

SHENANDOAH TELECOMMUNICATIONS CO/VA/  
Form 10-K  
March 13, 2008

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UNITED STATES OF AMERICA  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549  
FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 000-09881

SHENANDOAH TELECOMMUNICATIONS COMPANY  
(Exact name of registrant as specified in its charter)

VIRGINIA  
(State or other jurisdiction of  
incorporation or organization)

54-1162807  
(I.R.S. Employer Identification No.)

500 Shentel Way, Edinburg, Virginia  
(Address of principal executive offices)

22824  
(Zip Code)

(540) 984-4141  
(Registrant's telephone number, including area code)

Not Applicable  
(Former name, former address and former fiscal year, if changed since last report)

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Securities registered pursuant to Section 12(b) of the Act:

Common Stock (No Par Value)  
(Title of Class)

NASDAQ Global Select Market  
(Name of Exchange on which Registered)

Securities Registered Pursuant to Section 12(g) of the Act:

None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant at June 30, 2007 based on the closing price of such stock on the Nasdaq Global Select Market on such date, was approximately \$374,000,000.

The number of shares of the registrant's common stock outstanding on February 28, 2008 was 23,529,910.

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DOCUMENTS INCORPORATED BY REFERENCE

Portions of the following documents are incorporated by reference in this Form 10-K as indicated herein:

<b>Document</b>	<b>Part of Form 10-K into which incorporated</b>
Proxy Statement relating to Registrant's 2008 Annual Meeting of Shareholders	Part III

SHENANDOAH TELECOMMUNICATIONS COMPANY  
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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This report includes “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. The words “may,” “will,” “anticipate,” “estimate,” “expect,” “intend,” “plan,” “continue” and similar expressions as they appear to us or our management are intended to identify these forward-looking statements. All statements by us regarding our expected financial position, revenues, cash flow and other operating results, business strategy, financing plans, forecasted trends related to the markets in which we operate and similar matters are forward-looking statements. Our expectations expressed or implied in these forward-looking statements may not turn out to be correct. Our results could be materially different from our expectations because of various risks, including the risks discussed in this report under “Business-Recent Developments” and “Risk Factors.”

**PART I**

*Some of the information contained in this report concerning the markets and industry in which we operate is derived from publicly available information and from industry sources. Although we believe that this publicly available information and the information provided by these industry sources are reliable, we have not independently verified the accuracy of any of this information.*

*Unless we indicate otherwise, references in this report to “we,” “us,” “our” and “the Company” means Shenandoah Telecommunications Company and its subsidiaries.*

**ITEM 1. BUSINESS**

**Overview**

Shenandoah Telecommunications Company is a diversified telecommunications holding company that, through its operating subsidiaries, provides both regulated and unregulated telecommunications services to end-user customers and other communications providers in the southeastern United States. The Company offers a comprehensive suite of voice, video and data communications services based on the products and services provided by the Company’s operating subsidiaries.

The Company’s primary market area historically has been the northern Shenandoah Valley of Virginia and surrounding areas. This market area includes parts of Virginia ranging from Harrisonburg in the south to Winchester in the north.

Pursuant to a management agreement with Sprint Nextel Communications, Inc., and its related parties, (which we refer to collectively as “Sprint Nextel”) the Company is the exclusive personal communications service (“PCS”) Affiliate of Sprint Nextel providing mobility communications network products and services in the 1900 megahertz spectrum range in the four-state area extending from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company operates its PCS network under the Sprint Nextel radio spectrum license and Sprint brand. The Company also holds paging radio telecommunications licenses.

Following its acquisition of NTC Communications LLC (“NTC”) in November 2004, the Company provides high speed Internet, video and local and long distance voice services to multi-dwelling unit (“MDU”) communities (primarily off-campus student housing) in Virginia, Maryland, North Carolina, South Carolina, Georgia, Florida, Tennessee, Mississippi and Delaware. NTC was merged into Shentel Converged Services as of January 1, 2007, although the Company continues to use the NTC brand at properties that cater to students. At December 31, 2007, Converged Services served 112 MDU housing complexes.

The Company offers many of its services over its own fiber optic network of approximately 647 miles at December 31, 2007. The main lines of the network follow the Interstate 81 corridor to the Pennsylvania state line and the Interstate 66 corridor in the northwestern part of Virginia. Secondary routes provide alternative routing in the event of an outage. In addition to its own fiber network, the Company through its telephone subsidiary has a 20 percent ownership in Valley Network Partnership (“ValleyNet”), which is a partnership offering fiber network facility capacity in western, central, and northern Virginia, as well as the Interstate 81 corridor from Johnson City, Tennessee to Carlisle, Pennsylvania.

The Company's subsidiaries are certified to offer competitive local exchange services throughout West Virginia and North Carolina, and in Virginia outside of its present telephone service area.

### **Recent Developments**

#### Changes to the Affiliate's Agreements with Sprint Nextel

The Company's PCS subsidiary is one of three companies referred to as the "Sprint PCS Affiliates," which had entered into substantially similar management and affiliation agreements with Sprint Communications Company L.P.

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

- Amend, as of January 1, 2007, the existing management and services agreements with Sprint Nextel to further simplify the methods used to settle revenue and expenses between the Company and Sprint Nextel;
- Transfer, effective in May 2007, all Sprint Nextel operated Nextel store locations within the Company's PCS service area to the Company's PCS Subsidiary. The Company began selling Sprint Nextel iDEN (Integrated Digital Enhanced Network) phones and providing local customer service support for Sprint Nextel iDEN customers in the Company's service area;
- Provide the Company and Sprint Nextel with the right under certain circumstances and subject to agreement on appropriate terms to participate in future wireless service offerings within the Company's PCS service area; and
- Settle all outstanding claims arising out of the merger of Sprint Corporation and Nextel Communications, Inc. and the subsequent acquisition by Sprint Nextel of Nextel Partners, Inc.

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

In 2006, the Company paid Sprint Nextel approximately \$12.5 million in such fees, received approximately \$34.0 million in travel, wholesale and roaming revenue, and paid approximately \$29.2 million in travel and related expenses, resulting in a net charge to operating income of approximately \$7.7 million. In lieu of such fees and the settling of revenues and expenses for use on each other's networks, the Company pays Sprint Nextel a Net Service Fee equal to 8.8% of billed revenue (net of customer credits, account write offs and other billing adjustments). Had this Net Service Fee been applied to 2006 billed revenue, the charge would have been approximately \$7.0 million. This 8.8% Net Service Fee is in addition to the 8% of billed revenue (net of customer credits, account write offs and other billing adjustments) currently retained by Sprint Nextel under the existing management agreement (the "Management Fee"). The Net Service Fee was designed to approximate the prior settlements adjusted to reflect

new pricing for travel and CCPU (cash cost per user) and CPGA (cost per gross activation). The Net Service Fee was also net of the expected annual cost to provide local customer service support to Sprint Nextel iDEN customers in our local service area.

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

### **Operating Segments**

The Company provides integrated voice, video and data communications services to end-user customers and other communications providers. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The Company has six reportable segments, which the Company operates and manages as strategic business units organized geographically and by lines of business: (1) PCS, (2) Telephone, (3) Converged Services, (4) Mobile, (5) Cable TV and (6) Other.

### **PCS Segment**

The business of the PCS segment is conducted by the Company's Shenandoah Personal Communications Company subsidiary. As a PCS Affiliate of Sprint Nextel Corporation ("Sprint Nextel"), this subsidiary provides digital wireless service to a portion of a four-state area covering the region from Harrisburg, York and Altoona, Pennsylvania, to Harrisonburg, Virginia.

PCS has offered personal communications services through a digital wireless telephone and data network since 1995. In 1999, this subsidiary executed a management agreement with Sprint Nextel. The network, which utilizes code division multiple access, or CDMA, currently covers 269 miles of Interstates 81 and 83, and a 177 mile section of the Pennsylvania Turnpike between Pittsburgh and Philadelphia. Under its agreements with Sprint Nextel, the Company is the exclusive PCS Affiliate of Sprint Nextel in the Company's territory, providing wireless mobility communications network products and services in the 1900 megahertz spectrum range. The Company had approximately 187,303 retail PCS customers at December 31, 2007, an increase of 22.0% compared to December 31, 2006. Of the Company's total operating revenues, 61.8% in 2007, 68.2% in 2006 and 64.5% in 2005 were generated by or through Sprint Nextel and its customers using the Company's portion of Sprint Nextel's nationwide PCS network. No other customer relationship generated more than 2.5% of the Company's total operating revenues in 2007, 2006 or 2005.

Under the Sprint Nextel agreements, Sprint Nextel provides the Company significant support services, such as customer service, billing, collections, long distance, national network operations support, inventory logistics support, use of the Sprint Nextel brand



names, national advertising, national distribution and product development. Prior to January 1, 2007, the Company also derived substantial travel revenue and incurred substantial travel expenses when subscribers of Sprint Nextel and Sprint Nextel's PCS Affiliate partners incurred minutes of use in the Company's territory and when the Company's subscribers incur minutes of use in territories of Sprint Nextel and Sprint Nextel's PCS Affiliate partners. As a result of the 2007 Amendments, all such settlements were eliminated as of January 1, 2007.

Sprint Nextel provides back-office and other services, including travel clearing-house functions, to the Company. Prior to January 1, 2007, the Company paid monthly fees to Sprint Nextel for these services for each current subscriber and for each added subscriber. As a result of the 2007 Amendments, these fees have been eliminated. Instead, the Company now pays Sprint Nextel a Net Service Fee of 8.8% of billed revenue (net of customer credits, account write-offs and other billing adjustments). The Net Service Fee may be adjusted under certain circumstances arising from changes in (i) travel ratios and wholesale usage and (ii) Sprint's cost of providing services under the Sprint Nextel Agreements.

The Company records its PCS revenues, with the exception of certain roaming and equipment sales revenues, based on the net PCS revenues billed by Sprint Nextel, net of the 8% Management Fee and 8.8% Net Service Fee retained by Sprint Nextel. Net PCS revenues billed by Sprint Nextel consist of gross monthly recurring charges for service, net of both recurring and non-recurring customer credits, account write offs and other billing adjustments. In the computation of advance billing deferred revenue, neither the Management Fee or the Net Service Fee are deferred.

The Sprint Nextel agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all material respects with these requirements as of December 31, 2007.

Additional information regarding the Company's agreements with Sprint Nextel is set forth in Note 7 of the Company's consolidated financial statements and related notes thereto appearing elsewhere in this report.

### **Telephone Segment**

The business of the Company's Telephone segment is conducted by its Shenandoah Telephone Company subsidiary. This subsidiary provides both regulated and unregulated telephone services and leases fiber optic facilities primarily throughout the Northern Shenandoah Valley.

This subsidiary provides both regulated and non-regulated telephone services to approximately 24,536 customers as of December 31, 2007, primarily in Shenandoah County and small service areas in Rockingham, Frederick, and Warren counties in Virginia. The subsidiary provides access for inter-exchange carriers to the local exchange network. This subsidiary has a 20 percent ownership interest in ValleyNet, which offers fiber network facility capacity to other communications providers in western, central, and northern Virginia, as well as the Interstate 81 corridor from Johnson City, Tennessee to Carlisle, Pennsylvania.

### **Converged Services Segment**

The business of the Converged Services segment is conducted by the Company's Shentel Converged Services, Inc., subsidiary. This subsidiary provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to MDU communities (primarily off-campus college student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee, Mississippi and Delaware.

This subsidiary provides bundles of high speed Internet, video and local and long distance voice services under the Shentel and NTC brands to MDU residential communities throughout the southeastern United States outside of Shenandoah County. Services to MDU residential communities which cater to students are provided under the NTC brand, while the Shentel brand is used for non-student MDU properties.

On March 14, 2007, the Company entered into a 20 year agreement to provide voice, video and internet service to a new 550 unit planned community of single family homes, townhomes and apartments known as Preston Lake and located in Rockingham County, Virginia. While the new community will be built over several years, the first homes are expected to be completed in 2008.

### **Mobile Segment**

Through the Company's Shenandoah Mobile Company subsidiary, the Mobile segment provides tower rental space to affiliates and non-affiliates in the Company's PCS markets.

This subsidiary owns towers and leases tower space in the PCS service territory in Virginia, West Virginia, Maryland and Pennsylvania to Shenandoah Personal Communications Company and other wireless communications providers. This subsidiary provides paging service throughout the Virginia portion of the northern Shenandoah Valley.

### **Cable Television Segment**

The business of the Company's Cable Television segment is conducted by its Shentel Cable Television Company subsidiary. This subsidiary provides cable television services throughout portions of Shenandoah County, Virginia, under franchise agreements with the County and the incorporated municipalities within the County.

This subsidiary provides coaxial cable-based television service to approximately 8,303 customers in Shenandoah County at December 31, 2007. The system is a one-way 750 megahertz hybrid fiber coaxial network. Beginning in January 2007, Shenandoah Cable initiated high definition television (HD-TV) service with an initial offering of 16 HD-TV channels. Shenandoah Cable currently offers 73 channels of analog, 157 channels of digital and 21 channels of HD-TV programming along with 8 Pay Per View channels and a special package of Spanish language programming.

**Other Segment**

The Other segment includes the following entities: Shenandoah Telecommunications Company, ShenTel Service Company, Shenandoah Network Company, Shenandoah Long Distance Company, ShenTel Communications Company, Shentel Wireless Company and Converged Services of West Virginia.

Shenandoah Telecommunications Company

The operations of the Company including its investing and management activities.

ShenTel Service Company

ShenTel Service Company sells and services telecommunications equipment and provides information services and Internet access to customers in the northern Shenandoah Valley and surrounding areas. The Internet service has approximately 7,547 dial-up customers and 8,136 digital subscriber line, or DSL, customers at December 31, 2007. Since 2005, DSL has been available to all customers in the Company's regulated telephone service area. Many of the Company's dial-up customers are located outside the Company's regulated telephone service area where the Company does not provide DSL service.

Shenandoah Network Company

This subsidiary owns and operates the Maryland and West Virginia portions of a fiber optic network along the Interstate 81 corridor. In conjunction with the telephone subsidiary, Shenandoah Network Company is associated with the ValleyNet fiber optic network.

Shenandoah Long Distance Company

Shenandoah Long Distance Company offers resale of long distance service for calls placed to locations outside the regulated telephone service area by telephone customers. This operation purchases billing and collection services from the telephone company subsidiary similar to other long distance providers. In addition, this subsidiary markets facility leases of fiber optic capacity, owned by Shenandoah Network Company and Shenandoah Telephone Company, in surrounding counties and into Herndon, Virginia. This subsidiary had approximately 10,689 customers at December 31, 2007.

ShenTel Communications Company

This subsidiary is certified as a CLEC in Virginia and currently provides DSL service in Front Royal, Virginia. As of December 31, 2007, there were minimal subscribers receiving service from this subsidiary.

Converged Services of West Virginia

This subsidiary was certified during 2006 as a CLEC in West Virginia and has a cable television franchise with the City of Ranson, West Virginia. It was established to provide voice, cable television and high speed data services to planned communities and MDU properties. Due to the downturn in the residential housing market, no projects are active at this time. The Company continues to pursue projects of this type.

## Shentel Wireless Company

Shentel Wireless Company was formerly known as Shenandoah Valley Leasing Company. Through this subsidiary, the Company acquired the assets and contracts of Broadband Metro on August 31, 2005. During 2006, the Company terminated all but one of the contracts acquired from Broadband Metro. That contract was transferred to Converged Services, and Shentel Wireless ceased operations effective November 30, 2006.

Additional information concerning the Company's operating segments is set forth in Note 15 of the Company's consolidated financial statements appearing elsewhere in this report.

