follows. The ratio of total debt to operating cash flow, which must be 3.5 or lower, was 1.2. The equity to total assets ratio, which must be 35% or higher, was 57.3%. The ratio of operating cash flow to scheduled debt service, which must exceed 2.0, was 4.29. The Company was in compliance with all other covenants related to its debt agreements at December 31, 2003.

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

The aggregate maturities of long-term debt for each of the five years subsequent to December 31, 2003 are as follows:

Year	Amount
	(in thousands)
2004	$ 4,230
2005	4,372
2006	4,526
2007	4,688
2008	4,864
Later years	20,666
	$ 43,346

The estimated fair value of fixed rate debt instruments as of December 31, 2003 and 2002 was $42.6 million and $51.1 million, respectively, determined by discounting the future cash flows of each instrument at rates offered for similar debt instruments of comparable maturities as of the respective year-end dates.

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

Note 6. Income Taxes

Total income taxes for the years ended December 31, 2003, 2002 and 2001 were allocated as follows:

	2003	2002	2001
		(in thousands)	
Income tax provision (benefit) from continuing operations	**$ 5,304**	$ (2,109)	$ 5,811
Income taxes on discontinued operations	**14,414**	4,668	4,150
Income tax from cumulative effect of an accounting change	**(47)**	-	-
Accumulated other comprehensive income for unrealized holding gains (losses) on equity securities	**18**	(29)	(3,482)
	$ 19,689	$ 2,530	$ 6,479

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

	Years Ended December 31,		
	2003	2002	2001
		(in thousands)	
Current provision (benefit)			
Federal taxes	**$ 762**	$ (2,076)	$ (2,382)
State taxes	**147**	(212)	(514)
Total current provision (benefit)	**$ 909**	$ (2,288)	$ (2,896)
Deferred provision			
Federal taxes	**$ 4,091**	$ 592	$ 7,330
State taxes	**304**	(413)	1,377
Total deferred provision	**$ 4,395**	$ 179	$ 8,707
Income tax provision (benefit)	**$ 5,304**	$ (2,109)	$ 5,811

A reconciliation of income taxes determined by applying the Federal and state tax rates to income (loss) from continuing operations is as follows:

Note 6. Income Taxes (Continued)

	Years Ended December 31,		
	2003	2002	2001
	(in thousands)		
Computed "expected" tax expense	**$ 5,122**	$ (1,701)	$ 5,271
State income taxes, net of federal tax effect	**298**	(460)	575
Other, net	**(116)**	52	(35)
Income tax provision (benefit)	**$ 5,304**	$ (2,109)	$ 5,811

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

	2003	2002	2001
Deferred tax assets:	*(in thousands)*		
Allowance for doubtful accounts	**$ 192**	$ 370	$ 247
Accrued compensation costs	**-**	181	149
State net operating loss carryforwards, net of federal tax	**1,569**	1,425	-
Recognized investment losses including impairments	**-**	593	-
Deferred revenues	**304**	338	179
AMT credits	**-**	285	-
Accrued pension costs	**476**	395	397
Other, net	**81**	23	-
Total gross deferred tax assets	**$ 2,622**	$ 3,610	$ 972
Less valuation allowance	**(864)**	(704)	-
Net deferred tax assets	**$ 1,758**	$ 2,906	$ 972
Deferred tax liabilities:			
Plant-in-service	**$ 20,058**	$ 17,568	$ 11,313
Escrowed gain on sale of discontinued operations	**1,859**	-	-
Unrealized gain on investments	**15**	-	26
Gain on investments, net	**123**	-	4,035
Total gross deferred tax liabilities	**$ 22,055**	$ 17,568	$ 15,374
Net deferred tax liabilities	**$ 20,297**	$ 14,662	$ 14,402

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 which the deferred tax assets are deductible, management believes it more likely than not that the Company will realize the benefits of the deductible differences that are not reserved by the valuation allowance, which increased by $160 thousand, to $864 thousand in 2003, from $704 thousand in 2002. The Company has generated net operating loss (NOL) carry forwards of approximately $25.9 million from its PCS operations in several states. The carry forwards expire at varying dates beginning in 2005.

Note 7. Significant Contractual Relationship

In 1999, the Company executed a Management Agreement (the Agreement) with Sprint whereby the Company committed to construct and operate a PCS network using CDMA air interface technology, replacing an earlier PCS network based on GSM technology. Under the Agreement, the Company is the exclusive PCS Affiliate of Sprint providing wireless mobility communications network products and services in its territory which extends from Altoona, York and Harrisburg, Pennsylvania, and south along the Interstate 81 corridor through Western Maryland, the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is authorized to use the Sprint brand name in its territory, and operate its network under the Sprint radio spectrum license.

Note 7. Significant Contractual Relationship (Continued)

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

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

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

The wireless market is characterized by significant risks as a result of rapid changes in technology, increasing competition and the cost associated with the build-out and enhancement of Sprint's nationwide digital wireless network. Sprint provides back-office and other services including travel clearing-house functions to the Company. In the past, there was no prescribed formula defined in the agreements with Sprint for the calculation of the fee charged to the Company for these services. Sprint adjusted these fees at least annually. This situation changed with the execution of an amendment to the Agreement which occurred on January 31, 2004, retroactive to January 1, 2004 (the Amended Agreement). The Amended Agreement provides greater certainty to the Company for certain future expenses and revenues during the term of the agreement and simplifies the methods used to settle revenue and expenses between the Company and Sprint. The Company's PCS subsidiary is dependent upon Sprint's ability to execute certain functions such as billing, customer care, collections and other operating activities under the Company's agreements with Sprint. Due to the high degree of integration within many of the Sprint systems, and the Company's dependency on these systems, in many cases it would be difficult for the Company to perform these services in-house or to outsource the services to another provider. If Sprint was unable to perform any such service, the change could result in increased operating expenses and have an adverse impact on the Company's operating results and cash flow. Additionally, 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.

Through December 31, 2003, the Agreement provided that Sprint retains 8% of all collected service revenue from subscribers with their service home in the Company's territory, and 8% of the roaming revenue generated by non-Sprint wireless subscribers who use the Company's network. With the adoption of the new Amended Agreement, the Company will record its service revenue and receive payment from Sprint based on billed revenue, net of the 8% of billed revenue retained by Sprint, customer credits and allocated write offs.

The Company receives and pays travel fees for inter-market usage of the network by Sprint wireless subscribers not homed in a market in which they may use the service. Sprint and its PCS Affiliates pay the Company for the use of its network by their wireless subscribers, while the Company pays Sprint and its PCS Affiliates reciprocal fees for Company subscribers using other segments of the network not operated by the Company. The rates paid on inter-market travel were reduced during 2001. The inter-market travel rate was $0.20 per minute from inception of the Sprint agreement through April 30, 2001, $0.15 per minute from May 1, 2001 through September 30, 2001, and $0.12 per minute from October 1, 2001 through December 31, 2001. The rate was further reduced to $0.10 per minute as of January 1, 2002. The $0.10 rate was in effect for the full year of 2002. The travel rate for 2003 was $0.058 per minute and will remain at this rate through December 31, 2006.

Note 7. Significant Contractual Relationship (Continued)

As part of the Amended Agreement signed January 30, 2004, the Company and Sprint resolved several outstanding issues. The result of the resolution of these disputes was a favorable adjustment to operating income of $0.7 million for the settlement of a dispute related to inter-market travel revenue generated by certain other Affiliate subscribers traveling in the Company's market, and a reduction to previously billed disputed software maintenance fees from a re-allocation of the fees from Sprint on a per subscriber basis versus the prior allocation which was on a per switch basis.

The Sprint Agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all-material respects with these requirements as of December 31, 2003.

Going forward, the adoption of the Amended Agreement will allow the Company to better project the fees it will pay to Sprint for its cash cost per user (CCPU) per month related to certain billing, customer services and other service costs, and certain defined costs per gross add (CPGA). The CCPU charge from Sprint is fixed at $7.70 per subscriber through the end of 2006, and certain defined CPGA are the lower of $25.00 or 6.3% of Sprint's published CPGA figure.

Note 8. Related Party Transactions

ValleyNet, an equity method investee of the Company, resells capacity on the Company's fiber network under an operating lease agreement. Facility lease revenue from ValleyNet was approximately $3.1 million, $3.5 million and $4.1 million in 2003, 2002 and 2001, respectively. At December 31, 2003, 2002 and 2001, the Company had accounts receivable from ValleyNet of approximately $0.4 million, $0.4 million and $0.4 million, respectively. The Company's PCS operating subsidiary leases capacity through ValleyNet fiber facilities. Payment for usage of these facilities was $0.8 million in 2003, and $1.2 million in 2002 and 2001.

Virginia Independent Telephone Alliance, (VITAL), another 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 2003, 2002 and 2001.

Note 9. Retirement Plans

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

	2003	2002	2001
Change in benefit obligation:		*(in thousands)*	
Benefit obligation, beginning	**$ 9,585**	$ 8,538	$ 6,847
Service cost	**486**	420	313
Interest cost	**615**	591	507
Actuarial (gain) loss	**1,211**	252	1,054
Benefits paid	**(247)**	(216)	(183)
Benefit obligation, ending	**$11,650**	$ 9,585	$ 8,538
Change in plan assets:			
Fair value of plan assets, beginning	**$ 6,705**	$ 7,375	$ 8,081
Actual return on plan assets	**948**	(794)	(523)
Benefits paid	**(247)**	(216)	(183)
Contributions made	**447**	340	-
Fair value of plan assets, ending	**$ 7,853**	$ 6,705	$ 7,375

Note 9. Retirement Plans (Continued)

	2003	2002	2001
Funded status	**$ (3,797)**	$ (2,880)	$ (1,163)
Unrecognized net (gain) loss	**2,229**	1,505	(124)
Unrecognized prior service cost	**252**	283	315
Unrecognized net transition asset	**(9)**	(38)	(67)
Accrued benefit cost	**$ (1,325)**	$ (1,130)	$ (1,039)
Components of net periodic benefit costs:			
Service cost	**$ 486**	$ 420	$ 313
Interest cost	**615**	591	507
Expected return on plan assets	**(494)**	(582)	(640)
Amortization of prior service costs	**31**	31	31
Amortization of net gain	**32**	-	(102)
Amortization of net transition asset	**(29)**	(29)	(29)
Net periodic benefit cost	**$ 641**	$ 431	$ 80

The accumulated benefit obligation for the qualified retirement plan was $7,872, $6,551 and $5,399 at December 31, 2003, 2002 and 2001, respectively.

Weighted average assumptions used by the Company in the determination of benefit obligations at December 31, 2003, 2002 and 2001 were as follows:

	2003	2002	2001
Discount rate	**6.00%**	6.50%	7.00%
Rate of increase in compensation levels	**4.50%**	4.50%	5.00%

Weighted average assumptions used by the Company in the determination of net pension cost for the years ended December 31, 2003, 2002, and 2001 were as follows:

	2003	2002	2001
Discount Rate	**6.50%**	7.00%	7.50%
Rate of increase in compensation level	**4.50%**	5.00%	5.00%
Expected long-term rate of return on plan assets	**7.50%**	8.00%	8.00%

The Company's pension plan asset allocations based on market value at December 31, 2003 and 2002, by asset category were as follows:

Asset Category	**2003**	2002
Equity securities	**69.8%**	62.9%
Debt securities	**26.6%**	32.2%
Cash and cash equivalents	**3.6%**	4.9%
	100.0%	100.0%

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 ERISA. More specifically, the investment focus is to preserve capital which includes inflationary protection as well as protection of the principal amounts contributed to the Plan. Of lesser importance is the consistency of growth, which will tend to minimize the annual fluctuations in the normal cost. It is anticipated that growth of the fund will result from both capital appreciation and the re-investment of current income.

Contributions

The Company expects to contribute $0.5 million to the noncontributory defined benefit plan in 2004, and contributed $0.4 million in 2003, and $0.3 million in 2002.

Note 9. Retirement Plans (Continued)

The Company's matching contributions to the defined contribution plan were approximately $228 thousand, $210 thousand and $182 thousand for the years ended December 31, 2003, 2002 and 2001, respectively.

In May 2003, the Company adopted an unfunded nonqualified supplemental executive retirement plan 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 plan.

	2003
Change in benefit obligation:	*(in thousands)*
Benefit obligation, beginning	$ -
Service cost	22
Interest cost	23
Actuarial loss	278
Plan adoption	546
Benefit obligation, ending	$ 869
Funded status	$(869)
Unrecognized net loss	278
Additional minimum liability	(380)
Intangible asset	380
Unrecognized prior service cost	521
Accrued benefit cost	$ (70)
Components of net periodic benefit costs:	
Service cost	22
Interest cost	23
Amortization of prior service costs	25
Net periodic benefit cost	70

Assumptions used by the Company in the determination of the Supplemental Retirement Plan information consisted of the following at December 31, 2003:

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

Note 10. Stock Incentive Plan

The Company has a shareholder approved Company Stock Incentive Plan (the "Plan"), providing for the grant of incentive compensation to essentially all employees in the form of stock options. The Plan authorizes grants of options to purchase up to 480,000 shares of common stock over a ten-year period beginning in 1996. The option price for all grants has been at the current market price at the time of the grant. The grants have generally provided that one-half of the options exercisable on each of the first and second anniversaries of the date of grant, with the options expiring five years after they are granted. In 2003, the Company issued grants where the options are vested over a five-year period beginning on the third anniversary date of the grant of the options. The participant may exercise 20% of the total grant after each anniversary date through the eighth year, with the options expiring after ten years.

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

Note 10. Stock Incentive Plan (Continued)

	2003	2002	2001
Dividend rate	**1.68% to 2.35%**	1.52%	1.78%
Risk-free interest rate	**3.00% to 3.18%**	4.24%	4.31%
Expected lives of options	**5 to 10 years**	5 years	5 years
Price volatility	**38.83% to 51.02%**	30.03%	38.29%

A summary of the status of the Plan at December 31, 2003, 2002 and 2001 and changes during the years ended on those dates is as follows:

	Shares	Weighted Average Grant Price Per Share	Fair Value Per Share
Outstanding January 1, 2001	117,122	$ 12.50	
Granted	39,938	15.79	$ 5.51
Cancelled	(6,580)	14.86	
Exercised	(12,426)	10.72	
Outstanding December 31, 2001	138,054	13.51	
Granted	47,646	17.59	4.08
Cancelled	(19,758)	13.95	
Exercised	(16,238)	11.27	
Outstanding December 31, 2002	149,704	14.99	
Granted	75,396	18.89	$ 4.24 to 11.37
Cancelled	(11,892)	16.62	
Exercised	(40,988)	11.89	
Outstanding December 31, 2003	**172,220**		

There were 85,670, 91,658 and 83,114 shares exercisable at December 31, 2003, 2002 and 2001, at weighted average exercise prices per share of, $15.94, $13.70, and $11.71, respectively. During 2002, the Company issued 4,654 shares of Company stock to employees valued at $100 thousand in recognition of the Company's 100th year anniversary. The following table summarizes information about stock options outstanding at December 31, 2003:

	Exercise Prices	Shares Outstanding	Option Life Remaining	Shares Exercisable
1999	$ 9.97	9,700	1 year	9,700
2000	17.19	25,900	2 years	25,900
2001	15.79	31,626	3 years	31,626
2002	17.59	36,888	4 years	18,444
2003	**$ 17.98-22.01**	**68,106**	**5 to 10 years**	-

Note 11. Major Customers

The Company has one major customer and relationship that is a significant source of revenue. In 2003, as during the past number of years, the Company's relationship with Sprint continued to increase, due to growth in the PCS business segment. Approximately 61.2% of total revenues in 2003 were generated by or through Sprint and its customers using the Company's portion of Sprint's nationwide PCS network. This was compared to 57.6% in 2002, and 47.1% of total revenue in 2001. No other customer relationship on a stand-alone basis generates more than 2.5% of the Company's total revenue for 2003, 2002 and 2001.

Note 12. Shareholder Rights

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

Note 13. Lease Commitments

The Company leases land, buildings and tower space under various non-cancelable agreements, which expire between 2004 and 2043 and require various minimum annual rental payments. The leases generally contain certain renewal options for periods ranging from 5 to 20 years.

Future minimum lease payments under non-cancelable operating leases with initial variable lease terms in excess of one year as of December 31, 2003 are as follows:

Year Ending	Amount
	(in thousands)
2004	$ 3,216
2005	2,544
2006	2,072
2007	1,327
2008	902
2009 and beyond	2,531
	$ 12,592

The Company’s total rent expense from continuing operations for each of the previous three years was $4.4 million in 2003, $3.4 million in 2002, and $2.4 million in 2001.

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, 2003 are as follows:

Year Ending	Amount
	(in thousands)
2004	$ 2,988
2005	2,759
2006	1,563
2007	1,126
2008	448
2009 and beyond	448
	$ 9,332

Note 14. Segment Reporting

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

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

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

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

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

Year	Holding	Telephone	Consolidated Totals
		(in thousands)	
2003	**$ (441)**	**$ 65**	**$ (376)**
2002	$ (822)	$ 45	$ (777)
2001	$ (1,218)	$104	$ (1,114)

Note 14. Segment Reporting (Continued)

Selected financial data for each segment is as follows:

	Holding	Telco	CATV	ShenTel	Leasing
Operating revenues - external:			*(in thousands)*		
2003	**$ -**	**$ 22,729**	**$ 4,433**	**$ 6,897**	**$ 14**
2002	-	22,461	4,358	6,312	20
2001	-	21,599	3,810	5,078	25
Operating revenues - internal:					
2003	**$ -**	**$ 3,062**	**$ 24**	**$ 307**	**$ -**
2002	-	2,888	5	349	-
2001	-	2,532	2	362	-
Depreciation and amortization:					
2003	**$ 196**	**$ 4,279**	**$ 777**	**$ 410**	**$ -**
2002	196	3,798	718	414	-
2001	196	3,609	1,354	472	-
Operating income (loss):					
2003	**$ (726)**	$ 11,927	**$ 890**	**$ 1,469**	**$ 4**
2002	(555)	11,908	1,145	776	11
2001	(504)	12,321	54	168	10
Non-operating income less expenses:					
2003	**$ 4,275**	**$ (151)**	**$ (31)**	**$ 9**	**$ 1**
2002	4,966	(474)	(23)	(93)	1
2001	3,804	646	(184)	(36)	1
Interest expense:					
2003	**$ 3,070**	**$ 443**	**$ 514**	**$ 171**	**$ -**
2002	3,540	662	583	165	-
2001	2,664	1,428	690	237	-
Income tax expense (benefit) from continuing operations:					
2003	**$ 29**	**$ 4,268**	**$ 146**	**$ 501**	**$ 2**
2002	(3,363)	3,237	198	191	5
2001	5,117	4,373	(312)	(32)	4
Income (loss) from continuing operations:					
2003	**$ 7**	**$ 7,064**	**$ 200**	**$ 805**	**$ 3**
2002	(5,771)	7,536	341	327	8
2001	8,463	7,167	(509)	(73)	7
Income from discontinued operations, net of taxes:					
2003	**$ -**	**$ 12**	**$ -**	**$ -**	**$ -**
2002	-	72	2	-	-
2001	-	72	2	-	-
Net income (loss) including cumulative effect					
2003	**$ 7**	**$ 7,076**	**$ 200**	**$ 805**	**$ 3**
2002	(5,771)	7,608	343	327	8
2001	8,463	7,239	(507)	(73)	7
Total assets:					
2003	**$ 141,658**	**$ 57,533**	**$ 10,340**	**$ 6,721**	**$ 188**
2002	112,765	59,554	10,961	6,255	187
2001	114,280	56,090	11,480	5,373	254

Note 14. Segment Reporting (Continued)

Mobile	Long Distance	Network	Shen Comm	PCS	Combined Totals	Eliminating Entries	Consolidated Totals
$ 2,840	**$ 1,116**	**$ 744**	**$ 56**	**$ 67,032**	**$ 105,861**	**$ -**	**$ 105,861**
2,399	1,101	835	20	55,468	92,974	-	92,974
2,112	1,114	963	-	34,021	68,722	-	68,722
$ 1,238	**$ 228**	**$ 151**	**$ -**	**$ 1**	**$ 5,011**	**$ (5,011)**	**$ -**
1,661	643	110	-	-	5,656	(5,656)	-
535	679	109	-	-	4,219	(4,219)	-
$ 599	**$ -**	**$ 124**	**$ -**	**$ 10,246**	**$ 16,631**	**$ -**	**16,631**
581	-	158	-	8,617	14,482	-	14,482
527	-	114	-	4,991	11,263	-	11,263
$ 1,347	**$ 407**	**$ 624**	**$ (23)**	**$ 2,916**	**$ 18,835**	**$ (207)**	**$ 18,628**
1,224	695	641	(49)	(5,294)	10,502	(1,164)	9,338
(65)	585	823	-	(5,769)	7,620	(1,196)	6,424
$ (13)	**$ 4**	**$ 4**	**$ 1**	**$ (76)**	**$ 4,023**	**$ (3,633)**	**$ 390**
5	4	10	8	(91)	4,313	(4,454)	(141)
92	2	-	-	50	4,391	(4,110)	265
$ 26	**$ -**	**$ -**	**$ -**	**$ 2,920**	**$ 7,144**	**$ (3,634)**	**$ 3,510**
6	-	-	-	3,693	8,649	(4,454)	4,195
87	-	-	-	3,131	8,237	(4,110)	4,127
$ 377	**$ 157**	**$ 242**	**$ (7)**	**$ (411)**	**$ 5,304**	**$ -**	**$ 5,304**
790	259	249	(15)	(3,660)	(2,109)	-	(2,109)
(514)	223	313	-	(3,361)	5,811	-	5,811
$ 724	**$ 255**	**$ 386**	**$ (14)**	**$ 331**	**$ 9,761**	**$ -**	**$ 9,761**
(734)	441	401	(26)	(5,416)	(2,893)	-	(2,893)
(746)	364	511	-	(5,490)	9,694	-	9,694
$22,389	$ -	$ -	**$ -**	**$ -**	**$ 22,401**	**$ (12)**	**$ 22,389**
7,468	-	-	-	-	7,542	(130)	7,412
6,734	-	-	-	-	6,808	(130)	6,678
$23,037	**$ 255**	**$ 386**	**$ (14)**	**$ 331**	**$ 32,086**	**$ (12)**	**$ 32,074**
6,734	441	401	(26)	(5,416)	4,649	(130)	4,519
5,988	364	511	-	(5,490)	16,502	(130)	16,372
$ 18,396	**$ 808**	**$1,557**	**$ 78**	**$ 68,773**	**$ 306,052**	**$ (120,688)**	**$ 185,364**
17,482	343	1,084	115	71,256	280,002	(115,998)	164,004
17,981	176	1,109	100	62,661	269,504	(102,132)	167,372

Note 15. Quarterly Results (unaudited)

(in thousands except for per share data)

For the year ended December 31, 2003	First	Second	Third	Fourth	Total
Revenues	$ 24,947	$ 24,844	$ 27,582	$ 28,488	$ 105,861
Operating income	4,150	2,402	4,976	7,100	18,628
Income from Continuing operations	1,931	1,044	2,717	4,069	9,761
Income from discontinued operations, net of taxes	22,628	-	(23)	(216)	22,389
Cumulative effect of change in accounting	(76)	-	-	-	(76)
Net income (a)	$ 24,483	$ 1,044	$ 2,694	$ 3,853	$ 32,074
Income (loss) per share –					
Continuing operations-diluted	$ 0.26	$ 0.14	$ 0.36	$ 0.53	$ 1.28
Discontinued operations -diluted	2.98	-	-	(0.03)	2.94
Cumulative effect of change in accounting – diluted	(0.01)	-	-	-	(0.01)
Net income per share – basic	$ 3.24	$ 0.14	$ 0.36	$ 0.51	$ 4.23
Net income per share - diluted	3.23	0.14	0.35	0.50	4.22

For the year ended December 31, 2002	First	Second	Third	Fourth	Total
Revenues	$ 20,697	$ 22,186	$ 24,631	$ 25,460	$ 92,974
Operating income	2,316	2,617	2,371	2,034	9,338
Income (loss) from Continuing operations	370	(3,984)	383	338	(2,893)
Income from Discontinued operations, net of taxes	1,786	1,870	1,841	1,915	7,412
Net income (b)	$ 2,156	$ (2,114)	$ 2,224	$ 2,253	$ 4,519
Income (loss) per share –					
Continuing operations -diluted	$ 0.05	$ (0.53)	$ 0.05	$ 0.04	$ (0.38)
Discontinued operations -diluted	0.24	0.25	0.24	0.25	0.98
Net income per share – basic	$ 0.29	$ (0.28)	$ 0.29	$ 0.30	$ 0.60
Net income per share - diluted	0.29	(0.28)	0.29	0.30	0.60

(a) Fourth quarter results of 2003 include favorable adjustments to revenue and expenses totaling $2.5 million, related to true-ups of management's estimates and settlements of disputes with Sprint and a $0.4 million benefit related to a change in vacation benefit accrual for employees.
(b) Second quarter results of 2002 include the loss of $4.9 million, net of tax effects on the other than temporary write-down of the VeriSign stock.
Per share earnings may not add to the full year values as each per share calculation stands on its own.

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding our expectations, hopes, intentions, or strategies regarding the future. These statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, changes in the interest rate environment, management's business strategy, national, regional and local market conditions, and legislative and regulatory conditions. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances, except as required by law.

General

Shenandoah Telecommunications Company is a diversified telecommunications company providing both regulated and unregulated telecommunications services through its nine wholly owned subsidiaries. These subsidiaries provide local exchange telephone services, wireless personal communications services (PCS), as well as cable television, paging, Internet access, long distance, fiber optics facilities, and leased tower facilities. The Company is the exclusive provider of wireless mobility communications network products and services under the Sprint brand from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company refers to the Hagerstown, Maryland; Martinsburg, West Virginia; and Harrisonburg and Winchester, Virginia markets as its Quad State markets. The Company refers to the Altoona, Harrisburg, and York, Pennsylvania markets as its Central Penn markets. Competitive local exchange carrier (CLEC) services were established on a limited basis during 2002. In addition, the Company sells and leases equipment, mainly related to services it provides, and also participates in emerging services and technologies by direct investment in non-affiliated companies.

The Company reports revenues as wireless, wireline and other revenues. These revenue classifications are defined as follows: Wireless revenues are made up of the Personal Communications Company (a PCS Affiliate of Sprint), and the Mobile Company. Wireline revenues include the following subsidiary revenues in the financial results: Telephone Company, Network Company, Cable Television Company, and the Long Distance Company. Other revenues are comprised of the revenues of ShenTel Service Company, the Leasing Company, ShenTel Communications Company and the Holding Company. For additional information on the Company's business segments, see Note 14 to audited consolidated financial statements appearing elsewhere in this report.