## Competition

The communications industry is highly competitive. We compete primarily on the basis of the price, availability, reliability, variety and quality of our offerings and on the quality of our customer service. Our ability to compete effectively depends on our ability to maintain high-quality services at prices generally equal to or below those charged by our competitors. In particular, price competition in the integrated communications services markets generally has been intense and is expected to increase. Our competitors include, among others, larger providers such as AT&T Corp., Verizon, and various competitive carriers, including in some regions cable operators that provide voice and high-speed internet access services. The larger providers have substantially greater infrastructure, financial, personnel, technical, marketing and other resources, larger numbers of established customers and more prominent name recognition than the Company. We also increasingly face competition from businesses offering long distance data and voice services over the Internet. These businesses could enjoy a significant cost advantage because currently they generally do not pay carrier access charges or universal service fees.

In some markets, we compete in the provision of local services against the incumbent local telephone company. Incumbent carriers enjoy substantial competitive advantages arising from their historical monopoly position in the local telephone market, including pre-existing customer relationships with all or virtually all end-users. Wireless communications providers and cable operators also are competing with wireline local telephone service providers, which further increases competition.

Competition is intense in the wireless communications industry. Competition has caused, and we anticipate that competition will continue to cause, the market prices for two-way wireless products and services to decline in the future. Many wireless providers have upgraded, or are in the process of upgrading, their wireless services to accommodate real-time and downloadable audio and video content as well as Internet browsing capabilities and other services. Some local governments are deploying Wi-Fi networks within their jurisdictional boundaries to support wireless Internet access at a fixed monthly cost, or in some cases no charge, to consumers. In addition, the FCC has been conducting spectrum auctions which may allow new service providers to enter the market and/or allow existing service providers the ability to upgrade or expand their product offerings. Our ability to compete effectively will depend, in part, on our ability to anticipate and respond to various competitive factors affecting the wireless industry.

The emergence of service providers that use Voice Over Internet Protocol ("VOIP") applications also could present a competitive threat. Because the regulatory classification of VOIP applications remains unsettled, providers of such applications

may be able to avoid costly regulatory requirements, including the payment of intercarrier compensation. This could impede our ability to compete with these providers on the basis of price. More generally, the emergence of new service providers will increase competition, which could adversely affect our ability to succeed in the marketplace for communications services.

Competition also is intense and growing in the market for video services. Most video services today are provided by incumbent cable television companies and direct broadcast satellite providers. However, at least two of the largest Bell Operating Companies are upgrading their networks to provide video services, in addition to voice and high-speed Internet access services, on those networks. These entities are large and have substantially greater infrastructure, financial, personnel, technical, marketing and other resources, larger numbers of established customers and more prominent name recognition than the Company. Our ability to compete effectively will depend, in part, on the extent to which our service offerings overlap with these entities, and on our ability to anticipate and respond to the competitive forces affecting the market for video and other services.

A continuing trend toward consolidation, mergers, acquisitions and strategic alliances in the communications industry also could increase the level of competition we face.

### **Regulation**

Our operations are subject to regulation by the Federal Communications Commission (“FCC”), the Virginia State Corporation Commission (“VSCC”), other state public utility and service commissions and other federal, state, and local governmental agencies. The laws governing these agencies, and the regulations and policies that they administer, are subject to constant review and revision, and some of these changes might have material impacts on our revenues and expenses.

The discussion below focuses on the regulation of our wireless subsidiary, Shenandoah Personal Communications Company, our incumbent local exchange carrier (“ILEC”) subsidiary, Shenandoah Telephone Company and MDU business. Other lines of business such as our cable television operations and our CLEC businesses are also subject to regulation, but these businesses are smaller relative to our core business of providing wireless and ILEC services.

### **Regulation of Wireless PCS Operations**

We operate our PCS business using radio spectrum licensed to Sprint Nextel under the Sprint Nextel management agreements. Nonetheless, we are directly or indirectly subject to, or affected by, a number of regulations and requirements of the FCC and other governmental authorities.

*Interconnection.* The FCC has the authority to order interconnection between commercial mobile radio service (“CMRS”) providers (which includes us) and any other common carrier. The FCC has ordered local exchange carriers to provide reciprocal compensation to CMRS providers for the termination of traffic. Interconnection agreements are negotiated on a statewide basis. If an agreement cannot be reached, parties to interconnection negotiations can submit outstanding disputes to federal or state regulators for arbitration. Negotiated interconnection agreements are subject to state approval.

The FCC has underway a rulemaking proceeding in which the agency is considering making major changes to the inter-carrier compensation rules that govern the telecommunications industry. In addition, the FCC is considering a number of petitions for declaratory ruling and other proceedings regarding disputes among carriers relating to interconnection payment obligations; resolutions of these petitions could set precedents that would affect us in the future. Interconnection costs represent a significant expense item for us and any significant changes in the inter-carrier compensation scheme may have a material impact on our business. We are unable to determine at this time whether any such changes would be beneficial to or detrimental to our wireless operations.

*Universal Service Contribution Requirements.* Sprint Nextel is required to contribute to the federal universal service fund based in part on the revenues it receives in connection with our wireless operations. The purpose of this fund is to subsidize telecommunications services in rural areas, for low-income consumers, and for schools, libraries, and rural healthcare facilities. Sprint Nextel is permitted to, and does, pass through these mandated payments as surcharges paid by customers. Sprint Nextel also receives disbursements from the Federal Universal Service Fund with respect to the service area served by its business. These disbursements are passed through to us. Congress and the FCC from time to time consider major changes to the universal service rules that could affect us. For example, the FCC currently is considering a proposal to divide the Universal Service Fund into three distinct funds covering broadband, mobile, and Provider of Last Resort services, each with its own contribution and disbursement mechanism. The FCC also is considering changing the level of disbursements to competitive carriers in high-cost areas so that they may not equal the level of support provided to incumbent local exchange carriers in those areas; and, changing the manner in which disbursements are allocated in high-cost areas by implementing “reverse auctions,” or a competitive bidding format, for such disbursements. The Company does not expect these proposals, if implemented, to have a material effect on its wireless operations, although these proposals may evolve over time and the outcome of the FCC’s consideration of these issues is difficult to predict. The FCC also may in the future consider making other changes to its Universal Service Fund rules, such as assessing contribution obligations based on the number of lines or subscribers served, rather than as a variable percentage of interstate end-user telecommunications revenues, which is how contributions currently are determined. The Company cannot predict whether or when these or other proposals may be implemented or the effect they may have on the Company. In June 2006, the FCC took steps to increase the universal service fund contribution obligations of wireless carriers by adjusting the proportion of wireless traffic that is presumed to be interstate, and thus subject to the contribution mechanism, for carriers that do not report distinctions between the interstate and intrastate traffic on their networks. Although we have not been – and do not expect to be – affected materially or directly by this particular change, other developments may cause the share of payments from wireless companies to increase or decrease, and the overall size of the fund to increase, resulting in greater payment obligations for all carriers. Separately, Congress from time to time considers legislation that could affect the manner in which contribution obligations are assessed, as well as the scope of the programs that continue to receive funding. It is not possible to predict whether and how these changes could affect the extent of our total federal universal service assessments, the amounts we receive with respect to our PCS operations or our ability to recover costs associated with the Universal Service Fund.

*Transfers, Assignments and Changes of Control of PCS Licenses.* The FCC must give prior approval to the assignment of, or transfers involving, substantial changes in ownership or control of a PCS license. The FCC also requires licensees to maintain

effective working control over their licenses. Our agreements with Sprint Nextel reflect an alliance that the parties believe meets the FCC requirements for licensee control of licensed spectrum. If the FCC were to determine that the Sprint Nextel PCS agreements need to be modified to increase the level of licensee control, we have agreed with Sprint Nextel under the terms of our Sprint Nextel PCS agreements to use our best efforts to modify the agreements as necessary to cause the agreements to comply with applicable law and to preserve to the extent possible the economic arrangements set forth in the agreements. If the agreements cannot be modified, the agreements may be terminated pursuant to their terms. The FCC could also impose sanctions on the Company.

PCS licenses are granted for ten-year periods. Licensees have an expectation of license renewal if they have provided “substantial” performance and complied with FCC rules, and policies and the Communications Act of 1934. All of the PCS licenses used in the wireless business have been successfully renewed since their initial grant.

*Construction and Operation of Wireless Facilities.* Wireless systems must comply with certain FCC and Federal Aviation Administration regulations regarding the registration, siting, marking, lighting and construction of transmitter towers and antennas. The FCC also requires that aggregate radio wave emissions from every site location meet certain standards. These regulations also affect site selection for new network build-outs and may increase the costs of improving our network. The increased costs and delays from these regulations may have a material adverse affect on our operations.

The FCC’s decision to license a proposed tower may be subject to environmental review pursuant to the National Environmental Policy Act of 1969, or NEPA, which requires federal agencies to evaluate the environmental impacts of their decisions under some circumstances. FCC regulations implementing NEPA place responsibility on each applicant to investigate any potential environmental effects, including health effects relating to radio frequency emissions, of a proposed operation and to disclose any significant effects on the environment to the agency prior to commencing construction. In the event that the FCC determines that a proposed tower would have a significant environmental impact, the FCC would require preparation of an environmental impact statement. In addition, tower construction is subject to regulations implementing the National Historic Preservation Act. Compliance with environmental or historic preservation requirements could significantly delay or prevent the registration or construction of a particular tower or make tower construction more costly. In some jurisdictions, local laws or regulations may impose similar requirements.

*Wireless Facilities Siting.* States and localities are authorized to engage in forms of regulation, including zoning and land-use regulation, that affect our ability to select and modify sites for wireless facilities. States and localities may not engage in forms of regulation that effectively prohibit the provision of wireless services, discriminate among providers of such services, or use radio frequency health effects as a basis to regulate the placement, construction or operation of wireless facilities. Courts and the FCC routinely are asked to review whether state and local zoning and land-use actions should be preempted by federal law, and the FCC also is routinely asked to consider other issues affecting wireless facilities siting in other proceedings. We cannot predict the outcome of these proceedings or the effect they may have on us.

*Enhanced 911.* In order to enable wireless customers to dial 911 for emergency medical or police assistance, and ensure that emergency service providers will be able to locate the wireless user, the FCC has required all wireless providers to provide enhanced 911 (or “E911”) by the end of 2005. To date, we are in compliance with the provisions of these rules and conditional waivers.

*Communications Assistance for Law Enforcement Act.* The Communications Assistance for Law Enforcement Act or CALEA, was enacted in 1994 to preserve electronic surveillance capabilities by law enforcement officials in the face of rapidly changing telecommunications technology. CALEA requires telecommunications carriers, including us, to modify their equipment, facilities, and services to allow for authorized electronic surveillance based on either industry or FCC standards. Following adoption of interim standards and a lengthy rulemaking proceeding, including an appeal and remand proceeding, all carriers were required to be in compliance with the CALEA requirements as of June 30, 2002. Compliance requirements for providers of broadband and VOIP service that connect to the public switched telephone network went into effect more recently. We are currently in compliance with the CALEA requirements.

*Local Number Portability.* All covered CMRS providers, including us, are required to allow wireless customers to retain their existing telephone numbers when switching from one telecommunications carrier to another. These rules are generally referred to as wireless local number portability (“WLNP”). To date, the WLNP mandate has had a nominal impact on costs, subscriber turnover rates, and subscriber acquisition and retention costs. The future volume of any porting requests, and the processing costs related thereto, may increase our operating costs in the future.

*Number Pooling.* The FCC regulates the assignment and use of telephone numbers by wireless and other telecommunications carriers to preserve numbering resources. CMRS providers in the top 100 markets are required to be capable of sharing blocks of 10,000 numbers among themselves in subsets of 1,000 numbers (“1000s-block number pooling”); the FCC considers state requests to implement 1000s-block number pooling in smaller markets on a case-by-case basis, and has granted such requests in the past. In addition, all CMRS carriers, including those operating outside the top 100 markets, must be able to support roaming calls on their network placed by users with pooled numbers. Wireless carriers must also maintain detailed records of the numbers they have used, subject to audit. The pooling requirements may impose additional costs and increase operating expenses on us and limit our access to numbering resources.

*Telecommunications Relay Services (“TRS”).* Federal law requires wireless service providers to take steps to enable the hearing impaired and other disabled persons to have reasonable access to wireless services. The FCC has adopted rules and regulations implementing this requirement to which we are subject, and requires that we pay a regulatory assessment to support such telecommunications relay services for the disabled. The Company is in compliance with these requirements.

*Consumer Privacy.* The Company is subject to various federal and state laws intended to protect the privacy of end-users who subscribe to the Company’s services. For example, the FCC has regulations that place restrictions on the permissible uses that the Company can make of customer-specific information, known as “Customer Proprietary Network Information” or “CPNI,” received from subscribers. Laws imposing criminal and other penalties for the violation of certain CPNI requirements and related privacy protections also were recently enacted. In addition, restrictions exist, and new restrictions are considered from time to time by Congress, federal agencies and states, on the extent to which wireless data customers may be subjected to receiving unsolicited text messages, junk e-mail or spam. One such restriction, which became effective on October 18, 2004, prohibits sending commercial messages to any address referencing an Internet domain name associated with wireless subscriber messaging services and requires that all CMRS providers submit to the FCC a list of their Internet domain names that are associated with wireless subscriber messaging services.



Congress, federal agencies and certain states also are considering and may in the future consider imposing additional requirements on entities that possess consumer information to protect the privacy of consumers. Complying with these requirements may impose costs on us or compel us to alter the way we provide or promote our services.

*Consumer Protection.* Many members of the wireless industry, including us, have voluntarily committed to comply with the CTIA Consumer Code for Wireless, which includes consumer protection provisions regarding the content and format of bills; advance disclosures regarding rates, terms of service, contract provisions, and network coverage; and the right to terminate service after a trial period or after changes to contract provisions are implemented. Both the FCC and some state commissions are considering imposing additional consumer protection requirements upon wireless service providers, and a number of regulatory proceedings are pending. Courts also have had – and in the future may continue to have – an effect on the extent to which matters pertaining to the content and format of wireless bills can be regulated at the state level. Any further changes to these and similar requirements could increase our costs of doing business and our costs of acquiring and retaining customers.

*Radio Frequency Emissions.* Some studies (and media reports) have suggested that radio frequency emissions from handsets, wireless data devices and cell sites may raise various health concerns, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Most of the expert reviews conducted to date have concluded that the evidence does not support a finding of adverse health effects but that further research is appropriate. Courts have dismissed a number of lawsuits filed against other wireless service operators and manufacturers, asserting claims relating to radio frequency transmissions to and from handsets and wireless data devices. However, there can be no assurance that the outcome of other lawsuits, or general public concerns over these issues, will not have a material adverse effect on the wireless industry, including us.

#### **Regulation of Incumbent Local Exchange Carrier Operations**

As an ILEC, Shenandoah Telephone Company's operations are regulated by federal and state regulatory agencies.

*State Regulation.* Shenandoah Telephone's rates for local exchange service, intrastate toll service, and intrastate access charges are subject to the approval of the VSCC. The VSCC also establishes and oversees implementation of the provisions of the federal and state telecommunications laws, including interconnection requirements, promotion of competition, and the deployment of advanced services. The VSCC also regulates rates, service areas, service standards, accounting methods, affiliated charge transactions and certain other financial transactions.