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

During the 1990's significant investments were made in the cellular and PCS (wireless) businesses. The VA 10 RSA cellular operation, in which the Company held a 66% interest and was the general partner, experienced rapid revenue growth and excellent margins in the late 1990's. The cellular operation covered only six counties, and became increasingly dependent on roaming revenues. Management believed the roaming revenues and associated margins would be unsustainable as other wireless providers increasingly offered nationally-branded services with significantly reduced usage charges. To position it to participate in the newer, more advanced, digital wireless services, in 1995 the Company entered the PCS business through an affiliation with American Personal Communications (APC), initiating service along the Interstate 81 corridor from Harrisonburg, Virginia to Chambersburg, Pennsylvania. This territory was a very close match to the Company's fiber network, thereby providing economic integration that might not be available to other wireless carriers. In 1999, the Company entered a new affiliation arrangement with Sprint, the successor to APC (which introduced the Company to a nationally-branded wireless service) and expanded the PCS footprint further into Central Pennsylvania. The Company's combined capital investment in 2000 and 2001 in the PCS operation was $45.1 million.

The wireless industry in the late 1990's became increasingly competitive and the Company was not immune to these industry issues. The Clear Pay^{SM} program, introduced by Sprint as a no-deposit offering in 2001, attracted high credit risk customers in the Company's markets. As the results began to materialize, the Company implemented deposits on this program (mid-April 2002), and experienced high levels of customer turnover (churn) and uncollectable accounts. The write-offs of uncollectable accounts peaked in the third quarter of 2002. During the fourth quarter of 2002 there was some evidence that the strengthened credit policy was having a favorable impact. Nonetheless, the 2002 net loss in the PCS operation was $5.4 million, as compared to $5.5 million in 2001. Despite the disappointing financial results for 2002, the PCS customer base grew by over 40%. While the PCS operation was adding customers, the cellular operation continued to lose its local customer base.

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

In many respects, 2003 was a successful year. Churn and levels of uncollectable accounts in the PCS operation returned to more acceptable levels. PCS revenues reached $67.0 million, and total revenues reached $105.9 million. The PCS operation recognized a small profit for the year, including favorable adjustments associated with settlement of disputed items with Sprint. Excluding the favorable adjustments, the PCS operation recognized a profit in the fourth quarter. With improved operating cash flow and reduced capital spending in 2003, the Company prepaid $4.6 million in debt, selecting those notes with nominal prepayment penalties. Additionally, after receiving the cash and paying taxes on the gain of the sale of the Virginia 10 partnership interest, the Company invested the remaining proceeds in liquid financial instruments, available for future deployment. Additionally, the Company has been successful at decreasing its dependency on wireline revenues. Wireline revenues, at $29.0 million in 2003 compared to $18.6 million in 1998, were 27.4% of total revenues in 2003 compared to 76.6% in 1998.

Entering 2004, the Company is pleased with the milestone of a profitable quarter in the PCS operation, but recognizes that much work remains to ultimately earn a reasonable return on this investment. The recently announced signing of an addendum to the management and services agreements with Sprint is expected to lead to cost savings and greater certainty in fees paid to Sprint. However, the consolidation predicted for the wireless industry in recent years, including the recently announced Cingular/ATT deal and anticipated improvements in the overall economics of wireless services, has not yet materialized. Future Sprint marketing efforts, designed to meet the competition, could potentially have an unfavorable impact on the Company and lead to additional losses. The risks associated with the Sprint PCS affiliation are described in further detail elsewhere in this document. The Company is now reviewing alternatives for other businesses to further diversify our revenue base, from either a services platform or a geographic concentration.

Significant Transactions

The Company had several significant transactions during 2003. The largest was the sale of its 66% interest in the Virginia 10 RSA cellular operation, as described above. The Company originally entered into the agreement with Verizon Wireless in November 2002. The Company was the general partner of the limited partnership which operated an analog cellular network in the six-county area of Northwestern Virginia, including Clarke, Frederick, Page, Rappahannock, Shenandoah, and Warren counties, and the city of Winchester. The sales price was $37.0 million plus the Company's 66% share of the partnership's working capital, which was approximately $1.7 million. The Company was required to do a working capital true up following the closing, from which the Company recorded a charge for $23 thousand after taxes. In the fourth quarter the Company recorded an additional charge for taxes of $0.2 million to reflect the consolidated effective tax rate based on the final operating results for the year.

The sale of this business is reflected in the discontinued operations section of the income statement along with the results of operations for the two months of 2003 that the operation remained a part of the Company.

Reflected in the 2003 results are several unusual items, which should be noted in understanding the financial results of the Company for 2003.

1. Certain access revenue rate elements billed by the Company to interexchange carriers were disputed and subsequently refunded to the carriers. During 2003, the Company recorded a reduction in access revenue of $1.2 million from interexchange customers related to the disputed access revenue the Company previously billed for switching facilities and the local exchange network. The disputes cover a two-year period beginning in 2001 through and including the second quarter of 2003. The total amount of the reduction related to 2003 was $0.7 million.

2. The Company changed its employee vacation policy so that employees now earn and use their vacation benefits in the same year. Previously, vacation benefits were earned in the year prior to the year the benefits were available to the employee. As a result of this change in employee benefit policy, the Company did not accrue employee vacation expense for 2004 in 2003, thereby reducing its benefit expenses by $0.5 million for the 2003 year.

3. The Company adjusted its estimate of deferred revenue for the PCS operation in the fourth quarter of 2003. The adjustment decreased deferred revenue by $0.6 million and increased revenue in 2003 by the same amount.

4. The Company received a reimbursement from Sprint of $0.2 million related to 2002 for its portion of the E911 surcharge collected from PCS subscribers. The reimbursement is to offset the Company's portion of handset costs incurred to make the customers' phones E911 compliant. This entry decreased cost of goods expenses.

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

1. Sprint agreed to compensate the Company for lost travel revenue related to usage by Sprint customers in the Company's territory for the period prior to 2003, and change the method of allocating certain software maintenance fees between Sprint and its Affiliates for fees recorded in 2002 and 2003. These items had the effect of increasing operating income by $0.7 million in the 4th quarter of 2003.

2. The method used to price certain services performed by Sprint on behalf of the Company was simplified. The CCPU (cash cost per user) rate for the periods 2004 through 2006 was set at $7.70 per user per month. This fee covers customer service, billing, collections, network operations and other costs to support the customer. However, Sprint may discontinue such services if Sprint is discontinuing such services to all other Sprint PCS affiliates and Sprint's own end-users. It is estimated that this rate will decrease the amount the Company will pay Sprint compared to payments under the previous method by approximately $120,000 per month in 2004.

3. There will be a maximum until the year 2007, on the non-direct Costs per Gross Additions (CPGA) at the greater of 6.3% of the Sprint published CPGA rate or $25. With the volatility of CPGA, the Company cannot determine the amount of potential savings, but the change does provide more certainty in estimating future costs.

4. For the period 2004 through 2006, the travel and reseller rates between the Company and Sprint were set at $0.058 per minute for voice and $0.002 per kilobyte for data. Without this agreement the voice travel rate for 2004 would have decreased to $0.041. Since the Company is in a net receivable position related to travel with Sprint, the impact on net travel and reseller revenue would have been a reduction of $1.5 million had the $0.041 rate been in effect in 2003. Beginning in 2007, the Sprint travel and reseller rate will be changed annually to equal 90% of Sprint's retail yield from the prior year. Sprint's retail yield will be determined based on Sprint's average revenue per PCS user for voice services divided by the average minutes of use per user.

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5. Sprint and the Company will agree on a service level agreement related to the provision of customer services by December 2006. If Sprint does not reach the stated goals, the Company will have the opportunity to either provide the services itself or contract with a third party beginning in 2008.

6. Through 2006, a methodology is provided to determine if the Company is required to make certain capital expenditures and participate in Sprint Programs Requirements.

7. Effective January 1, 2004, the method of cash settlement provided for under the Agreement changed from Sprint distributing cash from customers based on collected revenue to billed revenue. The absolute amount of cash received by the Company should remain the same, but the Company should receive cash on a more timely basis.

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

In May 2003, the Board of Directors of the Company adopted a nonqualified supplemental executive retirement plan (SERP) benefit for named executives. The plan was established to provide benefits beyond the pension plan that covers all employees. See Note 9 of the Consolidated Financial Statements for additional information.

In November 2003, the Company commenced a management reorganization that will be ongoing into 2004. The reorganization was in recognition of the Company's growth and changes in the telecom industry. The Company shifted from an organization structure that was focused on lines of business to a plan that organizes on function. The Company plans to expand the senior staff and corresponding departments as needed to better position itself for future opportunities. This reorganization did not require a charge to the operation, as there were no positions lost or values impaired as a result of the reorganization.

On November 24, 2003, federal regulations went into effect whereby customers in the 100 largest metropolitan areas were able to change wireless carriers and keep their phone numbers. This is referred to as Wireless Local Number Portability (WLNP). On the same date in those markets, wireline customers could transfer their wireline number to a wireless phone. On May 24, 2004, Local Number Portability (LNP) will be available to wireless and wireline subscribers throughout the United States. To date, the impact of LNP/ WLNP on the Company has been insignificant.

Summary

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

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

The Company's PCS business has operated in a net travel receivable position for several years. The Company received $6.0 million in net travel in 2003, compared to $5.8 million in 2002, and $4.0 million in 2001. This relationship could change due to service plan changes, subscriber travel habit changes and other changes beyond the control of the Company.