*Regulation of Inter-carrier Compensation.* Shenandoah Telephone participates in the access revenue pools administered by the FCC-supervised National Exchange Carrier Association ("NECA"), which collects and distributes the revenues from interstate access charges that long-distance carriers pay us for originating and terminating interstate calls over our network. Shenandoah Telephone also participates in some NECA tariffs that govern the rates, terms, and conditions of our interstate access offerings. Some of those tariffs are under review by the FCC, and we may be obligated to refund affected access charges collected in the past or in the future if the FCC ultimately finds that the tariffed rates were unreasonable. We cannot predict whether, when, and to what extent such refunds may be due.

The FCC is considering a number of broad possible changes to the rules governing the interstate access rates charged by small-to-mid-sized ILECs such as Shenandoah Telephone. For example, the FCC is considering proposals to overhaul the rules regarding inter-carrier compensation, including interstate and intrastate access charges. These changes might include substantial reductions in the access charges paid by long distance carriers – possibly to zero, under a so-called “bill and keep” regime – accompanied by increases to the subscriber line charges paid by business and residential end users.

The FCC also is considering implementing incentive-type regulation for rate of return carriers, including us. The FCC also is considering additional questions regarding what compensation carriers, including but not limited to wireless carriers, competitive local exchange carriers, VOIP providers and providers of other Internet-enabled services, should pay (and receive) for their traffic interconnected with ILEC networks. These changes could increase our expenses, but at this time we cannot estimate the amount of such additional expenses.

In connection with a petition filed in January 2007 by Verizon Virginia Inc. regarding the intrastate access charges charged by CLECs, the VSCC has raised the issue of whether it should open a generic proceeding to consider the appropriate level(s) of intrastate access charges for all local exchange carriers. While the VSCC agreed in September 2007 to cap the level of intrastate access charges charged by a CLEC to be generally no greater than the rates charged by the incumbent local exchange carrier serving the same territory, the VSCC chose not to open a generic proceeding on the rates charged for intrastate access by incumbent local exchange carriers; however, the VSCC indicated that it reserved the right to do so at a future date.

Interstate and intrastate access charges are an important source of revenues for Shenandoah Telephone’s operations. Unless these revenues can be recovered as they are at present, or through a new universal service mechanism, or be reflected in higher rates to the local end user, or unless other methods of cost recovery can be created, the loss of revenues to us could be significant. There can be no assurance that access charges in their present form will be continued or that sufficient substitutes for the lost revenues will be provided. If access charges are reduced without sufficient substitutes for the lost revenues, this could have a material adverse effect on our financial condition, results of operations and cash flows. In addition, changes to the inter-carrier compensation rules and policies could have a material impact on our competitive position vis-à-vis other service providers, particularly in our ability to proactively make improvements in our networks and systems.

*Universal Service Fund.* Shenandoah Telephone receives revenues from the federal universal service fund (“USF”). As discussed above (with respect to wireless regulation), the FCC is considering major changes to the rules regarding mandated payments from carriers into the USF. In addition, the FCC is considering potential changes to the rules governing disbursements from the USF to rural ILECs such as Shenandoah Telephone, and to other providers. Despite interim adjustments to make the funding of the USF more sustainable, the FCC has indicated that additional changes are necessary to stabilize the USF. Total funding of universal service has increased considerably in recent years, and some members of the FCC and Congress have expressed concerns that the cost of such funding will soon reach unacceptable levels. Changes to the inter-carrier compensation rules that reduce levels of access charges could be accompanied by increases in the universal service fund. Changes that reduce

the size of the USF and payments to Shenandoah Telephone could have an adverse impact on the Company's financial position, results of operations, and cash flows.

All forms of federal USF support available to incumbent local exchange carriers are now available to any local competitor that qualifies for support as an "eligible telecommunications carrier." At least three wireless carriers – Sprint Nextel, U.S. Cellular and Alltel – have received designation as eligible telecommunications carriers in Shenandoah Telephone's service area. The FCC recently adopted changes that make it somewhat more difficult for wireless carriers and other prospective entrants to obtain designation as eligible telecommunications carriers. The FCC and the Federal-State Joint Board also currently are considering whether to change the rules governing the amount of support to be disbursed to competitive eligible telecommunications carriers, which could make it more or less attractive for wireless carriers and other prospective entrants to enter our Shenandoah Telephone service areas.

The FCC mandated that, effective on October 1, 2004, the Universal Service Administrative Company ("USAC") must begin accounting for the USF program in accordance with generally accepted accounting principles for federal agencies, rather than the accounting rules that USAC formerly used. This accounting method change subjected USAC to the Anti-Deficiency Act (the "ADA"), the effect of which could have caused delays in USF payments to USF program recipients and significantly increase the amount of USF regulatory fees charged to wireline and wireless consumers. Since 2004, Congress has adopted short term exemptions for the USAC from the ADA to allow for a more thorough review of the impact the ADA would have on the universal service program. Congress has from time to time considered adopting a longer term exemption for the USAC from the ADA, but we cannot predict whether any such exemption will be adopted or the effect it may have on the Company.

The FCC, USAC, and other authorities have conducted, and in the future are expected to continue to conduct, more extensive audits of USF support recipients, as well as other heightened oversight activities. The impact of these activities on the Company, if any, is uncertain.

*Other Regulatory Obligations.* Shenandoah Telephone is subject to requirements relating to CPNI, CALEA implementation, interconnection, access to rights of way, number portability, number pooling, accessibility of telecommunications for those with disabilities, and other obligations. Further, like our PCS operations, Shenandoah Telephone is subject to federal and state requirements intended to protect consumer privacy. In 2005, the FCC ruled that providers of interconnected broadband or VOIP services are subject to the requirements of CALEA; and additional regulatory obligations have since been applied to these types of service.

*Broadband Services.* The FCC and other authorities continue to consider policies to encourage nationwide advanced broadband infrastructure development. For example, the FCC has largely eliminated unbundling obligations relating to broadband facilities, and has largely deregulated DSL and other broadband services offered by ILECs. Such changes benefit our ILEC, but could make it more difficult for us (or for NECA) to tariff and pool DSL costs.

*Net Neutrality.* Although the broadband Internet services industry has largely remained unregulated, there has been legislative and regulatory interest in adopting so-called "net neutrality" principles that could, among other things, prohibit service providers from slowing or blocking access to certain content, applications, or services available on the Internet and otherwise limit their ability to manage their networks efficiently and

develop new products and services. The FCC in 2005 adopted a non-binding policy statement expressing its view that consumers are entitled to access lawful Internet content and to run applications and use services of their choice, subject to the needs of law enforcement. In addition, in connection with its approval of the AT&T-SBC, AT&T-Bell South, and Verizon-MCI mergers, the FCC required the post-merger entities to comply with certain net neutrality requirements for a defined period of time. If some form of net neutrality legislation or regulations were to be adopted, it could impair the Company's ability to effectively manage its broadband network and explore enhanced service options for customers.

*Long-Distance Services.* We provide long distance service to our customers through our subsidiary, Shenandoah Long Distance Company. Our long distance rates are not subject to FCC regulation, but we are required to offer long-distance service through a subsidiary other than Shenandoah Telephone, to disclose our long distance rates on a website, to maintain geographically averaged rates, to pay contributions to the universal service fund and other mandatory payments based on our long-distance revenues, and to comply with other filing and regulatory requirements. We are in compliance with these requirements.

*CLEC Operations.* We are authorized to operate as a CLEC in Virginia, West Virginia and North Carolina. CLECs generally are subject to federal and state regulations that are similar to, but not as stringent as, those that apply to our ILEC operations.

### **Regulation of Cable Television and Other Video Service Operations**

Through Shenandoah Cable Company, we hold franchises to provide cable service in the following jurisdictions within Virginia: Mount Jackson; New Market and the unincorporated areas of Shenandoah County; Strasburg; Toms Brook and Woodstock. Through Shentel Converged Services of West Virginia, we have a franchise to provide cable service in a portion of the City of Ranson, West Virginia.

The provision of cable service generally is subject to regulation by the FCC and also must comply with the terms of the franchise agreement between the provider and the local franchising authority. Some states have enacted regulations that also can affect certain aspects of a cable service provider's operations.

*Pricing and Packaging.* Congress and the FCC from time to time consider imposing new pricing restrictions on cable service providers. We cannot predict whether or when such new pricing restrictions may be imposed on us or what effect they would have on our ability to provide cable service. Congress and the FCC also from time to time consider imposing new regulations on the packaging of cable programming, including a la carte requirements. We cannot predict whether or when such packaging regulations may be imposed on us or what effect such regulations would have on our ability to provide cable service.

*Must-Carry/Retransmission Consent.* Cable service providers are required by law to carry on their cable systems most commercial and non-commercial local television programming; this is known as "must-carry." Alternatively, local television stations may insist that a cable service provider negotiate for "retransmission consent," which can enable a popular local television station to obtain concessions from the cable service provider for the right to carry the station's signal. As a general matter, most local television stations today are carried by cable service providers under the "must-carry" obligation. If local television stations are able to obtain concessions in the future from cable service providers for the right to carry station signals, the cost of providing cable

service for all providers, including us, could increase. As part of the transition to digital television, the FCC has ruled that all cable service providers that have not converted fully to digital transmissions must carry both the new digital and old analog programming streams that each broadcaster may include within its digital transmission. Although the FCC's requirement will apply for only a transitional period, the requirement nevertheless has been appealed by a number of cable programmers out of a concern that they will be crowded out of the cable platform due to the limited channel capacity of cable programmers. We cannot predict the outcome of this appeal or the extent to which it will affect our business.

*Programming Costs.* Satellite-delivered cable programming, such as ESPN, HBO and the Discovery Channel, is not subject to must-carry/retransmission consent regulations. Rather, cable service providers negotiate directly with satellite-delivered cable programmers for the right to carry their programming. The cost of acquiring the right to carry satellite-delivered cable programming can increase as the popularity of such programming increases. We cannot predict the extent to which such programming costs may increase in the future or the effect such cost increases may have on our ability to provide cable service.

*Franchise Matters.* Cable service providers generally must apply for and obtain non-exclusive franchises from local or state franchising authorities before providing cable service. The terms and conditions of franchises vary among jurisdictions, but franchises generally last for a fixed term subject to renewal, require the cable service provider to pay a franchise fee, and contain certain service quality and customer service obligations. A small number of states today have processes in place for obtaining state-wide franchises, and legislation has been introduced from time to time in Congress and in various states, including those in which we provide some form of video service, that would require the implementation of state-wide franchising processes. Although we cannot predict whether state-wide franchising will become ubiquitous, it would, if implemented, likely lower barriers to entry and increase competition in the marketplace for video services. In 2006, the FCC adopted new rules to govern the terms and conditions under which franchising authorities can award franchises to entities that compete against incumbent cable service operators. These rules generally limit the ability of franchising authorities to impose certain requirements on and extract certain concessions from new entrants. We cannot predict the extent to which these rules and other developments will accelerate the pace of new entry into the video market or the effect, if any, they may have on our cable operations.

*Leased Access/PEG.* The Communications Act permits franchising authorities to require cable service providers to set aside the use of channels for public, education and governmental access ("PEG") programming. The Communications Act also requires certain cable systems to make available a portion of its capacity for commercial leased access by third parties that would compete with programming offered by the cable service provider. Increases in the amount of required leased access or PEG programming could reduce the number of channels available to us to provide other types of programming to subscribers.

*Other Issues.* Our ability to provide cable service may be affected by a wide range of additional regulatory and related issues, including those pertaining to set-top boxes, equipment connectivity, content regulation, pole attachments, privacy, copyright, technical standards, and municipal entry into video. We cannot predict the nature and pace of these and other developments or the effect they may have on our operations.

### **Regulation of Converged Service Business**

*Private Cable Service.* One of our operating subsidiaries, Shentel Converged Services, Inc. provides a combination of voice, video and data services to residents of MDU's such as apartment buildings. This operating subsidiary has limited regulatory obligations in connection with the video portion of its service offering because it does not use any public rights-of-way to deliver its service. If, however, the regulatory environment affecting this operating subsidiary or its video service changes, it may be subject to additional regulatory obligations which could increase its cost of operating, and in turn its ability to compete.

*FCC Rulemaking on Exclusive Access Agreements.* On October 31, 2007, the FCC adopted a rule prohibiting franchised cable operators and certain other providers from entering into exclusive access agreements for video services and voided all existing exclusive access agreements entered into by such entities. As adopted, such prohibition does not apply to private cable operators like the Company's Converged Services business; however, the FCC's final rule contained language suggesting that private cable operators, such as our Converged Services business, that hold common carrier licenses or are affiliates of common carriers such as our ILEC subsidiary are subject to the prohibition. On February 6, 2008, the Company filed a petition with the FCC requesting that the FCC clarify that all private cable operators are excluded from the prohibition unless the FCC holds otherwise in a further rulemaking it has initiated to determine whether the prohibition should extend to private cable operators and providers of direct broadcast satellite services. Separately, on January 22, 2008, two parties filed suit with the Court of Appeals for the District of Columbia seeking to overturn the FCC decision. As part of its further rulemaking to decide whether the prohibition on exclusive service clauses should extend to private cable operators and providers of direct broadcast satellite services, the FCC has sought comment on whether it should impose restrictions on bulk billing or exclusive marketing arrangements, which Shentel Converged Services also enters into to provide service to large fiber-to-the-home projects outside the Company's incumbent telephone service area. We cannot predict how the FCC or Court of Appeals will decide these issues. The adoption of regulations prohibiting or otherwise regulating our entry into exclusive access and/or bulk billing arrangements could negatively impact our ability to earn a return on the capital we have invested in certain properties, and potentially result in an impairment of our existing goodwill, other intangible assets, and property, plant and equipment.

### **Employees**

At December 31, 2007, we had approximately 416 employees, of whom approximately 406 were full-time employees. None of our employees is represented by a union or covered by a collective bargaining agreement. We believe that our relationship with our employees is good.

In December 2006, the Company offered early retirement to 58 employees. As of the expiration of the offer period on January 24, 2007, 32 employees had accepted the early retirement offer, and set retirement dates through April 30, 2007.

**Executive Officers**

The following table presents information about our executive officers who, other than Christopher E. French, are not members of our board of directors.

Name	Title	Age	Date in Position
Christopher E. French	President	50	April 1988
Earle A. MacKenzie	Executive Vice President and Chief Operating Officer	55	June 2003
Adele M. Skolits	Vice President – Finance, Chief Financial Officer and Treasurer	49	September 2007
David E. Ferguson	Vice President of Customer Services	62	November 1982
David K. MacDonald	Vice President of Operations	54	May 1998
William L. Pirtle	Vice President of Sales	48	April 2004
Jonathan R. Spencer	Vice President, General Counsel and Secretary	46	July 2004

Mr. French has served as President and Chief Executive Officer of the Company and its subsidiaries since 1988 and a director of the Company since 1996. Mr. French also serves on the Board of Directors of First National Corporation.

Mr. MacKenzie has been Executive Vice President and Chief Operating Officer since joining the Company in June 2003. Mr. MacKenzie also served as Chief Financial Officer and Treasurer until November 2007. Before joining the Company, Mr. MacKenzie served from May 1999 to November 2002 as President of Broadslate Networks, Inc., a start-up data services provider.

Before joining the Company, Ms. Skolits was Chief Financial Officer of Cleveland Unlimited (dba Revol Wireless), a regional provider of wireless phone service, since July 2004, and Chief Financial Officer of City Signal Communications, a fiber-optic network company, from May 2001 to July 2004. She served as Controller of Comcast Metrophone and Director of Financial Operations of Comcast Cellular from 1995 to 1997.

Mr. MacDonald resigned effective February 29, 2008.

Prior to becoming Vice President of Sales, Mr. Pirtle had served as the Company’s Vice President of Personal Communications Services since November 1996.