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

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

The wireline business is made up of traditional telephony, cable TV, fiber network operations and the Company's long-distance resale business. These businesses operate in a defined geographic area. The Company's primary service area for the telephone, cable TV and long-distance business is Shenandoah County, Virginia. The county is a rural area in northwestern Virginia, with a population of approximately 37,300 inhabitants, which has increased by approximately 6,000 since 1990. The potential for significant numbers of additional customers in the current operating area is limited.

The Company's telephone subscriber count declined in the third quarter and again in the fourth quarter of 2003. Migration to wireless and DSL services are believed to be driving this change. Based on industry experience, the Company anticipates this trend may continue for the foreseeable future.

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

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

CRITICAL ACCOUNTING POLICIES

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

Allowance for Doubtful Accounts

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

The allowance for doubtful accounts balance as of December 31, 2003, 2002 and 2001 was $0.5 million, $0.9 million and $0.7 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, 2003, the Sprint PCS subscriber base in the Company's market area consisted of 17.9% sub-prime credit quality subscribers compared to 25.3% at December 31, 2002. Sprint manages the accounts receivable function related to all of the Company's Sprint PCS wireless customers, therefore limiting the amount of control the Company has in setting credit policy parameters.

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

Bad Debt expense summary, net of recoveries for the three years ended December 31, 2003:

In thousands

	2003	2002	2001
PCS subscribers	**$1,716**	$ 3,744	$ 1,241
Interexchange carriers	**48**	488	-
Other subscribers and entities	**71**	170	82
Total bad debt expense	**$1,835**	$ 4,402	$ 1,323

Revenue Recognition

The Company recognizes revenues when persuasive evidence of an arrangement exists, services have been rendered or products have been delivered, the price to the buyer is fixed and determinable, and collectibility is reasonably assured. The Company's revenue recognition polices are consistent with the guidance in Staff Accounting Bulletin ("SAB") No. 101, Revenue Recognition in Financial Statements promulgated by the Securities and Exchange Commission, and the Emerging Issues Task Force ("EITF") 00-21, "Revenue Arrangements with Multiple Deliverables" ("EITF 00-21"). Effective July 1, 2003 the Company adopted EITF 00-21. The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a bundled transaction, and the consideration will be measured and allocated to the separate units based on their relative fair values. The consensus guidance was applicable to new PCS service agreements entered into for quarters beginning July 1, 2003. The adoption of EITF 00-21 required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition will need to be made in the future. The adoption of EITF 00-21 has resulted in substantially all of the PCS activation fee revenue generated through Company-owned retail stores and associated direct costs being recognized at the time the related wireless handset is sold and it is classified as equipment revenue and cost of equipment, respectively. Upon adoption of EITF 00-21, previously deferred PCS revenue and costs will continue to be amortized over the remaining estimated life of a subscriber, not to exceed 30 months. PCS revenue and costs for activations at other retail locations and through other sales channels will continue to be deferred and amortized over their estimated lives as prescribed by SAB 101. The adoption of EITF 00-21 had the effect of increasing equipment revenue by $68 thousand and increasing costs of equipment by $23 thousand, which otherwise would have been deferred and amortized.

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

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

Through December 31, 2003, the Agreement provided that Sprint retains 8% of collected service revenues from subscribers based in the Company's markets and from non-Sprint wholesale subscribers who roam onto the Company's network. The amount of revenue retained by Sprint is recorded as an offset to the revenues recorded. All revenues derived from the sale of handsets and accessories by the Company and from certain roaming services (outbound roaming and travel revenues from Sprint and its PCS Affiliate subscribers) are retained by the Company.

The Company defers direct subscriber activation costs on subscribers whose activation falls within the SAB 101 guidelines. The activation costs are deferred when incurred, and then amortized using the straight-line method over 30 months, which is the estimated average life of a subscriber. Direct subscriber activation costs also include the activation charge from Sprint, and credit check fees. These fees are charged to the Company by Sprint at approximate $12.50 per subscriber.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the recoverability of tax assets generated on a state-by-state basis from net operating losses apportioned to that state. Management uses a more likely than not threshold to make that determination and has established a valuation allowance against the tax assets, in case they are not recoverable. For 2003, the Company added an additional reserve of $0.2 million to its valuation allowance due to the uncertainty of the recoverability of the net operating loss carry-forwards in certain states. The valuation allowance now stands at $0.9 million as of December 31, 2003. Management will evaluate the effective rate of taxes based on apportionment factors, the Company's operating results, and the various state income tax rates. Currently, management anticipates the normalized effective income tax rate to be approximately 39%.

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

2003 compared to 2002

Total revenue was $105.9 million in 2003, an increase of $12.9 million or 13.9%. Total revenues included $70.0 million of wireless revenues, an increase of $12.0 million or 20.7%; wireline revenues of $29.0 million, an increase of $0.3 million or 0.9%; and other revenues of $7.0 million, an increase of $0.6 million or 9.7%.

Within wireless revenues, the PCS operation contributed $69.8 million, an increase of $11.6 million, or 20.8%. PCS service revenues were $44.4 million, an increase of $10.9 million or 32.4%. Service revenue growth was driven by the increase in subscribers, totaling 85,139 at December 31, 2003, an increase of 17,297 or 25.5%, compared to 67,842 subscribers at year-end 2002. The company had churn of 2.1% in 2003 compared to 2.8% in 2002. The decline in the churn rate is the result of tightening the credit screening for new subscribers as well as continued efforts to improve the after sales support. Competition in the wireless industry continues to have a significant impact on the results of the Company's PCS operation.

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

PCS equipment sales were $2.1 million, an increase of $0.4 million or 26.6%. The equipment sales are net of $1.7 million of rebates and discounts given at the time of sale. Rebates and discounts continue to be required to meet significant industry competition for subscriber additions and subscriber retention. These discounts and rebates are primarily transacted in the form of instant rebates, providing a second phone free when a customer purchases one, or providing free phones if the subscriber signs up for a specific contract term and a specific service plan.

In accordance with Sprint's requirements, the Company launched third generation (3G 1X) wireless service in August 2002. 3G 1X is the first of a four-stage migration path that will enable additional voice capacity and increased data speeds for subscribers. The network upgrades completed in 2002 were software changes, channel card upgrades, and some new network elements required for packet data. The Company's base stations were outfitted with network card enhancements, thereby allowing the Company to provide 3G 1X service without wholesale change-outs of base stations. 3G 1X is backwards compatible with the existing 2G network, thereby allowing continued use of current customer handsets. The impact of 3G 1X-network enhancements on revenues became more pronounced in 2003, as use of new 3G services and features generated approximately $1.0 million for the year, compared to $0.2 million in 2002. The growth in 3G revenue is the result of more subscribers on 3G plans and the increase in popularity of camera phones during 2003.

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

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

Within wireline revenues, the Telephone operation contributed $22.7 million, an increase of $0.3 million, or 1.2%. Telephone access revenues were $11.6 million, an increase of $0.7 million or 6.7%. During 2003, the Company recorded a $1.2 million reduction to access revenue, of which $0.7 million was related to 2002, resolving disputes with interexchange carriers on the rating of long distance calls transiting the Telephone switching network for termination on wireless networks.

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

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

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

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

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

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

Facility lease revenue contributed $5.5 million to wireline revenues, a decrease of $0.2 million or 3.5%. The decrease was primarily the result of the prolonged decline of lease rates associated with competitive pricing pressures and the economic downturn in the telecommunications industry. During 2002 the Company completed a second, diverse fiber route to its existing interconnection point in the Dulles airport area of Northern Virginia. This fiber route provides increased reliability for customers in the event of fiber cuts or breaks, and extends the availability of the Company's fiber network to additional market locations but to date has not added additional revenue to the Company's operation.

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

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

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

Total operating expenses were $87.2 million, an increase of $3.6 million or 4.3%. The primary driver in the increase in operating expenses is continued growth in the PCS operation somewhat offset by a significant decline in bad debt expense compared to 2002.

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

Cost of goods and services was $10.9 million, an increase of $0.4 million or 4.2%. The PCS cost of goods sold was $8.5 million, an increase of $0.2 million or 2.3%. This change is due primarily to higher volumes of handsets sold through Company owned stores and PCS handset subsidies paid to third-party retailers. In 2003, the Company recorded approximately $1.8 million in handset costs related to existing subscribers upgrading their handsets. Prior to 2003, the Company did not track the specific costs related to subsidizing new handsets to existing customers. The cost of handset up-grades sold to existing customers is expected to increase as the customer base matures and handset manufacturers introduce new technologies in new handsets. The cable television programming (cost of service) expense was $1.6 million, an increase of $0.2 million or 16.3%. The Company has seen continuing upward pressure on the cost of cable TV programming by cable TV program providers.

Network operating costs were $33.6 million, an increase of $1.1 million or 3.4%. The largest item in network operating costs is travel expense. These costs made up 31.8% and 32.9% of the total network and other costs in 2003 and 2002, respectively. Travel expense is the cost of minutes used by the Company's PCS subscribers on Sprint or other Sprint Affiliates' networks. Travel expense in 2003 was $10.8 million, an increase of $0.1 million due to a significant increase in travel minutes in 2003 which was offset by the impact of the rate decline. The travel rate declined from $0.10 per minute in 2002 to $0.058 per minute in 2003. Our PCS customers increased their average monthly travel minutes by 22% compared to 2002. In 2002, the average customer's travel usage was 130 minutes per month and in 2003 that average travel usage increased to 159 minutes per month.