Mr. Spencer has been Company Secretary since May 2005 and General Counsel since July 2004. Mr. Spencer briefly left the Company during the summer of 2006 before returning to his positions in October 2006. Before joining the Company as General Counsel, Mr. Spencer was an attorney in private practice in Washington, D.C., where he specialized in telecommunications, corporate and securities law. From May 2000 until June 2003, Mr. Spencer was Vice President and Associate General Counsel of Cable & Wireless Global, a global telecommunications provider. During his service with Cable & Wireless, Mr. Spencer also served as a director of a number of that company’s European subsidiaries.

Our employees, officers and members of our Board of Directors are expected to conduct business legally and ethically and insist that our vendors and business associates do the same. The Company has adopted a Code of Business Conduct and Ethics applicable to all employees, officers and directors and which is available on the Company's website [www.shentel.com](http://www.shentel.com).

#### **Websites and Additional Information**

The Company maintains a corporate website at [www.shentel.com](http://www.shentel.com). We make available free of charge through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file or furnish such material with or to the SEC. The contents of our website are not a part of this report. In addition, the SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding the Company.

We also make available on our website, and in print to any shareholder who requests them, copies of the charters of each standing committee of our board of directors and our code of business conduct and ethics. Requests for copies of these documents may be directed to our Company Secretary at Shenandoah Telecommunications Company, P.O. Box 459, 500 Shentel Way, Edinburg, Virginia 22824. To the extent required by SEC rules, we intend to disclose any amendments to our code of conduct and ethics, and any waiver of a provision of the code with respect to the Company's directors, principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on our website referred to above within five business days following any such amendment or waiver, or within any other period that may be required under SEC rules from time to time.



ITEM 1A. **RISK FACTORS**

Our business and operations are subject to a number of risks and uncertainties, including those set forth under “Business-Recent Developments” and the following:

*Risks Related to the PCS Business*

**The performance of Shenandoah Personal Communications Company, our largest operating subsidiary in terms of revenues and assets, may be adversely affected by any interruption in Sprint Nextel’s business.**

We rely on Sprint Nextel’s ongoing operations to continue to offer our PCS subscribers the seamless national services that we currently provide. Any interruption in Sprint Nextel’s business could adversely affect our results of operations, liquidity and financial condition.

**Our business may suffer as a result of competitive pressures.**

Our revenue growth is primarily dependent on the growth of the subscriber base and average monthly revenues per user. Competitive pressures may adversely affect our ability to increase our future revenues at anticipated levels. A continuation of competitive pressures in the wireless telecommunications market has caused some major carriers to offer plans with increasingly larger bundles of minutes of use at lower prices that may compete with the Sprint Nextel wireless calling plans we sell. Increased price competition may lead to lower average monthly revenues per user than we anticipate.

**We may not be able to implement our business plan if our operating costs are higher than we anticipate.**

Increased competition may lead to higher promotional costs, losses on sales of handsets and other costs to acquire subscribers. If these costs are more than we anticipate, the actual amount of funds available to implement our operating strategy and business plan may fall short of our estimates.

**The dynamic nature of the wireless market may limit management’s ability to correctly identify causes of volatility in key operating performance measures.**

Our business plan and estimated future operating results are based on estimates of key operating performance measures, including subscriber growth, subscriber turnover (commonly known as churn), average monthly revenue per subscriber, losses on sales of handsets and other subscriber acquisition costs and other operating costs. The dynamic nature of the wireless market, economic conditions, increased competition in the wireless telecommunications industry, new service offerings by Sprint Nextel or competitors of increasingly larger bundles of minutes of use at lower prices, and other issues facing the wireless telecommunications industry in general have created a level of uncertainty that may adversely affect our ability to predict these key measures.

**We may experience a high rate of subscriber turnover, which could adversely affect our future financial performance.**

The wireless personal communications services industry in general, including the operations of Sprint Nextel and its PCS Affiliates, has experienced a rate of churn higher than industry average rates. We experienced a relatively consistent churn rate in 2006 and a slightly higher churn rate in 2007. Our 2008 business plan assumes that our churn rate will remain fairly stable under existing operating conditions. Because of significant competition in the industry and general economic conditions, among other factors, this stability may not occur and the future rate of subscriber turnover may be higher than rates in recent periods. Factors that may contribute to higher churn include the following:

- inability or unwillingness of subscribers to pay, which would result in involuntary deactivations;
- subscriber mix and credit class, particularly an increase in sub-prime credit subscribers;
- competition of products, services and pricing of other providers;
- inadequate network performance and coverage relative to that provided by competitors in our service area;
- inadequate customer service;
- increased prices; and,
- any future changes by Sprint Nextel or the Company in the products and services offered.

A high rate of subscriber turnover could increase the costs we incur in obtaining new subscribers, especially because, consistent with industry practice, we subsidize some of the costs related to the purchases of handsets by subscribers.

**We may incur significantly higher wireless handset subsidy costs than we anticipate for existing subscribers who upgrade to a new handset.**

As our subscriber base matures, and technological innovations occur, we anticipate that existing subscribers will continue to upgrade to new wireless handsets. To discourage customer defections to competitors, we subsidize a portion of the price of wireless handsets and in some cases incur sales commissions for handset upgrades. If more subscribers upgrade to new wireless handsets than we project, our results of operations would be adversely affected. If we do not continue to subsidize the cost of the handsets for handset upgrades, subscribers could choose to deactivate the service and move to other carriers.

**If we are unable to secure additional tower sites or leases to install equipment to expand the wireless coverage, the level of service we provide could be adversely affected.**

Many of our cell sites are co-located on leased tower facilities shared with one or more wireless providers. A large portion of these leased tower sites are owned by a limited number of companies. If economic conditions affect the leasing company, our lease may be affected and the ability to remain on the tower at reasonable rates could be jeopardized, which could leave areas of our service area without service and increase customer turnover.

*Risks Related to the Wireless Industry*

**Customer concerns over radio frequency emissions may discourage use of wireless handsets or expose us to potential litigation.**

Media reports have suggested that certain radio frequency emissions from wireless handsets may be linked to various health problems, including cancer, and may interfere with various electronic medical devices, including hearing aids and pacemakers. Any decrease in demand for wireless services, costs of litigation or damage awards resulting from customer concern regarding such emissions could impair our ability to sustain profitable operations.

**Regulation by government or potential litigation relating to the use of wireless phones while driving could adversely affect results of our wireless operations.**

Some studies have indicated that some aspects of using wireless phones while driving may impair drivers' attention in certain circumstances, making accidents more likely. These concerns could lead to litigation relating to accidents, deaths or serious bodily injuries, or to new restrictions or regulations on wireless phone use. A number of U.S. states and local governments are considering or have enacted legislation that would restrict or prohibit the use of a wireless handset while driving a vehicle or, alternatively, require the use of a hands-free telephone. Legislation of this nature, if enacted, may require wireless service providers to supply to their subscribers hands-free enhanced services, such as voice activated dialing and hands-free speaker phones and headsets, so that they can keep generating revenue from their subscribers, who make many of their calls while on the road. If we are unable to provide hands-free services and products to subscribers in a timely and adequate fashion, the volume of wireless phone usage would likely decrease, and the ability of our wireless operations to generate revenues would suffer.

*Risks Related to the Telecommunications Industry*

**Intensifying competition in all segments of our business may limit our ability to sustain profitable operations.**

As new technologies are developed and deployed by competitors in our service area, some of our subscribers may select other providers' offerings based on price, capabilities and personal preferences. Most of our competitors possess greater resources, have more extensive coverage areas, and offer more services than we do. If significant numbers of our subscribers elect to move to other competing providers, or if market saturation limits the rate of new subscriber additions, we may not be able to sustain profitable operations.

There has been a trend for incumbent local exchange carriers to see a decrease in access lines due to the effect of wireless and wireline competition and the elimination of second lines 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, and reported a slight increase during 2006, the dominating nationwide trend has been a decline in the number of access lines. There is a significant risk that a downward trend could have a material adverse effect on the Company's telephone operations in the future.

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

**Alternative technologies, changes in the regulatory environment and current uncertainties in the marketplace may reduce future demand for existing telecommunication services.**

The telecommunications industry is experiencing significant technological change, evolving industry standards, ongoing improvements in the capacity and quality of digital technology, shorter development cycles for new products and enhancements and changes in end-user requirements and preferences. Technological advances and industry changes could cause the technology we use to become obsolete. We and our vendors may not be able to respond to such changes and implement new technology on a timely basis, or at an acceptable cost.

**A recession in the United States or adverse economic conditions in our market area involving significantly reduced consumer spending could have a negative impact on our results of operations.**

Our customers are individual consumers and businesses that provide goods and services to others, and are located in a relatively concentrated geographic area. An economic downturn on a national scale or in our market could depress consumer spending and harm our operating performance.

**Regulation by government and taxing agencies may increase our costs of providing service or require changes in services, either of which could impair our financial performance.**

Our operations are subject to varying degrees of regulation by the Federal Communications Commission, the Federal Trade Commission, the Federal Aviation Administration, the Environmental Protection Agency, and the Occupational Safety and Health Administration, as well as by state and local regulatory agencies. Action by these regulatory bodies could negatively affect our operations and our costs of doing business. For example, changes in tax laws or the interpretation of existing tax laws by state and local authorities could increase income, sales, property or other tax costs.

Although the broadband Internet services industry has largely remained unregulated, there has been legislative and regulatory interest in adopting so-called "net neutrality" principles that could, among other things, prohibit service providers from slowing or blocking access to certain content, applications, or services available on the Internet and otherwise limit their ability to manage their networks efficiently and develop new products and services. In 2005, the FCC adopted a non-binding policy statement expressing its view that consumers are entitled to access lawful Internet content and to run applications and use services of their choice, subject to the needs of law enforcement. If some form of net neutrality legislation or regulations were adopted, it could impair the Company's ability to effectively manage its broadband network and explore enhanced service options for customers.

**Our access revenue may be adversely impacted by legislative or regulatory actions, or technology developments, that decrease access rates or exempt certain traffic from paying for access to our regulated telephone network.**

The Federal Communications Commission is currently reviewing the issue of access charges as well as an overhaul of intercarrier compensation. An unfavorable change may have an adverse effect on the Company's telephone operations.

***Risks Related to Our Cable and Converged Services Businesses***

**We face risks from increasing competition for the provision of cable and related video services.**

Video services historically have been provided by incumbent cable companies and direct broadcast satellite providers. Recently, however, some of the largest providers of wireline telecommunications services such as Verizon and AT&T have begun to upgrade their networks to provide video services in addition to voice and broadband services. Wireless providers also are entering the market for video services by making such services available on handsets. The influx of competitors in this area, together with the development of new technologies to support them, are resulting in significant changes in the business models and regulatory provisions that have applied to the provision of video and other services. These developments may lead to a broad decline in the price and profitability of video and other services.

**Our inability to retain preferred or exclusive access to buildings and developments would negatively affect our ability to serve some of our customers.**

Our ability to provide video and other services in some areas because we have entered into preferred or exclusive agreements with property owners to serve those areas may be impaired or prevented by the outcome of a proceeding currently underway at the FCC and consideration of this issue by the courts. Additionally, as competition continues to develop in the market for these services, our ability to retain and expand these access agreements may be threatened. If we cannot maintain such access, or if regulations are enacted that proscribe such activity, particularly in areas that we currently serve, our market share in those affected areas may decline and our ability to profit from operating efficiencies may diminish.

**Changes to key regulatory requirements can affect our ability to compete.**

Congress, the Federal Communications Commission and various states are considering changes to some key regulatory issues that affect the cost and manner in which we provide cable and other services. These regulatory issues include the manner in which franchises to provide cable service are issued, the jurisdiction of franchising authorities over cable service, and the control and ownership over inside wiring in a subscriber's location. Changes to the laws and regulations governing these and other matters could prevent us from competing effectively and may improve the ability of our competitors to compete.

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.

In 2006, the State of Virginia adopted legislation to make it easier for companies to obtain local franchises to provide cable television service. Also in 2006, the FCC adopted new rules which substantially reduce the cost of obtaining a local franchise; however, these new rules are subject to challenge and the outcome of any such

challenge is unclear. Although these new rules, if upheld, may make it easier for the Company to expand its Converged Services' video service and cable television business, they also may result in increased competition for such businesses.

Within our Converged Services business, many of our contracts contain exclusive provisions which have been negotiated with the owner of the MDU or with a property owner's association. In some jurisdictions, franchised cable operators and incumbent local exchange carriers have been able to use state or local access laws to gain access to property over the owner's objection and in derogation of any competing provider's exclusive contractual right to serve the property. These "mandatory access" statutes typically empower only franchise cable operators and/or carriers of last resort to force access to an MDU or community and provide residential service regardless of the owner's objections. Thus, in jurisdictions where such a mandatory access provision has been enacted, a franchised cable operator or a carrier of last resort may be able to access an MDU or fiber-to-the-home community and provide service in competition with us, regardless of whether we have an exclusive service agreement with the owner.

***Risks Related to Our Relationship with Sprint Nextel***

**Sprint Nextel may make business decisions that are not in our best interests, which may adversely affect our relationships with subscribers in our territory, increase our expenses and decrease our revenues.**

Under its agreements with us, Sprint Nextel has a substantial amount of control over the conduct of our PCS business. Accordingly, Sprint Nextel may make decisions that could adversely affect our PCS business, such as the following:

- Sprint Nextel could price its national plans based on its own objectives and could set price levels or other terms that may not be economically advantageous for us;
- Sprint Nextel could develop products and services, or establish credit policies, that could adversely affect our results of operations;
- subject to limitations under our agreements, Sprint Nextel could raise the costs to perform certain services or maintain the costs above those we expect, reduce levels of services, or otherwise seek to increase expenses and other amounts charged;
- subject to limitations under our agreements, Sprint Nextel could alter its network and technical requirements or request us to build out additional areas within our territories, which could result in increased equipment and build-out costs; or
- Sprint Nextel could make decisions that could adversely affect the Sprint Nextel brand names, products or services.

**Our dependence on Sprint Nextel for services may limit our ability to forecast operating results.**

Our dependence on Sprint Nextel injects a degree of uncertainty into our business and financial planning. We may, at times, disagree with Sprint Nextel concerning the applicability, calculation approach or accuracy of Sprint Nextel-supplied revenues and expenses. It is our policy to reflect the information supplied by Sprint Nextel in our

financial statements for the applicable periods and to make corrections, if any, no earlier than the period in which Sprint Nextel and we agree to the corrections.

**Inaccuracies in data provided by Sprint Nextel could overstate or understate our expenses or revenues and result in out-of-period adjustments that may adversely affect our financial results.**

Because Sprint Nextel provides billing and collection services for us, Sprint Nextel remits a significant portion of our total revenues. We rely on Sprint Nextel to provide accurate, timely and sufficient data and information to enable us to record properly revenues, expenses and accounts receivable, which underlie a substantial portion of our financial statements and other financial disclosures. We and Sprint Nextel have previously discovered billing and other errors or inaccuracies, which, while not material to Sprint Nextel, could be material to us. If we are required in the future to make additional adjustments or incur charges as a result of errors or inaccuracies in data provided by Sprint Nextel, such adjustments or charges could materially affect our financial results for the period with respect to which the adjustments are made or charges are incurred. Such adjustments or charges could require restatement of our financial statements.

**We are subject to risks relating to Sprint Nextel's provision of back office services, and changes in products, services, plans and programs.**

Any failure by Sprint Nextel to provide high-quality back office services could lead to subscriber dissatisfaction, increased churn or otherwise increased costs. We rely on Sprint Nextel's internal support systems, including customer care, billing and back office support. Our operations could be disrupted if Sprint Nextel is unable to provide and expand its internal support systems while maintaining acceptable service levels, or to efficiently outsource those services and systems through third-party vendors.