Network infrastructure maintenance costs were $4.9 million or 14.6% of total network operating costs, a decrease of $0.2 million from 2002. Rent for towers, tower sites, and buildings increased $0.9 million or 27.3% to $4.2 million. Lease escalators plus the increase in the number of sites leased contributed to the increase. Line costs in 2003 were $9.8 million or 29.1% of the network operating costs, an increase of $0.1 million.

Depreciation and amortization expense was $16.6 million, an increase of $2.1 million or 14.8%. The PCS operation had depreciation expense of $10.2 million, an increase of $1.6 million or 18.9%. The 16 additional PCS base stations placed in service during 2003 resulted in higher depreciation expense for the year. In the telephone operation, depreciation increased $0.5 million or 12.7%, due to new assets deployed in the operation. There was no amortization of goodwill in 2003 or 2002, compared to goodwill amortization of $360 thousand expensed in 2001, due to the required accounting change.

Selling, general and administrative expenses were $26.0 million, down $0.1 million or 0.4%. Customer support costs were $8.7 million, an increase of $0.9 million or 11.4%. The growth in Sprint wireless subscribers is primarily responsible for this change. Advertising expense was $4.6 million, an increase of $0.3 million or 6.4%. The change is primarily due to increased marketing efforts in support of the PCS operations in both the Quad State and Central Penn markets. PCS sales staff expenses were $2.8 million, an increase of $0.1 million or 1.5% compared to 2002. Other sales staff expenses increased $0.3 million to $1.3 million as the Company worked to expand its other services in areas outside its historically defined service area. Bad debt expense decreased $2.6 million or 58.3%.

Administrative expenses increased $1.0 million or 17.1%. This increase is a result of increased professional fees, insurance and pension costs. During 2003, the Company added several positions to expand the management team to support the Company's growing operations.

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

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

Other income (expense) is comprised of non-operating income and expenses, interest expense and gain or loss on investments. Collectively, the net impact of these items to pre-tax income was an expense of $3.6 million for 2003, compared to expense of $14.3 million from 2002. The 2002 results were primarily the results of the previously disclosed $9.0 million loss recorded on the sale of the VeriSign stock.

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

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

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

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

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

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

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

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

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 in the area. As a result of the decline in the subscriber base, and the need for extensive capital expenditures to transform the analog network into a digital cellular network, the Company elected to sell its 66% interest in the partnership to one of the minority partners. The agreement was signed in November 2002, and closing was February 28, 2003. The Company's portion of the net income from its operations for 2003, 2002 and 2001 was $1.2 million, $7.4 million and $6.7 million, respectively.

CONTINUING OPERATIONS

2002 compared to 2001

Total revenue was $93.0 million in 2002, an increase of $24.3 million or 35.3%. Total revenues included $57.9 million of wireless revenues, an increase of $21.7 million or 60.2%; wireline revenues of $28.7 million, an increase of $1.3 million or 4.6%; and other revenues of $6.4 million, an increase of $1.2 million or 24.5%.

Within wireless revenues, the PCS operation contributed $55.5 million, an increase of $21.4 million, or 63.0%. PCS service revenues were $37.4 million, an increase of $18.3 million or 95.7%. The increase in the subscriber base, which totaled 67,842 at December 31, 2002, was an increase of 20,524 or 43% from the prior year end.

PCS travel revenue, which is compensation between Sprint and its PCS Affiliates for use of the other party's network, was $16.5 million, an increase of $2.9 million or 21.3%. Travel revenue is impacted by the geographic size of the Company's network service area, the overall number of Sprint wireless customers, and the travel exchange rate. The rate received on travel was $0.10 per minute in 2002. The rates in 2001 were $0.20 per minute from January 1, 2001 through April 30, 2001; $0.15 per minute from May 1, 2001 through September 30, 2001; and $0.12 per minute from October 1, 2001 through December 31, 2001.

PCS equipment sales were $1.6 million, an increase of $0.3 million or 19.6%. The equipment sales are net of $0.3 million of rebates and discounts given at the time of sale, which became more pronounced during the year to meet industry competition for subscriber additions and subscriber retention.

In accordance with Sprint's requirements, the Company launched third generation (3G 1X) service in August 2002. The impact of 3G 1X-network enhancements on revenues was not significant in 2002.

Tower leases added $2.1 million to wireless revenues, an increase of $0.4 million or 24.5%. The increase was the result of other wireless carriers executing additional leases to use space on the Company's portfolio of towers. Of the 82 towers and poles owned by the Company as of December 31, 2002, 46 have tower space leased to other carriers.

Wireless revenues from the Company's paging operation were $0.3 million, a decrease of $0.1 million as the local customer base increasingly chose alternative digital wireless services. Paging service subscribers declined by 7.8% in 2002 from 3,190 subscribers to 2,940 subscribers.

Within wireline revenues, the Telephone operation contributed $22.5 million, an increase of $0.9 million, or 4.0%. Telephone access revenues were $10.9 million, an increase of $1.4 million or 14.8%. The growth in access revenues was driven by a 38.4% increase in access minutes of use on the Company's network and an increased percentage of minutes in the intrastate jurisdiction, where rates are higher than the interstate jurisdiction. On January 1, 2002 the Federal subscriber line charge (SLC) for residential customers increased from $3.50 to $5.00 per month. The SLC increased again on July 1, 2002 to $6.50, and comparable rate increases also impacted business subscribers. Tied to the SLC rate increases were declines in rates charged to interexchange carriers for interstate minutes of use. The 2002 results reflect a significantly larger increase in network usage, which more than offset the decline in rates.

Facility lease revenue contributed $5.7 million to wireline revenues, a decrease of $0.8 million or 12.6% from 2001. The decrease was primarily the result of declining lease rates associated with competitive pricing pressure, and the economic downturn in the telecommunications industry.

Billing and collection services contributed $0.4 million to wireline revenues, which was the same as 2001 results. Revenues from this service had declined in recent years, with interexchange carriers now issuing a greater proportion of their bills directly to their customers.

Wireline revenues from cable television services were $4.3 million, an increase of $0.5 million or 14.5%. In December 2001, the Company increased its basic service charge by $6.00 per month, which produced $0.3 million of the increase in cable television revenue. The remaining $0.2 million was generated by an increased penetration of digital services and increased pay per view sales.

Within other revenues, Internet and 511Virginia contract revenues from the Virginia Department of Transportation, were $5.1 million in 2002, an increase of $1.2 million or 30.4%. The Company had 18,050 dial-up Internet subscribers at December 31, 2002, compared to 17,423 subscribers at the end of 2001. Total Internet service revenue was $4.2 million, an increase of $0.6 million or 15.7%. Services provided under the 511Virginia contract contributed $0.9 million to other revenues, an increase of $0.6 million. Telecommunications equipment sales, services and lease revenues were $1.2 million, a nominal increase over 2001 results.

Total operating expenses were $83.6 million, an increase of $21.3 million or 34.3%. The continued growth in the PCS operation was principally responsible for the change.

Cost of goods and services was $10.5 million, an increase of $3.1 million or 41.8%. The PCS cost of goods sold was $8.3 million, an increase of $2.8 million or 50.2%. This change is due primarily to higher volumes of handsets sold through Company owned stores and PCS handset subsidies paid to third-party retailers. The cable television programming (cost of service) expense was $1.4 million, an increase of $0.1 million or 4.6%. The other cost of goods sold increased $0.3 million, compared to the same period in 2001.

Network operating costs were $32.5 million, an increase of $5.8 million or 21.5%. Line and switching costs were $9.7 million, an increase of $2.6 million or 37.4%, due principally to the impact of the expanded PCS network. Travel expense, generated by the Company's PCS subscribers' use of minutes on other providers' portions of the Sprint wireless network, was $10.7 million, an increase of $0.9 million or 8.4%. The increase in customer travel usage more than offset the travel rate explained above in travel revenue. Plant specific costs were $9.6 million, which include the operation, and maintenance of the networks increased $2.3 million or 30.7%. Tower, building, and land rentals, as well as PCS equipment maintenance, were major contributors to the increase in plant specific expenses. Other network costs such as power, network administration, and engineering, were $2.7 million, the same as in 2001.

Depreciation and amortization expense was $14.5 million, an increase of $3.2 million or 28.6%. The PCS operation had depreciation expense of $8.6 million, an increase of $3.6 million or 72.7%. The PCS operation added 53 additional base stations during 2002.

Selling, general and administrative expenses were $26.1 million, an increase of $9.3 million or 55.0%. Customer support costs were $7.8 million, an increase of $2.8 million or 55.3%. The growth in Sprint wireless subscribers was the primary driver for this increase. Advertising expense was $4.3 million, an increase of $1.5 million or 55.8%. This change was primarily due to the stepped-up and ongoing marketing efforts to support the PCS operations in the Quad State market and particularly the Central Penn market. PCS sales staff expenses were $2.7 million, an increase of $0.7 million or 32.7%. The increase was principally due to the full year operations of the three retail locations and adding additional sales staff.