The competitiveness of Sprint Nextel's PCS products and services is a key factor in our ability to attract and retain subscribers. Changes in Sprint Nextel's PCS products and services may reduce subscriber additions, increase subscriber turnover and decrease subscriber credit quality.

**Sprint Nextel's roaming arrangements to provide service outside of the Sprint Nextel National Network may not be competitive with other wireless service providers, which may restrict our ability to attract and retain subscribers and may increase our costs of doing business.**

We rely on Sprint Nextel's roaming arrangements with other wireless service providers for coverage in some areas where Sprint PCS service is not yet available. If customers are not able to roam quickly or efficiently onto other wireless networks, we may lose current subscribers and Sprint PCS wireless services may be less attractive to new subscribers.

The risks related to our roaming arrangements include the following:

- the quality of the service provided by another provider during a roaming call may not approximate the quality of the service provided by the Sprint Nextel PCS network;
- the price of a roaming call off network may not be competitive with prices of other wireless companies for roaming calls;

- customers may not be able to use Sprint Nextel's advanced features, such as voicemail notification, while roaming; and
- Sprint Nextel or the carriers providing the service may not be able to provide accurate billing information on a timely basis.

**Some provisions of the Sprint Nextel agreements may diminish the value of our common stock and restrict or diminish the value of our business.**

Under limited circumstances involving a breach by the Company, Sprint Nextel may purchase the operating assets of our PCS operations at a discount. In addition, Sprint Nextel must approve any assignment of the Sprint Nextel agreements by us. Sprint Nextel also has a right of first refusal to purchase our PCS operating assets if we decide to sell those assets to a third party. These restrictions and other restrictions contained in the Sprint Nextel agreements could adversely affect the value of our common stock, may limit our ability to sell the foregoing assets on advantageous terms, may reduce the value a buyer would be willing to pay, and may reduce the "entire business value," as described in the Sprint Nextel agreements.

**We may have difficulty in obtaining an adequate supply of handsets from Sprint Nextel.**

We depend on our relationship with Sprint Nextel to obtain handsets. Sprint Nextel orders handsets from various manufacturers. We could have difficulty obtaining specific types of handsets in a timely manner if:

- Sprint Nextel does not adequately project the need for handsets for itself, its PCS Affiliates and its other third-party distribution channels, particularly in connection with the transition to new technologies;
- Sprint Nextel gives preference to other distribution channels;
- we do not adequately project our need for handsets;
- Sprint Nextel modifies its handset logistics and delivery plan in a manner that restricts or delays access to handsets; or
- there is an adverse development in the relationship between Sprint Nextel and its suppliers or vendors.

The occurrence of any of the foregoing could disrupt subscribers' service or result in a decrease in our subscribers.

**If Sprint Nextel does not continue to enhance its nationwide digital wireless network, we may not be able to attract and retain subscribers.**

Our PCS operations are dependent on Sprint Nextel's national network and on the networks of other Sprint PCS Affiliates. Sprint Nextel's digital wireless network may not provide nationwide coverage to the same extent as the networks of its competitors, which could adversely affect our ability to attract and retain subscribers. Sprint Nextel currently intends to cover a significant portion of the population of the United States, Puerto Rico and the U.S. Virgin Islands by creating a nationwide network through its own construction efforts and those of its PCS Affiliates. Sprint Nextel is still



constructing its nationwide network and does not offer PCS services, either on its own network or through its roaming agreements, in every part of the United States. Sprint Nextel has entered into management agreements similar to its agreement with us with companies in other markets under its nationwide digital wireless build-out strategy.

**If other PCS Affiliates of Sprint Nextel have financial difficulties or cease operating, or if Sprint Nextel's PCS licenses are not renewed or are revoked, our PCS business would be harmed.**

Sprint Nextel's national digital wireless network involves a combination of networks. The networks serving large metropolitan areas are owned and operated by Sprint Nextel, while those serving connecting areas may be owned and operated by Sprint PCS Affiliates or other network providers, all of which are independent companies. Although the total number of Sprint PCS Affiliates has been declining in the aggregate due to acquisitions by Sprint Nextel, Sprint Nextel's CDMA wireless network could be disrupted if any of the remaining Sprint PCS Affiliates experiences financial difficulties. Although Sprint Nextel may have the right to operate the network in the affected territory, there can be no assurance that the transition from the applicable Sprint PCS Affiliate would occur in a timely and effective manner.

Non-renewal or revocation by the FCC of Sprint Nextel's PCS licenses would significantly harm us. Wireless spectrum licenses are subject to renewal and revocation by the FCC. There may be opposition to renewal of Sprint Nextel's PCS licenses upon their expiration, and Sprint Nextel's PCS licenses may not be renewed. The FCC has adopted specific standards to apply to PCS license renewals. Any failure by Sprint Nextel to comply with these standards could cause revocation or forfeiture of Sprint Nextel's PCS licenses.

If Sprint Nextel does not maintain control over its licensed spectrum, our Sprint Nextel agreements may be terminated, which would render us unable to continue providing service to our subscribers.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

The Company owns its corporate headquarters, which occupies a 60,000-square foot building in Edinburg, Virginia. The Company also owns a 26,500-square foot building in Edinburg that houses the Company's main switching center and technical staff, a 10,700-square foot building in Edinburg used for customer services and retail sales, a 5,700-square foot service building outside of the town limits of Edinburg and a 10,100-square foot building in Winchester, Virginia used for both the Company's retail sales and office space and rental space to a non-affiliated tenant.

The Company owns eight telephone exchange buildings that are located in the major towns and some of the rural communities that are served by the regulated telecommunications operations. These buildings contain switching and fiber optic equipment and associated local exchange telecommunications equipment. The Company has fiber optic hubs or points of presence in Hagerstown, Maryland; Ashburn, Berryville, Edinburg, Front Royal, Harrisonburg, Herndon, Leesburg, Stephens City, Warrenton and Winchester, Virginia; and Martinsburg, West Virginia.

The Company leases a warehouse, office space and an operations area in Pennsylvania to support the network and sales efforts in the central Pennsylvania market. The Company also leases office space in Blacksburg, Virginia, and 22 retail locations in its PCS service area in Virginia, Maryland, West Virginia and Pennsylvania. The Company leases land, buildings and tower space in support of its PCS operations. As of December 31, 2007, the Company had 346 sites, including sites on property owned by the Company. The leases for the foregoing land, buildings and tower space expire on various dates between 2008 and 2050. For information about these leases, see Note 13 to the consolidated financial statements appearing elsewhere in this report.

The Company plans to lease additional land, equipment space, and retail space in support of the ongoing PCS and Converged Services expansion.

**ITEM 3. LEGAL PROCEEDINGS**

None

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of security holders during the three months ended December 31, 2007.

**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

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

<b>2007</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 25.53	\$ 22.15
Third Quarter	22.56	15.51
Second Quarter	17.21	14.73
First Quarter	15.82	14.41

<b>2006</b>	<b>High</b>	<b>Low</b>
Fourth Quarter	\$ 16.66	\$ 14.18
Third Quarter	15.67	13.55
Second Quarter	15.67	13.42
First Quarter	15.98	13.28

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

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

The Company awards stock options to its employees meeting certain eligibility requirements under plans approved by its shareholders in 1995 and 2005. Outstanding options and the number of shares available for future issuance as of December 31, 2007 were as follows:

	Number of securities to be issued upon exercise of outstanding options	Weighted average exercise price of outstanding options	Number of securities remaining available for future issuance
1995 stock option plan	236,541	\$ 8.56	—
2005 stock option plan	60,000	\$20.50	1,215,464
<b>Total</b>	<b>296,541</b>	<b>\$10.97</b>	<b>1,215,464</b>

During 2007, under the terms of the 2005 stock option plan, the Company awarded 97,730 shares to members of management, and awarded members of the Board of Directors and all employees with more than one year of continuous service, 66,806 share units (after forfeitures due to termination of employment) outstanding at December 31, 2007. These shares and share units have been deducted from the number of securities remaining available for future issuance in the table above.



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The following graph and table show the cumulative total shareholder return on the Company's common stock compared to the Nasdaq U.S. Index and the Nasdaq Telecommunications Index for the period between December 31, 2002 and December 31, 2007. The Nasdaq Telecommunications Index includes 170 companies that represent a wide mix of telecommunications service and equipment providers, and also includes other Sprint PCS affiliates and smaller carriers that offer similar products and serve similar markets. The graph assumes \$100 was invested on December 31, 2002 in (1) the Company's common stock, (2) the Nasdaq U.S. Index and (3) the Nasdaq Telecommunications Index, and that all dividends were reinvested and market capitalization weighting as of December 31, 2003, 2004, 2005, 2006 and 2007.

	2002	2003	2004	2005	2006	2007
Shenandoah Telecommunications Company	100	107	127	171	205	317
Nasdaq U.S. Index	100	150	163	166	183	198
Nasdaq Telecommunications Index	100	166	177	169	222	197

The Company maintains a dividend reinvestment plan (the "DRIP") for the benefit of its shareholders. When shareholders remove shares from the DRIP, the Company issues a certificate for whole shares, pays out cash for any fractional shares, and cancels the fractional shares purchased. In addition, in conjunction with the award of shares described above, the Company repurchased shares from certain recipients to cover the minimum statutory tax withholding requirements associated with the distribution of the shares. The following table provides information about the Company's repurchases of shares during the three months ended December 31, 2007:

	Number of Shares Purchased	Average Price Paid per Share
October 1 to October 31	2	\$23.26
November 1 to November 30	1	\$23.53
December 1 to December 31	26,077	\$24.37
	<hr/>	
Total	26,080	\$24.37

**ITEM 6. SELECTED FINANCIAL DATA**

The following table presents selected financial data as of December 31, 2007, 2006, 2005, 2004 and 2003 and for each of the years in the five-year period ended December 31, 2007.

The selected financial data as of December 31, 2007 and 2006 and for each of the years in the three-year period ended December 31, 2007 are derived from the Company's audited consolidated financial statements appearing elsewhere in this report. The selected financial data as of December 31, 2005, 2004 and 2003 and for the years ended December 31, 2004 and 2003 are derived from the Company's financial statements.

The selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto appearing elsewhere in this report.

( in thousands, except share and per share data.)

	2007	2006	2005	2004	2003
Operating revenues	\$ 141,183	\$ 169,195	\$ 146,391	\$ 120,994	\$ 105,661
Operating expenses	109,998	148,021	127,015	102,983	87,740
Operating income	31,185	21,174	19,376	18,011	17,921
Interest expense	1,873	2,362	3,076	3,129	3,510
Income taxes	12,971	12,370	6,716	5,921	5,166
Net income from continuing operations (a)	\$ 18,803	\$ 17,999	\$ 10,735	\$ 10,038	\$ 9,539
Discontinued operations, net of tax	—	—	—	—	22,389
Cumulative effect of a change in accounting, net of tax	—	(77)	—	—	(76)
Net income	\$ 18,803	\$ 17,922	\$ 10,735	\$ 10,038	\$ 31,852
Total assets	221,524	207,720	204,921	211,421	185,520
Total debt – including current maturities	21,907	26,016	35,918	52,291	43,346
<b>Shareholder Information:</b>					
Shares outstanding	23,508,525	23,284,284	23,061,135	22,889,430	22,778,304
Income per share from continuing operations-diluted	\$ 0.80	\$ 0.77	\$ 0.46	\$ 0.44	\$ 0.42
Income per share from discontinued operations-diluted	—	—	—	—	0.98
Loss per share from cumulative effect of a change in accounting (b)	—	—	—	—	—
Net income per share-diluted	0.80	0.77	0.46	0.44	1.39
Cash dividends per share	\$ 0.27	\$ 0.25	\$ 0.15	\$ 0.14	\$ 0.13

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

- (a) The 2006 balance shown includes a gain of \$6.4 million, net of tax, relating to the disposition of the RTB stock.
- (b) The cumulative effect adjustments shown above represent approximately (\$0.003) per share.

ITEM 7. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

**General**

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

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

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

The Company is the exclusive provider of wireless mobility communications network products and services on the 1900 MHz band under the Sprint brand from Harrisonburg, Virginia to Harrisburg, York and Altoona, Pennsylvania. The Company's primary service area for the telephone, cable television and long-distance business is Shenandoah County, Virginia. The county is a rural area in northwestern Virginia, with an estimated population of approximately 41,000 inhabitants, which has increased by approximately 6,000 since

2000. While a number of new housing developments are being planned for Shenandoah County, the Company believes that the potential for significant numbers of additional wireline customers in the Shenandoah County operating area is limited.

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

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



**Additional Information About the Company's Business**

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

	Dec. 31,	Sept. 30,	June 30,	Mar. 31,	Dec. 31,
	2007	2007	2007	2007	2006
Telephone Access Lines	24,536	24,712	24,738	24,794	24,830
Cable Television Subscribers	8,303	8,330	8,359	8,420	8,440
Dial-up Internet Subscribers	7,547	8,342	8,895	9,423	9,869
DSL Subscribers	8,136	7,604	7,222	6,999	6,599
Retail PCS Subscribers	187,303	178,077	172,983	165,148	153,503
Long Distance Subscribers	10,689	10,642	10,613	10,541	10,499
Fiber Route Miles	647	638	632	630	625
Total Fiber Miles	35,872	34,570	34,335	34,083	33,764
Long Distance Calls (000) (1)	7,944	7,845	7,952	7,502	7,235
Total Switched Access Minutes (000)	92,331	90,002	86,035	83,664	80,587
Originating Switched Access Minutes (000)	26,128	25,837	24,819	24,952	23,995
Employees (full time equivalents)(2)	411	401	400	358	376
CDMA Base Stations (sites)	346	334	334	334	332
Towers (100 foot and over)	101	101	101	101	100
Towers (under 100 foot)	14	14	14	14	13
PCS Market POPS (000) (3)	2,297	2,297	2,291	2,281	2,268
PCS Covered POPS (000) (3)	1,814	1,779	1,775	1,766	1,752
PCS Average Monthly Retail Churn % (4)	2.3%	2.3%	1.7%	1.8%	1.9%
Converged Services Properties Served (5)	112	109	109	105	102
Converged Services Video Service Users (6)	11,240	10,969	8,735	9,524	8,989
Converged Services Telephone Service Users (6)	4,035	3,775	4,169	4,466	4,492
Converged Services Network/Internet Users (6)	25,979	25,542	19,204	22,350	21,943

	December 31, 2007	
	Telephone	CATV
<b>Plant Facility Statistics</b>		
(Excludes information for Converged Services)		
Route Miles	2,256	574
Miles of Distribution Wire	638	191
Utility Poles	7,549	38
Miles of Aerial Copper Cable	314	162
Miles of Buried Copper Cable	1,393	377
Miles of Underground Copper Cable	39	2
Fiber Optic Cable-Fiber Miles Regulated	310	—
Fiber Miles Unregulated	249	—
Fiber Miles Network	94	—

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

- 2) The March 31, 2007 number reflects early retirements, attrition and terminations during the quarter. An additional 20 early retirements occurred in April 2007. During May 2007, the Company acquired 13 retail locations, and added additional employees to fully staff and support these additional locations.
- 3) POPS refers to the estimated population of a given geographic area and is based on information purchased by Sprint Nextel from Geographic Information Services. Market POPS are those within a market area which the Company is authorized to serve under its Sprint Nextel agreements, and Covered POPS are those covered by the network's service area.
- 4) PCS Average Monthly Churn is the average of the three monthly subscriber turnover, or churn calculations for the period.
- 5) Indicates MDU complexes where Converged Services provides service.
- 6) The variation in users between quarters largely reflects the impact of the cycles of the academic year.