The Company experienced significant bad debt losses in its PCS operations related to the Sprint Clear Pay^{sm} program. The program was initially targeted at customers in sub-prime credit classes and did not require a deposit upon activation of service. As a result of default rates that exceeded projections, the Company experienced a substantial increase in bad debt expense, which rose from $1.2 million in 2001 to $4.4 million in 2002. The reinstatement of deposit requirements in April 2002 caused some moderation in bad debt expense by the end of the year. Total PCS bade debt expense for 2002 was $3.7 million of this expense is associated with several large telecommunications customers who filed bankruptcies in 2002.

Operating income grew to $9.3 million, an increase of $2.9 million or 45.4%. Revenue growth, primarily in the PCS operation, was greater than the increase in operating expense, and the overall operating margin was 10.0%, compared to 9.4% in 2001. The elevated bad debt expense in the PCS and telephone operations had a dampening effect on the operating margin improvement.

Other income (expense) is comprised of non-operating income and expenses, interest expense and gain or loss on investments. Collectively, the net impact of these items to pre-tax income was an expense of $14.3 million for 2002, compared to income of $9.1 million from 2001. The largest component was the loss on investments that is discussed below.

Interest expense was $4.2 million, an increase of $0.1 million or 1.4%. The Company's average debt outstanding was approximately the same during 2002 as compared to the previous year.

Net losses on investments were $10.0 million, compared to a gain of $12.9 million from 2001. Results in 2002 include the sale of the VeriSign, Inc. stock for a loss of $9.0 million compared to a gain recorded on the VeriSign stock of $12.7 million in 2001.

Non-operating income was a loss of $0.1 million, a decrease of $0.3 million, primarily due to losses recorded for the Company's portfolio of investments, offset by an increase in patronage equity earned from CoBank, the Company's primary lender.

Income (loss) from continuing operations before taxes was a $5.0 million loss compared to a profit of $15.5 million in 2001, a decrease of $20.5 million. Gains and losses on external investments contributed $21.7 million to this change from 2002 to 2001.

The Company recognized an income tax benefit of $2.1 million on continuing operations in 2002, which is an effective tax rate of 42.2% due to the impact of net operating loss carry forwards generated in several states with higher tax rates, offset by the need for a valuation allowance.

Net loss from continuing operations was $2.9 million, a decrease of $12.6 million from 2001. The results are primarily made up of the one-time impact of the losses on the sale of the VeriSign stock and the improvement in operating income.

Income from discontinued operations was $7.4 million after taxes, an increase of $0.7 million or 11%. Increased revenues from use of our cellular network by customers of other wireless providers were the main cause for the increase in net income.

Net income was $4.5 million, a decrease of $11.9 million or 72.4%. The decrease is primarily the result of the $21.7 million decline in investment results due to the impact of the VeriSign gain recorded in 2001, and the loss on the sale of the VeriSign stock in 2002.

Investments in Non-Affiliated Companies

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

The fair value of the Company's available-for-sale securities was $0.2 million at the end of 2003, compared to $0.2 million at the end of 2002. The Company's available-for-sale portfolio at December 31, 2003 is made up of two investments, both of which are within the telecommunications industry. Due to the volatility of the securities markets, particularly in the telecommunications industry, there is uncertainty about the ultimate value the Company will realize with respect to these investments in the future.

The Company participates in emerging technologies by investing in entities that invest in start-up companies. This includes indirect participation through capital venture funds of South Atlantic Venture Fund III, South Atlantic Private Equity IV, Dolphin Communications Parallel Fund, Dolphin Communications Fund II and the Burton Partnership. The Company also participates by direct investment in privately held companies. Currently the Company's only direct investment is in NTC Communications, a provider of voice, video and data connections to off campus housing properties at universities and colleges. For those companies that eventually make public offerings of their securities, it is the intent of the Company to evaluate whether to hold or sell parts or all of each investment on an individual basis. At December 31, 2003, the Company had external investments totaling $7.5 million.

In 2004, the Company anticipates taking advantage of a conversion feature on its Rural Telephone Bank stock. The Company will convert a portion of its holdings into a different class of stock that will pay cash dividends each year. The bank declares a dividend rate that varies, each year. The range of the dividend has been between 4.2% and 5.65% over the last 5 years. The rate in the two most recent years was 4.2%. This transaction is estimated to provide the Company with approximately $0.3 million in dividend income each year, based on the 2003 dividend rate of 4.2% and assuming we had converted the stock at the beginning of 2003.

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.

During the 2003 year, with the closing of the sale of the Virginia 10 RSA Limited partnership interest, the Company evaluated its capital requirements, and as a result eliminated its $20.0 million revolving line of credit with CoBank in May 2003. The Company had paid off the outstanding balance in early 2003, and did not borrow on it during the remaining time the facility was in place. In light of the $27.9 million balance in cash equivalent investments, management determined additional debt capacity is not necessary for the near-term.

The term debt loan agreements with CoBank have three financial covenants. These are measured on a trailing 12-month basis and are calculated on continuing operations. The first of the covenants is the total leverage ratio, which is total debt to operating cash flow. This ratio must remain below 3.5, and as of December 31, 2003 it was 1.2. The second measure is equity to total assets, which must be 35% or higher. At December 31, 2003 the ratio was 57.3%. The third measure is the debt service coverage ratio, which is operating cash flow to scheduled debt service, which must exceed 2.0. At December 31, 2003 this measure was 4.3. Management believes the Company will meet these covenant measures for the coming year. The Company has pledged all of its affiliates capital stock as collateral for the CoBank loans.

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

Another external source of funding is a $0.5 million unsecured, variable rate revolving line of credit with SunTrust Bank. This facility is in place to allow the Company to better manage its daily cash balances. The facility expires May 31, 2004. Management anticipates renewing this facility with SunTrust Bank under similar terms and conditions. At December 31, 2003 there were no balances outstanding under this facility.

Due to make-whole provisions in the Company's debt agreements it is currently uneconomical for the Company to prepay any debt.

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 30, 2003, are as follows:

Payments due by periods (unaudited) (in thousands)	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Long-term debt principal	$ 43,346	$ 4,230	$ 8,898	$ 9,552	$ 20,666
Interest on long –term debt	15,429	3,019	5,099	3,778	3,533
Operating leases	12,592	3,216	4,616	2,229	2,531
Capital calls on investments	1,790	-	1,790	-	-
Purchase obligations	98	98	-	-	-
Total obligations	$ 73,255	$10,563	$ 20,403	$15,559	$ 26,730

The $5.0 million placed in escrow, as part of the sales agreement on the Virginia 10 RSA limited partnership, should be released after February 28, 2005. There are no known claims that have been filed against the amount in escrow.

The Company spent $12.5 million on capital projects in 2003, or about $7.0 million below what was budgeted for the year. The variance was primarily due to postponing construction of an additional diverse fiber route and the delay of the second phase of renovations on the Shentel Center in Edinburg, Virginia.

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

Capital expenditures budgeted for 2004 total approximately $30 million, including approximately $20 million for additional PCS base stations, additional towers, and switch upgrades to enhance the PCS network. Improvements and replacements of approximately $5 million are planned for the telephone operation. The remaining $5 million covers building renovations, vehicles, office equipment, and other miscellaneous capital needs.

The Company anticipates using funds from operations, to the extent they are available to fund the capital expenditures and the payment of debt and interest. Due to lower than expected tax expenses in 2003, the Company will apply the tax receivable to the 2004-year tax liability. It is anticipated by no later than second quarter of 2004, additional federal tax payments will be due based on anticipated profits expected to be generated in the operation.

Management anticipates its operations will generate similar operating cash flows in 2004, compared to those of continuing operations in 2003, although there are events outside the control of the Company that could have an adverse impact on cash flows from operations. The events that could adversely impact operating cash flow results include, but are not limited to; changes in overall economic conditions, regulatory requirements, changes in technologies, availability of labor resources and capital, and other conditions. The PCS subsidiary's operations are dependent upon Sprint's ability to execute certain functions such as billing, customer care, and collections; their ability to develop and implement successful marketing programs and new products and services; and their ability to effectively and economically manage other operating activities under the Company's agreements with Sprint. Additionally, the Company's ability to attract and maintain a sufficient customer base is critical to maintaining a positive cash flow from operations. These items individually and/or collectively could impact the Company's results.

The Company expects to generate adequate cash to meet its short-term and long-term cash needs, including working capital requirements, capital projects and debt payments, and to fund potential dividend payments from cash on hand, operating cash flow, and amounts expected to be available under the Company's existing financing facilities and its anticipated financing facilities discussed above. The Company may, at its election, liquidate some of its investments to generate additional cash for its capital needs as market conditions allow.

Recently Issued Accounting Standards

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

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

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

RISKS

The Company is one of eleven PCS Affiliates of Sprint, and accordingly, is impacted by decisions and requirements adopted by Sprint in regard to its wireless operation. Management continually reviews its relationship with Sprint as new developments and requirements are added. Note 7 to the accompanying consolidated financial statements contains a detailed description of the significant contractual relationship.