**Significant Transactions**

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

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

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

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

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

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

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

On November 30, 2006, the Company announced that it would freeze benefit accruals for all participants in the Company's defined benefit pension plans as of January 31, 2007, and that it would replace the frozen



benefits by increasing the Company's contributions to the existing 401(k) Supplemental Retirement Plan, as well as a new non-qualified defined contribution plan to be established for selected employees, going forward. The Company also announced that it intended to terminate and settle the defined benefit pension plan. Included in net pension costs for 2006 was a gain on the curtailment of the pension plans of \$1.8 million, offset by \$0.8 million of accelerated amortization of prior unrecognized pension costs.

The Company also announced a voluntary early retirement incentive plan for 58 eligible participants, as well as the intention to use the early retirement incentive, attrition, and if necessary, an involuntary reduction in force to eliminate up to 50 positions. Severance benefits on a sliding scale based on pay category and years of service were payable under the reduction in force. As of December 31, 2006, seven employees had elected to accept the early retirement incentive. Included in the Company's consolidated statement of income for 2006 were \$0.4 million in estimated costs of the early retirement incentives for these employees. During January 2007, 25 additional employees elected to accept the early retirement offer, and during February 2007, ten employees, including three hired on a temporary basis, separated from service under the reduction in force. The Company recorded approximately \$2.0 million in costs associated with the additional early retirements during the first quarter of 2007, and during the fourth quarter of 2007, recognized \$0.7 million in pension expense related to the settlement of pension liabilities for employees who took lump sum pension payments following their early retirement. At this time, the Company expects to complete the settlement of the defined benefit pension plan in 2008, and will record approximately \$1.8 million in pension expense as settlements occur.

On August 4, 2005, the board of directors of the Rural Telephone Bank ("RTB") adopted resolutions for the purpose of dissolving RTB as of October 1, 2005. The Company held 10,821,770 shares of Class B and Class C RTB Common Stock (\$1.00 par value) which was reflected on the Company's books at \$796,000 under the cost method at December 31, 2005. In 2006, the Company received \$11.3 million in proceeds, and recognized a gain of approximately \$6.4 million, net of tax, related to the dissolution of the RTB and the redemption of the stock. In the fourth quarter of 2007, the Company received an additional \$0.1 million as a final distribution on the dissolution of the RTB.

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

#### **Critical Accounting Policies**

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

##### ***Allowance for Doubtful Accounts***

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

The allowance for doubtful accounts balance as of December 31, 2007, 2006 and 2005 was \$0.2 million, \$0.6 million and \$0.6 million, respectively. If the allowance for doubtful accounts is not adequate, it could

have a material adverse effect on our liquidity, financial position and results of operations. The decrease in the reserve (above) and in net bad debt write-offs (below) during 2007 reflects changes in the handling of bad debt and related transactions under the amended Sprint Nextel management agreement.

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

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

### **Revenue Recognition**

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

Effective July 1, 2003, the Company adopted Emerging Issues Task Force (“EITF”) No. 00-21, “Accounting for Revenue Arrangements with Multiple Element Deliverables.” The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, are presumed to be a bundled transaction, and the consideration is measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 has required evaluation of each arrangement entered into by the Company for each sales channel. The Company will continue to monitor arrangements with its sales channels to determine if any changes in revenue recognition would need to be made in the future. Substantially all activation fee revenue and associated direct costs are recognized at the time the related wireless handset is sold and is classified as equipment revenue and cost of goods and services, respectively.

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

### **Income Taxes**

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

*Leases*

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

*Other*

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

**Results of Continuing Operations****2007 Compared to 2006****Consolidated Results**

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

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

For the year ended December 31, 2007, operating revenue decreased \$28.0 million, or 16.6%, due to the changes in the Company's PCS segment as a result of the amendments to the management agreement with Sprint Nextel. Travel revenue and travel expenses, reported and settled on a gross basis in the past, are now settled net as a component of a Net Service Fee paid subsequent to January 1, 2007. The Net Service Fee, in addition to replacing the net travel settlements, also replaced several other fees and pass through costs historically recognized by PCS. See the PCS Segment Results section below for additional details of these changes.

**Operating expenses**

For the year ended December 31, 2007, operating expenses decreased \$38.0 million, or 25.7%, primarily due to the changes in the Company's PCS segment. For the year ended December 31, 2007, PCS operating expenses decreased \$41.3 million, or 41.4%, while Telephone and Cable TV operating expenses increased \$3.1 million and \$1.3 million, respectively, principally due to costs associated with the early retirement offer announced in late 2006, and the cost of the share award distributed in December 2007 to management level employees. The Company recognized expenses associated with these two programs of approximately \$4.8 million in 2007.

**Other income (expense)**

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

**Income tax provision**

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



**Segment Results****PCS**

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

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

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

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

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

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

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In lieu of such fees and the settling of revenues and expenses for use on each other's networks, Sprint Nextel will retain a Net Service Fee equal to 8.8% of billed revenue (net of customer credits, account write-offs and other billing adjustments). This 8.8% Net Service Fee is in addition to the 8% Management Fee on billed

revenue (net of customer credits, account write-offs and other billing adjustments) retained by Sprint Nextel under the management agreement. The Net Service Fee was designed to approximate the prior settlements adjusted to reflect new pricing for travel and CCPU and CPGA services (i.e., customer costs, service bureau, customer activation and billing). The Net Service Fee was set to be net of the cost to provide local customer service support to Sprint Nextel iDEN customers in the Company's local PCS service area.

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

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

### **Operating Revenues**

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

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

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

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

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

### **Cost of goods and services**

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

Cost of goods and services experienced increases due to the cost of the PCS phones sold to new and existing customers. The cost of end user equipment increased \$1.7 million from 2006. Network costs increased \$1.3 million in 2007 as the PCS segment added EVDO capability for high speed data transmission such as internet access to 52 tower sites during the fourth quarter of 2007, as well as adding 14 additional cell sites

to expand our capacity and coverage footprint. The Company anticipates significant additional expenses in 2008 for additional cell sites and EVDO capability on additional tower sites. All other costs of goods and services increased \$0.4 million over 2006.

### Selling, general and administrative

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

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

### Depreciation and amortization

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

### Telephone

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

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

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

### **Operating Revenues**

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

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

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

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

### **Cost of goods and services**

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

### **Selling, general and administrative**

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

### **Depreciation expense**

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

**Converged Services**

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

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

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

**Operating Revenues**

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

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

**Selling, general and administrative**

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

**Depreciation and amortization**

Depreciation and amortization expense increased \$0.8 million, or 16.1%, in 2007 over 2006. The increase reflects depreciation on additional capital spending for new properties in 2006 and 2007, the increase in 2007 expense over 2006 related to shortened lives on certain phone system assets initiated in late 2006,





offset by the absence of accelerated depreciation in 2006 relating to four MDU's that elected not to renew their contracts for service.

### Mobile

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

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

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

### Operating revenues

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

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

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

### Operating expenses

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

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



**Cable Television**

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

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

**Operating revenues**

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

**Cost of goods and services**

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

**Selling, general and administrative expenses**

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

**2006 Compared to 2005****Consolidated Results**

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

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

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

**Operating expenses**

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

**Other income (expense)**

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

**Income tax provision**

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

**Segment Results****PCS**

(in thousands)	Year Ended December 31,		Change	
	2006	2005	\$	%
<b>Segment operating revenues</b>				
Wireless service revenue	\$ 75,509	\$ 61,606	\$ 13,903	22.6
Travel and roaming revenue	34,048	27,220	6,828	25.1
Equipment revenue	4,210	3,459	751	21.7
Other revenue	1,688	2,134	(446)	(20.9)
<b>Total segment operating revenues</b>	<b>115,455</b>	<b>94,419</b>	<b>21,036</b>	<b>22.3</b>
<b>Segment operating expenses</b>				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	52,511	43,149	9,362	21.7
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	32,958	28,848	4,110	14.2
Depreciation and amortization	14,326	12,692	1,634	12.9
<b>Total segment operating expenses</b>	<b>99,795</b>	<b>84,689</b>	<b>15,106</b>	<b>17.8</b>
<b>Segment operating income</b>	<b>\$ 15,660</b>	<b>\$ 9,730</b>	<b>\$ 5,930</b>	<b>60.9</b>

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

Through Sprint Nextel prior to the 2007 Amendments, the Company received revenue from wholesale resellers of wireless PCS service. These resellers paid a flat rate per minute of use for all traffic their subscribers generate on the Company's network. The Company's cost to handle this traffic is the incremental cost to provide the necessary network capacity.

The Company's average PCS retail customer turnover, or churn rate, was 1.9% in 2006, compared to 2.0% in 2005. In 2006, there was an increase in PCS bad debt expense to 4.2% of PCS service revenues compared to 4.0% in 2005.

**Operating Revenues**

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

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

PCS equipment revenue increased \$0.8 million, or 21.7%. The increase was primarily due to the addition of new PCS subscribers in 2006 and more subscribers upgrading their handsets to access new features provided



with the service. The effect of these factors was offset in part by a lower average price received for telephone equipment in 2006. During 2006, as a result of adding new subscribers, the Company sold 44,386 handsets compared to 36,179 in 2005. In addition, as a result of upgrades, the Company sold 15,766 handsets in 2006 compared to 13,999 in 2005.

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

#### **Cost of goods and services**

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

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

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

#### **Selling, general and administrative**

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

#### **Depreciation and amortization**

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

**Telephone**

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

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

During 2006, new housing starts in the Company's local telephone area resulted in a net increase of 90 access lines, although the trend over past periods has been a decline in subscribers, principally due to consumer migration to wireless and DSL services from traditional telephone services.

**Operating Revenues**

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

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

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

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

**Cost of goods and services**



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

**Selling, general and administrative**

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

**Converged Services**

(in thousands)	Year Ended December 31,		Change	
	2006	2005	\$	%
Segment operating revenues				
Service revenue – wireline	\$ 9,976	\$ 9,631	\$ 345	3.6
Equipment revenue	146	12	134	n/m
Other revenue	545	179	366	204.5
<b>Total segment operating revenues</b>	<b>10,667</b>	<b>9,822</b>	<b>845</b>	<b>8.6</b>
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	8,662	7,275	1,387	19.1
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	4,347	3,886	461	11.9
Depreciation and amortization	5,103	2,575	2,528	98.2
<b>Total segment operating expenses</b>	<b>18,112</b>	<b>13,736</b>	<b>4,376</b>	<b>31.9</b>
<b>Segment operating (loss)</b>	<b>\$ (7,445)</b>	<b>\$ (3,914)</b>	<b>\$ (3,531)</b>	<b>90.2</b>

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

**Operating Revenues**

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

**Operating Expenses**

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



\$2.4 million less in 2006 than 2005. These costs are reflected in cost of goods and services and selling, general and administrative expenses in the table above.

**Cost of goods and services**

Cost of goods and services reflects the cost of purchasing video and voice services, the network costs to provide Internet services to customers and network maintenance and repair. Costs of goods and services increased \$1.4 million, or 19.1%, in 2006 compared to 2005. Major components of the increase included \$0.4 million in losses on asset disposals; allocated costs of \$0.4 million; and \$0.4 million in other network costs.

**Selling, general and administrative**

Selling, general and administrative expenses increased \$0.5 million, or 11.9%, in 2006 over 2005, primarily reflecting increased allocated costs, offset by a reduction of \$0.1 million in net bad debt expenses.

**Depreciation and amortization**

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

**Mobile**

(in thousands)	Year Ended December 31,		Change	
	2006	2005	\$	%
Segment operating revenues				
Tower lease revenue-affiliate	\$ 1,656	\$ 1,386	\$ 270	19.5
Tower lease revenue-non-affiliate	3,412	3,147	265	8.4
Other revenue	183	146	37	25.3
<b>Total segment operating revenues</b>	<b>5,251</b>	<b>4,679</b>	<b>572</b>	<b>12.2</b>
Segment operating expenses				
Cost of goods and services, exclusive of depreciation and amortization shown separately below	1,595	1,414	181	12.8
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	686	560	126	22.5
Depreciation and amortization	878	713	165	23.1
<b>Total segment operating expenses</b>	<b>3,159</b>	<b>2,687</b>	<b>472</b>	<b>17.6</b>
<b>Segment operating income</b>	<b>\$ 2,092</b>	<b>\$ 1,992</b>	<b>\$ 100</b>	<b>5.0</b>

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



**Cable Television**

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

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

**Operating revenues**

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

**Operating expenses**

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

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

**Financial Condition, Liquidity and Capital Resources**

The Company has four principal sources of funds available to meet the financing needs of its operations, capital projects, debt service, investments and potential dividends. These sources include cash flows from operations, cash and cash equivalents, the liquidation of investments and borrowings. Management routinely considers the alternatives available to determine what mix of sources are best suited for the long-term benefit of the Company.

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



In 2007, the Company used \$30.6 million of cash in investing activities. Purchase and construction of plant and equipment increased to \$29.1 million in 2007, as the Company increased capital spending in its PCS segment following the resolution of uncertainties concerning the status of our relationship with Sprint Nextel. The Company added EVDO data carrying capacity to 52 PCS sites during 2007, and added 14 cell sites to expand our coverage footprint. The 2007 increase in purchases of investment securities results from the decision to fund a rabbi trust in connection with the Executive Supplemental Retirement Plan. In 2006, the Company used \$9.8 million in investing activities, including \$21.2 million used for the purchase and construction of plant and equipment for the operation of the Company's businesses, offset by \$11.3 million received on the sale of the RTB stock. Capital spending in 2006 was \$8.9 million lower than 2005 spending of \$30.1 million, which included \$29.5 million for the purchase and construction of plant and equipment. The Company reduced certain capital expenditures in the PCS segment during 2006 due to uncertainty as to any potential changes in the status of the PCS subsidiary.

Net cash used in financing was \$9.3 million in 2007, compared to \$13.6 million in 2006 and \$18.7 million in 2005. In 2007, the Company made \$4.1 million in scheduled debt payments, and increased the dividend over 2006. In 2005, the Company made an unscheduled payment on the revolving debt facility of \$12 million, in addition to the scheduled principal payments of \$4.4 million on the term debt facilities. In 2006, the Company paid down the remaining \$1.2 million outstanding balance of the revolving debt facility, paid off \$4.7 million in borrowings with the RTB and Rural Utilities Service ("RUS"), and made approximately \$4.0 million in scheduled principal payments on the outstanding CoBank debt. The dividend increased by \$1.8 million in 2006 over 2005 as the Company paid a special dividend from the gain on the sale of the RTB stock.

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

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

*Indebtedness.* At December 31, 2007, the Company's indebtedness totaled \$21.9 million and the annualized overall weighted average rate of such indebtedness was approximately 7.6%.

On November 30, 2004, the Company amended the terms of its Master Loan Agreement with CoBank, ACB to provide for a \$15 million revolving reducing credit facility. Under the terms of the amended credit facility, the Company was able to borrow up to \$15 million for use in connection with the acquisition of NTC Communications LLC and other corporate purposes. The revolving credit facility has a 12-year term with scheduled quarterly payments beginning June 2006. Availability under this facility decreased each quarter by \$312,500 since December 31, 2004; as of December 31, 2007, availability totaled \$11.3 million. Borrowings under the facility accrue interest at an adjustable rate that can be converted to a fixed rate at the Company's option. Repayment of the revolving credit facility is secured by a pledge of the stock of all of the subsidiaries of the Company. In May 2005, the Company made an unscheduled \$12.0 million payment on the revolving debt facility, from funds invested in short-term cash investments, to reduce interest expense; the remaining balance of \$1.2 million was re-paid in the first quarter of 2006.

The outstanding balance of the CoBank term loan is \$21.7 million at December 31, 2007, all of which is at fixed rates ranging from approximately 6.67% to 8.05%. The stated rate excludes patronage credits that are received from CoBank. These patronage credits are a distribution of profits from CoBank, which is a cooperative required to distribute its profits to its members. During the first quarter of 2007 and 2006, the Company received patronage credits of approximately 100 basis points each on its outstanding CoBank debt balance. The CoBank term facility matures in 2013 and requires monthly payments of approximately \$350 thousand plus interest.

The CoBank loan agreements have three financial covenants that are measured on a trailing 12-month basis and are calculated on continuing operations. At December 31, 2007, the ratio of total debt to operating cash flow,



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which must be 2.5 or lower, was 0.4; the equity to total assets ratio, which must be 35% or higher, was 68.22%; and the ratio of operating cash flow to scheduled debt service, which must exceed 2.0, was 7.54. The Company was in compliance with all covenants at December 31, 2007.

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

On August 4, 2005, the board of directors of the Rural Telephone Bank adopted resolutions for the purpose of dissolving RTB as of October 1, 2005. The Company held 10,821,770 shares of Class B and Class C RTB Common Stock (\$1.00 par value) which was reflected on the Company's books at \$796,000 under the cost method at December 31, 2005. In 2006, the Company received \$11.3 million in proceeds, and recognized a gain of approximately \$6.4 million, net of tax, related to the dissolution of the RTB and the redemption of the stock, and in 2007, received a final distribution from the RTB of \$0.1 million.

*Contractual Commitments.* The Company is obligated to make future payments under various contracts it has entered into, including amounts pursuant to its various long-term debt facilities, and non-cancelable operating lease agreements for retail space, tower space and cell sites. Expected future minimum contractual cash obligations for the next five years and in the aggregate at December 31, 2007, are as follows:

### Payments due by periods

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

- 1) Represents expected contributions to the qualified pension plan.
- 2) Amounts include payments over reasonably assured renewals. See Note 13 to the consolidated financial statements appearing elsewhere in this report for additional information.
- 3) Represents required payments to property owners for Converged Services to provide services to certain MDU communities. Does not include variable revenue sharing amounts that could total up to approximately \$473 thousand annually.
- 4) Represents open purchase orders at December 31, 2007.

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

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

*Capital Commitments.* The Company spent \$29.1 million on capital projects in 2007, an increase from the \$21.2 million spent in 2006, but comparable to the \$29.5 million spent in 2005. The Company postponed certain PCS related spending in 2006, due to uncertainty as to the

potential change in the status of the PCS subsidiary.

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

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

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

#### **Recently Issued Accounting Standards**

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company's market risks relate primarily to changes in interest rates on instruments held for other than trading purposes. The Company's interest rate risk generally involves three components. The first component is outstanding debt with variable rates. As of December 31, 2007, the Company had no variable rate debt outstanding. All of the Company's outstanding debt has fixed rates through maturity. A 10.0% increase in interest rates would decrease the fair value of the Company's total debt by approximately \$0.4 million, while the estimated fair value of the fixed rate debt was approximately \$22.5 million as of December 31, 2007.

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

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

Management does not view market risk as having a significant impact on the Company's results of operations, although future results could be adversely affected if interest rates were to increase significantly for an extended period and the Company were to require external financing. The Company's investments in publicly traded stock and bond mutual funds under the rabbi trust, which are subject to market risks and could experience significant swings in market values, are offset by corresponding changes in the liabilities owed to participants in the Executive Supplemental Retirement Plan. General economic conditions affected by regulatory changes, competition or other external influences may pose a higher risk to the Company's overall results.

As of December 31, 2007, the Company has \$7.3 million invested in privately held companies directly or through investments with portfolio managers. Most of the companies are in an early stage of development and significant increases in interest rates could have an adverse impact on their results, ability to raise capital and viability. The Company's market risk is limited to the funds previously invested and an additional \$0.5 million committed under contracts the Company has signed with portfolio managers.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements listed in Item 15 are filed as part of this report and appear on pages F-2 through F-34.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None

**ITEM 9A. CONTROLS AND PROCEDURES**

**(a) *Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), our management, including our chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of December 31, 2007. Disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in our reports filed or submitted under the Exchange Act, such as this Form 10-K, is properly recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission's rules and forms. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures that, by their nature, can provide only reasonable assurance regarding management's control objectives. Management does not expect that its disclosure controls and procedures will prevent all errors and fraud. A control system, irrespective of how well it is designed and operated, can only provide reasonable assurance, and cannot guarantee that it will succeed in its stated objectives.

Based on an evaluation of the effectiveness of the design and operation of disclosure controls and procedures, our chief executive officer and chief financial officer concluded that, as of December 31, 2007, our disclosure controls and procedures were effective in reaching a reasonable level of assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms.

**(b) *Management's Report on Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. With the participation of our Chief Executive Officer and our Chief Financial Officer, our management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2007, based on the framework and criteria established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on management's evaluation under the COSO framework of our internal control over financial reporting, management concluded that our internal control over financial reporting was effective as of December 31, 2007.

KPMG LLP, an independent registered public accounting firm, which audited the Company's financial statements included in this Annual Report, has issued a report on the effectiveness of the Company's internal control over financial reporting, which is included in Item 8 of this Annual Report.

**(c) *Changes in Internal Control Over Financial Reporting***

**Changes in Internal Control Over Financial Reporting During 2007 Fourth Quarter**

There have been no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information responsive to this Item 10 is incorporated herein by reference to the Company's definitive proxy statement for its 2008 Annual Meeting of Shareholders.

**ITEM 11. EXECUTIVE COMPENSATION**

Information responsive to this Item 11 is incorporated herein by reference to the Company's definitive proxy statement for its 2008 Annual Meeting of Shareholders.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Information responsive to this Item 12 is incorporated herein by reference to the Company's definitive proxy statement for its 2008 Annual Meeting of Shareholders.

**ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE**

Information responsive to this Item 13 is incorporated herein by reference to the Company's definitive proxy statement for its 2008 Annual Meeting of Shareholders.

**ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

Information responsive to this Item 14 is incorporated herein by reference to the Company's definitive proxy statement for its 2008 Annual Meeting of Shareholders

**PART IV**

**ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES**

(a)(1) The following consolidated financial statements of the Company appear on pages F-2 through F-34 of this report and are incorporated by reference in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm

Consolidated Financial Statements

Consolidated Balance Sheets as of December 31, 2007 and 2006

Consolidated Statements of Income for the three years ended December 31, 2007

Consolidated Statements of Shareholders' Equity and Comprehensive Income for the three years ended December 31, 2007

Consolidated Statements of Cash Flows for the three years ended December 31, 2007

Notes to Consolidated Financial Statements

(a)(2) All schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) The following exhibits are either filed with this Form 10-K or incorporated herein by reference. Our Securities Exchange Act file number is 000-09881.

**Exhibits Index**

<b><u>Exhibit Number</u></b>	<b><u>Exhibit Description</u></b>
3.1	Amended and Restated Articles of Incorporation of Shenandoah Telecommunications Company filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ending June 30, 2007.
3.2	Shenandoah Telecommunications Company Bylaws, as amended, filed as Exhibit 3.2 to the Company's Current Report on Form 8-K dated July 18, 2007.
4.1	Rights Agreement, dated as of February 8, 2008 between the Company and American Stock Transfer & Trust Company filed as Exhibit 4.1 to the Company's Current Report on Form 8- K, dated January 25, 2008.
4.2	Shenandoah Telecommunications Company Dividend Reinvestment Plan filed as Exhibit 4.1 to the Company's Registration Statement on Form S-3 (No. 333-74297).
<u>*4.3</u>	<u>Specimen representing the Common Stock, no par value, of Shenandoah Telecommunications Company.</u>
10.1	Shenandoah Telecommunications Company Stock Incentive Plan filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-21733).
10.2	Shenandoah Telecommunications Company Dividend Reinvestment Plan filed as Exhibit 4.4 to the Company's Registration Statement on Form S-3D (No. 333-74297).
10.3	Settlement Agreement and Mutual Release dated as of January 30, 2004 by and among Sprint Spectrum L.P., Sprint Communications Company L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P. and Shenandoah Personal Communications Company and Shenandoah Telecommunications Company, dated January 30, 2004; filed as Exhibit 10.3 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.4	Sprint PCS Management Agreement dated as of November 5, 1999 by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.4 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.5	Sprint PCS Services Agreement dated as of November 5, 1999 by and between Sprint Spectrum L.P. and Shenandoah Personal Communications Company filed as Exhibit 10.5 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.6	Sprint Trademark and Service Mark License Agreement dated as of November 5, 1999 by and between Sprint Communications Company, L.P. and Shenandoah Personal Communications Company filed as Exhibit 10.6 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.7	Sprint Spectrum Trademark and Service Mark License Agreement dated as of November 5, 1999 by and between Sprint Spectrum L.P. and Shenandoah Personal Communications Company filed as Exhibit 10.7 to the Company's Report on Form 10-K for the year ended December 31, 2003.



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- 10.8 Addendum I to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.8 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.9 Asset Purchase Agreement dated November 5, 1999 by and among Sprint Spectrum L.P., Sprint Spectrum Equipment Company, L. P., Sprint Spectrum Realty Company, L.P., and Shenandoah Personal Communications Company, serving as Exhibit A to Addendum I to the Sprint PCS Management Agreement and as Exhibit 2.6 to the Sprint PCS Management Agreement filed as Exhibit 10.9 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.10 Addendum II dated August 31, 2000 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.10 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.11 Addendum III dated September 26, 2001 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.11 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.12 Addendum IV dated May 22, 2003 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.12 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.13 Addendum V dated January 30, 2004 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.13 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.14 Supplemental Executive Retirement Plan as amended and restated, filed as Exhibit 10.14 to the Company's Current Report on Form 8-K dated March 23, 2007.
- 10.15 Addendum VI dated May 24, 2004 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.15 to the Company's Report on Form 10-Q for the quarterly period ended June 30, 2004.
- 10.16 Second Amended and Restated Master Loan Agreement, dated as of November 30, 2004, by and between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.16 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.17 Third Supplement to the Master Loan Agreement dated as Of November 30, 2004, between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.17 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.18 Second Amendment to the Term Supplement to the Master Loan Agreement dated as Of November 30, 2004, between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.18 to the Company's Current Report on Form 8-K dated December 3, 2004.

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- 10.19 Pledge Agreement dated November 30, 2004 between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.19 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.20 Membership Interest Pledge Agreement dated November 30, 2004 between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.20 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.21 Membership Interest Pledge Agreement dated November 30, 2004 between CoBank, ACB and Shentel Converged Services, Inc. filed as Exhibit 10.21 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.22 Interest Purchase Agreement dated November 30, 2004 by and among Shentel Converged Services, Inc., NTC Communications LLC and the Interest holders named therein filed as Exhibit 10.22 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.23 Form of Incentive Stock Option Agreement under the 1996 Shenandoah Telecommunications Company Stock Incentive Plan (for routine formula grants) filed as Exhibit 10.23 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.24 Forms of Incentive Stock Option Agreement under the 1996 Shenandoah Telecommunications Company Stock Incentive Plan (for newly hired executive employees) filed as Exhibit 10.24 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.25 Description of the Shenandoah Telecommunications Company Incentive Plan filed as Exhibit 10.25 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.26 Description of Compensation of Non-Employee Directors. Filed as Exhibit 10.29 to the Company's Current Report on Form 8-K dated May 4, 2005.
- 10.27 Description of Management Compensatory Plans and Arrangements. Filed as Exhibit 10.27 to the Company's current report on Form 8-K dated April 20, 2005.
- 10.28 2005 Stock Incentive Plan filed as Exhibit 10.1 to the Company's Registration Statement on Form S-8 (No. 333-127342).
- 10.29 Form of Incentive Stock Option Agreement under the 2005 Stock Incentive Plan filed as Exhibit 10.29 to the Company's Report on Form 10-K for the year ended December 31, 2005.
- 10.30 Stock Redemption Agreement dated as of November 10, 2005 among Shenandoah Telephone Company and The Rural Telephone Bank filed as Exhibit 10.30 to the Company's Report on Form 10-K for the year ended December 31, 2005.
- 10.31 Addendum VII dated March 13, 2007 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., Wireless Co., L.P., APC PCS, LLC, Phillieco, L.P., and Shenandoah Personal Communications Company, filed as Exhibit 10.31 to the Company's Report on Form 10-K for the year ended December 31, 2006.
- 10.32 Settlement Agreement and Mutual Release dated March 13, 2007 by and among Sprint Nextel Corporation, Sprint Spectrum L.P., Wireless Co., L.P., Sprint Communications Company L.P., APC PCS, LLC, Phillieco, L.P., and Shenandoah Personal Communications

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Company and Shenandoah Telecommunications, filed as Exhibit 10.32 to the Company's Report on Form 10-K for the year ended December 31, 2006.

- 10.33 Form of Performance Share Award to Executives filed as Exhibit 10.33 to the Company's Current Report on Form 8-K dated September 20, 2007.
- 10.34 Letter Agreement with CoBank, ACB dated July 1, 2007, filed as Exhibit 10.34 to the Company's Report on Form 10-Q for the period ended September 30, 2007.
- 10.35 Letter Agreement with CoBank, ACB dated October 26, 2007 and effective as of July 1, 2007 filed as Exhibit 10.35 to the Company's Report on Form 10-Q for the period ended September 30, 2007.
- 10.36 Addendum VIII to the Sprint Management Agreement dated November 19, 2007, filed as Exhibit 10.36 to the Company's Current Report on Form 8-K dated November 20, 2007.
- \*21 List of Subsidiaries.
- \*23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- \*31.1 Certification of President and Chief Executive Officer of Shenandoah Telecommunications Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- \*31.2 Certification of Vice President and Chief Financial Officer of Shenandoah Telecommunications Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- \*32 Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.

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\* Filed herewith.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SHENANDOAH TELECOMMUNICATIONS COMPANY

March 12, 2008

By: /s/ CHRISTOPHER E. FRENCH

\_\_\_\_\_  
Christopher E. French, President  
(Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/CHRISTOPHER E. FRENCH

\_\_\_\_\_  
President & Chief Executive Officer,  
Director (Principal Executive Officer)

March 12, 2008

Christopher E. French

/s/ADELE M. SKOLITS

\_\_\_\_\_  
Vice President – Finance and Chief Financial Officer  
(Principal Financial Officer and  
Principal Accounting Officer)

March 12, 2008

Adele M. Skolits

/s/DOUGLAS C. ARTHUR

\_\_\_\_\_  
Director

March 12, 2008

Douglas C. Arthur

/s/KEN L. BURCH

\_\_\_\_\_  
Director

March 12, 2008

Ken L. Burch

/s/TRACY FITZSIMMONS

\_\_\_\_\_  
Director

March 12, 2008

Tracy Fitzsimmons

/s/ RICHARD L. KOONTZ, JR.

\_\_\_\_\_  
Director

March 12, 2008

Richard L. Koontz, Jr.

/s/DALE S. LAM

\_\_\_\_\_  
Director

March 12, 2008

Dale S. Lam

/s/ JONELLE ST. JOHN

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Director

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March 12, 2008  
Jonelle St. John

/s/WILLIAM A. TRUBAN, JR. Director

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March 12, 2008  
William A. Truban, Jr.