The Company is dependent on Sprint for the reporting of a significant majority of PCS revenues, particularly travel and service revenue. Controls and processes are continually refined, so the Company can monitor, review, test, and validate information being reported to the Company by Sprint. It is the Company's policy to estimate and reflect the information supplied by Sprint in the financial statements in the respective periods. Corrections, if any, are made no earlier than the period in which the parties agree to the corrections and as noted in these financial statements, there are several dispute settlements, true-ups of estimates and corrections which are recorded in the period the issue has been resolved. The Company is at risk for reporting errors that may be made by Sprint.

The net balance of PCS travel revenue and expense could change significantly due to changes in service plan offerings, changes in the travel settlement rate, changes in travel habits by the subscribers in the Company's market areas or other Sprint subscribers and numerous other factors beyond the Company's control. The Company is continuing to monitor the financial strength of the other PCS Affiliates of Sprint, as to their ability to maintain their segment of the Sprint network may impact the ability of the Company to add new subscribers. Two other Sprint PCS Affiliates are currently operating under bankruptcy protection.

Wireless Local Number Portability (WLNP) permits a subscriber to change wireless service providers in the same market area while retaining their existing telephone number. This Federal Communications Commission mandate was effective November 24, 2003 in the 100 largest metropolitan areas and will be effective in all areas of the United States on May 24, 2004. Although the initial impact of WLNP appears to be insignificant, there may be a significant future impact to the Company's operation. As a result of WLNP, portions of the PCS subscriber base may migrate to other wireless providers, thereby contributing to increased churn. Alternatively, the implementation of WLNP may allow the Company to attract additional subscribers from other wireless providers.

The Company has limited control over the service plans and marketing promotions offered to Sprint customers in the competitive wireless telecommunications industry. Sprint controls the marketing plans, advertising message and market promotions offered in the Company's market area. As a result, the plans and promotions offered may have a material adverse effect on the Company's results of operations.

The Company relies on Sprint for the development of new products and services to remain competitive in the wireless industry. Examples of these services are text messaging, video, and push to talk walkie-talkie features. If these services do not work properly or if Sprint should not continue to develop new competitive products, the results could have a material adverse impact on the results of the Company.

The Company is required to participate in national and regional third party distribution programs formulated and negotiated by Sprint. Sprint has entered into reseller agreements which may impact the Company. These distribution and reseller programs may have an adverse effect on the results of the Company.

The Company's PCS network is part of Sprint's nationwide wireless network. The network is owned and operated by Sprint and its Affiliates. The financial viability of Sprint and its Affiliates is critical to the success of operating and marketing Sprint PCS. If financial difficulties are experienced by Sprint or any Affiliate, it could have an adverse impact on the Company's results.

The current competitive nature of the wireless industry may prompt major wireless providers to strive for financial improvements through industry consolidation. Such consolidation could include Sprint. It is not clear to what extent consolidation may occur or which companies will be involved, but certain consolidation transactions may have an adverse impact on the operating results and valuation of the Company's wireless operations.

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

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

On May 24, 2004, Local Number Portability (LNP) will be required in the Company's local wireline service area. The Company's customers will be able to retain their existing wireline phone number and use it to obtain service from a competing wireline or wireless provider in the service area. At this time, the Company cannot estimate the potential impact on its telephone operations. If a significant number of customers disconnect the Company's service, it will have an adverse impact on the Company's telephone operating results.

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

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

The Company currently has a 12-month, $1.2 million contract with the Virginia Department of Transportation (VDOT) to provide 511 Travel services in the I-81 corridor of Virginia. This contract expires in February 2005. VDOT has recently requested a proposal for a three-year contract with two two-year extensions to extend 511 services to the entire state. Although the Company plans to submit a proposal for the new VDOT contract, there is no certainty that the Company will be selected to provide these services after the end of its current contract.

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

Market Risk

The Company's market risks relate primarily to changes in interest rates on instruments held for other than trading purposes. Our interest rate risk involves three components, although only one is of any significance at this time. The first component is outstanding debt with variable rates. As of December 31, 2003, the Company's variable rate debt balance was zero. The Company has a variable rate line of credit totaling $0.5 million with SunTrust Banks. The Company's remaining debt has fixed rates through its maturity. A 10.0% decline in interest rates would increase the fair value of the fixed rate debt by approximately $1.1 million, while the estimated current fair value of the fixed rate debt is approximately $42.6 million.

The second component of interest rate risk is temporary excess cash, primarily invested in overnight repurchase agreements and short-term certificates of deposit and money market funds. The Company currently has approximately $27.9 million of cash equivalents in money market funds, which are earning rates of approximately 1% per year. The cash is currently 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 which may adversely impact the rate at which the Company may borrow funds for growth in the future. Although this risk is real, it is not significant at this time as the Company has adequate 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 impacted if interest rates were to escalate markedly and the company required external financing. Since the Company does not currently have significant investments in publicly traded stock, currently there is limited risk related to the Company's available for sale securities. General economic conditions impacted by regulatory changes, competition or other external influences may play a higher risk to the Company's overall results.

As of December 31, 2003, the Company has $7.3 million invested in privately held companies directly or through investments with portfolio managers. Most of the companies are early stage 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 $1.8 million committed under contracts the Company has signed with portfolio managers.

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms, and that such information is accumulated and communicated to management including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, December 31, 2003 (the "Evaluation Date"), we carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date.

Under our agreements with Sprint, Sprint provides us with billing, collections, customer care, certain network operations and other back office services. As a result, Sprint remits to the Company approximately 61% of the Company's total revenues. In addition, approximately 42% of the expenses reflected in the Company's consolidated financial statements relate to charges by or through Sprint for expenses such as billing, collections and customer care, roaming expense, long-distance, and travel. Due to this relationship, the Company necessarily relies on Sprint to provide accurate, timely and sufficient data and information to properly record our revenues, expenses and accounts receivable, which underlie a substantial portion of our periodic financial statements and other financial disclosures.

Information provided by Sprint includes reports regarding the subscriber accounts receivable in our markets. Sprint provides us monthly accounts receivable, billing and cash receipts information on a market level, rather than a subscriber level. We review these various reports to identify discrepancies or errors. However, under our agreements with Sprint, we are entitled to only a portion of the receipts, net of items such as taxes, government surcharges, certain allocable write-offs and the 8% of revenue retained by Sprint. Because of our reliance on Sprint for financial information, we must depend on Sprint to design adequate internal controls with respect to the processes established to provide this data and information to the Company and Sprint's other network partners. To address this issue, Sprint engages its independent auditors to perform a periodic evaluation of these controls and to provide a "Report on Controls Placed in Operation and Tests of Operating Effectiveness for Affiliates" under guidance provided in Statement of Auditing Standards No. 70 ("SAS 70 reports"). The report is provided to us annually and covers a twelve-month period from October 1, 2002 to September 30, 2003. This report did not indicate there were issues which would adversely impact the information used to support the recording of the revenues and expenses provided by Sprint related to our relationship with them.

We believe the processes we have put into place over the course of the year have steadily improved our ability to identify material errors in Sprint financial information on a timely basis. As a result of the improved processes and procedures we are continuing to develop and define, the Company is committed to monitor and evaluate the effectiveness of its improvements in controls related to information provided by Sprint and to continue to improve these processes.

In preparation for the requirements imposed under Section 404 of the Sarbanes-Oxley Act of 2002, we have retained an outside consulting firm to assist us in reviewing and documenting our internal control processes.

OUR BUSINESS

Shenandoah Telecommunications Company is a diversified telecommunications holding company which provides various 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) and a tower network in the four-state region from Harrisonburg, Virginia to the Harrisburg, York and Altoona, Pennsylvania markets.

ANNUAL MEETING

The Board of Directors extends an invitation to all shareholders to attend the Annual Meeting of Shareholders. The meeting will be held at 11:00 AM (EST) on April 20, 2004 in the Auditorium of the Company's offices at the Shentel Center, 500 Mill Road, Edinburg, Virginia.

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 website, www.shentel.com. This website 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, 124 South Main Street, 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 closing prices per share of common stock as reported by the NASDAQ National Market for the last two years is set forth below:

	2003				2002			
	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4	Qtr. 1	Qtr. 2	Qtr. 3	Qtr. 4
High price	$ 24.31	$ 24.98	$ 25.48	$ 27.50	$ 20.06	$ 27.25	$ 27.25	$ 25.95
Low price	$ 13.64	$ 14.33	$ 19.25	$19.74	$ 16.50	$19.69	$22.75	$ 21.61

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

The Company historically has paid an annual cash dividend on or about December 1st of each year. The cash dividend per share was $0.39 in 2003 and $0.37 in 2002. 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 February 15, 2004, there were approximately 3,930 holders of record of the Company's common stock.

CORPORATE HEADQUARTERS

Shenandoah Telecommunications Company
124 South Main Street
Edinburg, VA 22824

INDEPENDENT AUDITOR

KPMG LLP
1021 East Cary Street
Richmond, VA 23219

SHAREHOLDERS' QUESTIONS AND STOCK TRANSFERS

CALL (540) 984-5200
Transfer Agent - Common Stock
Shenandoah Telecommunications Company
P.O. Box 459
Edinburg, VA 22824

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

SHENTEL

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

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

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The front cover of the annual report is adapted from the Company's 2004 Telephone Directory.