/s/JAMES E. ZERKEL II Director

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March 12, 2008  
James E. Zerkel II

**SHENANDOAH TELECOMMUNICATIONS COMPANY  
AND SUBSIDIARIES**

Index to the Consolidated 2007 Financial Statements

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<u>Reports of Independent Registered Public Accounting Firm</u>	F-2 and F-3
Consolidated Financial Statements for the Years Ended December 31, 2007, 2006 and 2005	
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Shenandoah Telecommunications Company:

We have audited Shenandoah Telecommunications Company and subsidiaries' (the Company's) internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Shenandoah Telecommunications Company and subsidiaries as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007, and our report dated March 12, 2008 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Richmond, Virginia  
March 12, 2008

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Shenandoah Telecommunications Company:

We have audited the accompanying consolidated balance sheets of Shenandoah Telecommunications Company and subsidiaries (the Company) as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shenandoah Telecommunications Company and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

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

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control-Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 12, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Richmond, Virginia  
March 12, 2008



**SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

**December 31, 2007 and 2006**

*in thousands*

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

See accompanying notes to consolidated financial statements.

(Continued)



**SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**December 31, 2007 and 2006**  
**in thousands**

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

**SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**Years Ended December 31, 2007, 2006 and 2005**  
*in thousands, except per share amounts*

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

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Weighted average shares outstanding, basic	23,365	23,157	22,977
<hr/>			
Diluted net income per share:			
Net income before cumulative effect of a change in accounting	\$ 0.80	\$ 0.77	\$ 0.46
Cumulative effect of a change in accounting, net of income taxes	—	—	—
<hr/>			
	\$ 0.80	\$ 0.77	\$ 0.46
<hr/>			
Weighted average shares outstanding, diluted	23,497	23,331	23,109
<hr/>			

See accompanying notes to consolidated financial statements.

**SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**AND COMPREHENSIVE INCOME**

**Years Ended December 31, 2007, 2006 and 2005**

*in thousands, except per share amounts*

	Shares	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2004	22,890	\$ 6,319	\$ 106,373	\$ 65	\$ 112,757
Comprehensive income:					
Net income	—	—	10,735	—	10,735
SERP additional minimum pension liability	—	—	—	(104)	(104)
Net unrealized change in securities available-for-sale, net of tax of \$(40)	—	—	—	(65)	(65)
<b>Total comprehensive income</b>					<b>10,566</b>
Dividends declared (\$0.15 per share)	—	—	(3,532)	—	(3,532)
Stock based compensation	—	347	—	—	347
Common stock issued through exercise of incentive stock options	171	1,169	—	—	1,169
Excess tax benefit from stock options exercised	—	293	—	—	293
Balance, December 31, 2005	23,061	\$ 8,128	\$ 113,576	\$ (104)	\$ 121,600
Comprehensive income:					
Net income	—	—	17,922	—	17,922
SERP additional minimum pension liability	—	—	—	104	104
Net unrealized loss from pension plans, net of tax	—	—	—	(1,823)	(1,823)
<b>Total comprehensive income</b>					<b>16,203</b>
Dividends declared (\$0.25 per share)	—	—	(5,808)	—	(5,808)
Dividends reinvested in common stock	31	474	—	—	474
Common stock repurchased from dividend reinvestment plan participants	—	(6)	—	—	(6)
Stock based compensation	—	94	—	—	94
Conversion of liability classified awards to equity classified awards	—	1,037	—	—	1,037
Common stock issued through exercise of incentive stock options	192	1,368	—	—	1,368
Net excess tax benefit from stock options exercised	—	227	—	—	227
Balance, December 31, 2006	23,284	\$ 11,322	\$ 125,690	\$ (1,823)	\$ 135,189

(Continued)

Comprehensive income:					
Net income	—	—	18,803	—	18,803
Reclassification adjustment for unrealized loss from pension plans included in net income, net of tax	—	—	—	476	476
Net unrealized loss from pension plans, net of tax	—	—	—	(392)	(392)
<b>Total comprehensive income</b>					<b>18,887</b>
Dividends declared (\$0.27 per share)	—	—	(6,321)	—	(6,321)
Dividends reinvested in common stock	23	518	—	—	518
Common stock repurchased	(26)	(636)	—	—	(636)
Stock based compensation	—	153	—	—	153
Common stock issued for share awards	98	2,075	—	—	2,075
Conversion of liability classified awards to equity classified awards	—	55	—	—	55
Common stock issued through exercise of incentive stock options	130	1,048	—	—	1,048
Net excess tax benefit from stock options exercised	—	156	—	—	156
Balance, December 31, 2007	23,509	\$ 14,691	\$ 138,172	\$ (1,739)	\$ 151,124

See accompanying notes to consolidated financial statements.

**SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2007, 2006 and 2005**

*in thousands*

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

(Continued)



**SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**Years Ended December 31, 2007, 2006 and 2005**

*in thousands*

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

See accompanying notes to consolidated financial statements.

**SHENANDOAH TELECOMMUNICATIONS COMPANY AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Summary of Significant Accounting Policies**

**Description of business:** Shenandoah Telecommunications Company and its subsidiaries (collectively, the "Company") provide telephone service, wireless personal communications service ("PCS") under the Sprint brand name, cable television, unregulated communications equipment sales and services, Internet access, and paging services. In addition, the Company leases towers and operates and maintains an interstate fiber optic network. The Company, through its subsidiary Shentel Converged Services, provides local and long distance voice, video, and Internet services on an exclusive and non-exclusive basis to multi-dwelling unit ("MDU") communities (primarily off-campus college student housing) throughout the southeastern United States including Virginia, North Carolina, Maryland, South Carolina, Georgia, Florida, Tennessee, Mississippi and Delaware. The Company's other operations are located in the four-state region surrounding the Northern Shenandoah Valley of Virginia. Pursuant to a management agreement with Sprint Nextel Communications Company and its related parties (collectively, "Sprint Nextel"), the Company is the exclusive Sprint PCS Affiliate providing wireless mobility communications network products and services on the 1900 megahertz spectrum range in the geographic area extending from Altoona, Harrisburg and York, Pennsylvania, south through Western Maryland, and the panhandle of West Virginia, to Harrisonburg, Virginia. The Company is licensed to use the Sprint brand name in this territory, and operates its network under the Sprint Nextel radio spectrum license (See Note 7).

A summary of the Company's significant accounting policies follows:

**Principles of consolidation:** The consolidated financial statements include the accounts of all wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

**Use of estimates:** Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Management reviews its estimates, including those related to recoverability and useful lives of assets as well as liabilities for income taxes and pension benefits. Changes in facts and circumstances may result in revised estimates, and actual results could differ from those reported estimates.

**Cash and cash equivalents:** The Company considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents. The Company places its temporary cash investments with high credit quality financial institutions. At times, these investments may be in excess of FDIC insurance limits. Cash equivalents (comprised entirely of institutional cash management funds at December 31, 2007) were \$14.8 million and \$12.6 million at December 31, 2007 and 2006, respectively.

**Accounts receivable:** Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing accounts receivable. The Company determines the allowance based on historical write-off experience and industry and local economic data. The Company reviews its allowance for doubtful accounts monthly. Past due balances meeting specific criteria are reviewed individually for collectibility. All other balances are reviewed on a pooled basis. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. Accounts receivable are concentrated among customers within the Company's geographic service area and large telecommunications companies. As of December 31, 2006, the Company's allowance for doubtful accounts included \$0.5 million related to PCS. Due to the changes in the Sprint Nextel agreement described below, the Company reversed this balance during 2007. Changes in the allowance for doubtful accounts for trade accounts receivable for the years ended December 31, 2007, 2006 and 2005 are

summarized below (in thousands):

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

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

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

**Other Investments:**

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

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

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

**Property, plant and equipment:** Property, plant and equipment is stated at cost. The Company capitalizes all costs associated with the purchase, deployment and installation of property, plant and equipment, including interest on major capital projects during the period of their construction. Expenditures, including those on leased assets, which extend the useful life or increase its utility, are capitalized. Maintenance expense is recognized when repairs are performed. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Depreciation and amortization is not included in the income statement line items "Cost of goods and services" or "Selling, general and administrative." Depreciation lives are assigned to assets based on their estimated useful lives. Leasehold improvements are depreciated over the lesser of their useful lives or respective lease terms. The Company takes technology changes into consideration as it assigns the estimated useful lives, and monitors the remaining useful lives of asset groups to reasonably match the remaining economic life with the useful life and makes adjustments when necessary. During the years ended December 31, 2007, 2006 and 2005, the estimated useful lives of certain asset classes were decreased to reflect the remaining estimated economic useful lives of these assets and as a result, the Company recorded additional depreciation of \$0.5 million, \$0.2 million and \$0.4 million, respectively, for the changes in estimated useful lives.

**Valuation of long-lived assets:** Long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a



comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. During 2006, the Company determined that certain long-lived assets associated with Shentel Wireless Company were impaired, and impairment charges of approximately \$88 thousand were recognized during the fourth quarter.

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

**Asset retirement obligations:** The Company records the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset, which is depreciated over the life of the tangible long-lived asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company records the retirement obligation on towers owned where there is a legal obligation to remove the tower and restore the site to its original condition, as required by certain operating leases and applicable zoning ordinances of certain jurisdictions, at the time the Company discontinues its use. The obligation is estimated based on the size of the towers. The Company's cost to remove the tower is amortized over the life of the tower. Changes in the liability for asset removal obligations for the years ended December 31, 2007, 2006 and 2005 are summarized below (in thousands):

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

**Cost in excess of net assets of business acquired and intangible assets:** SFAS No.142, "Goodwill and Other Intangible Assets," eliminates amortization of goodwill and intangible assets that have indefinite useful lives and requires annual tests of impairment of those assets. SFAS No. 142 also provides specific guidance about how to determine and measure goodwill and intangible asset impairments, and requires additional disclosures of information about goodwill and other intangible assets. Goodwill is assessed annually, at November 30, for impairment and in interim periods if certain events occur indicating that the carrying value may be impaired. No impairment of goodwill was required to be recorded in the years ended December 31, 2007 or 2005. Goodwill is allocated to the reporting segment responsible for the acquisition that gave rise to the goodwill. The following table presents the goodwill balance allocated by segment and changes in the balances for the years ended December 31, 2007, 2006 and 2005 (in thousands):

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

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

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- (3) During the fourth quarter of 2006, the Company recognized an impairment charge for the goodwill associated with the Shentel Wireless Segment when the Company terminated Shentel Wireless' operations and transferred its one remaining asset to Converged Services.

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

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

For each of the years ended December 31, 2007, 2006 and 2005, amortization expense related to intangible assets was \$0.5 million. The 2006 amount included \$0.1 million in impairment charges related to the termination of certain of Shentel Wireless' contracts.

Aggregate amortization expense for intangible assets for the periods shown will be as follows:

Year Ending December 31,	Amount
	<i>(in thousands)</i>
2008	\$ 459
2009	251
2010	201
2011	185
2012	185

**Retirement plans:** Prior to January 31, 2007, the Company maintained a noncontributory defined benefit plan covering substantially all employees. Pension benefits were based primarily on the employees' compensation and years of service. The Company's policy was to fund the maximum allowable contribution calculated under federal income tax regulations. Effective January 31, 2007, the Company has frozen benefits payable under this plan, and will settle accumulated benefits for participants and terminate the plan in accordance with Department of Labor and ERISA regulations and requirements.

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

The Company also maintains a defined contribution 401(k) plan under which substantially all employees may defer a portion of their earnings on a pretax basis, up to the allowable federal maximum. The Company may make matching and discretionary contributions to this plan.

Neither of the funded retirement plans directly holds Company stock in the plan's portfolio.

**Income taxes:** Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their

respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company evaluates the recoverability of tax assets generated on a state-by-state basis from net operating losses apportioned to that state. Management uses a more likely than not threshold to make that determination and has concluded that at December 31, 2007, a valuation allowance against the deferred tax assets is not necessary.



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

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

Effective July 1, 2003, the Company adopted Emerging Issues Task Force ("EITF") No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." The EITF guidance addresses how to account for arrangements that may involve multiple revenue-generating activities, i.e., the delivery or performance of multiple products, services, and/or rights to use assets. In applying this guidance, separate contracts with the same party, entered into at or near the same time, will be presumed to be a bundled transaction, and the consideration will be measured and allocated to the separate units based on their relative fair values. The adoption of EITF 00-21 required evaluation of each arrangement entered into by the Company for each sales channel. The Company continues to monitor arrangements with its sales channels to determine if any changes in revenue recognition need to be made. The adoption of EITF 00-21 resulted in substantially all of the activation fee revenue being recognized at the time the related wireless handset is sold and classified as equipment revenue.

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

Converged Services also allows Internet service customers to prepay their annual contract. For a prepayment equal to 11 monthly payments, the customer receives 12 months of service. The Company defers such revenue amounts and amortizes them over the contract period. Deferred revenues were \$0.1 million and \$0.2 million at December 31, 2007 and 2006, respectively.

**Earnings per share:** Basic net income per share was computed on the weighted average number of shares outstanding. Diluted net income per share was computed under the treasury stock method, assuming the conversion as of the beginning of the period, for all dilutive stock options. For the year ended December 31, 2007, 66,806 contingently issuable performance shares did not meet the test to be considered issuable for purposes of the earnings per share computation, and so were excluded. For the year ended December 31, 2006, all options were dilutive. For the year ended December 31, 2005, the dilutive net income per share was exclusive of approximately 480,000 stock options that were anti-dilutive. There were no adjustments to net income in the computation of diluted earnings per share for any of the years presented. The Company issued a three for one stock split in August, 2007. All prior years' share and per share amounts have been restated to reflect the effect of this stock split.

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

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

Diluted income per share	\$	0.80	\$	0.77	\$	0.46
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**Recently Issued Accounting Standards:**

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

**Note 2. Discontinued Operations**

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

**Note 3. Investments**

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

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

	2007
	(in thousands)
Cash management trust	\$ 172
Taxable bond funds	207
Domestic equity funds	1,884
International equity funds	339
	\$ 2,602

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

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

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

On August 4, 2005, the board of directors of the Rural Telephone Bank (the "RTB") adopted a number of resolutions for the purpose of dissolving RTB as of October 1, 2005. The Company held 10,821,770 shares of Class B and Class C RTB Common Stock (\$1.00 par value) which was reflected on the Company's books at \$796,000 under the cost method at December 31, 2005. In 2006, the Company received \$11.3 million in proceeds, and recognized a gain of approximately \$6.4 million, net of tax, related to the dissolution of the RTB and the redemption of the stock. During 2007, the Company received a final distribution of \$0.1 million from the RTB.

The Company's investment in CoBank increased \$121 thousand and \$101 thousand in the years ended December 31, 2007 and 2006, respectively, due to the ongoing patronage earned from the outstanding investment and loan balances the Company has with CoBank.

In the year ended December 31, 2007, the Company received distributions from its equity investments totaling \$1.2 million in cash and securities, and invested \$390 thousand in two equity investments, Dolphin Communications Parallel Fund, LP and Dolphin Communications Fund II, LP. These two investments recorded a net gain of approximately \$538 thousand in the year ended December 31, 2007. Other equity investments had a net gain of \$393 thousand in the year ended December 31, 2007.

As of December 31, 2007, the Company is committed to invest an additional \$0.5 million in various equity method investees pursuant to capital calls from the fund managers.

The Company's ownership interests in Virginia Independent Telephone Alliance and ValleyNet at December 31, 2007 were approximately 22% and 20%, respectively, which is consistent with the Company's ownership interests at December 31, 2006. The Company purchases services from Virginia Independent Telephone Alliance and ValleyNet at rates comparable to those charged to other customers. Other equity method investees are investment limited partnerships, in each of which the Company had an ownership interest of less than 4% at December 31, 2007.

**Note 4. Plant in Service**

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

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

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

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

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

On November 30, 2004, the Company amended the terms of its Master Loan Agreement with CoBank, ACB to provide for a \$15 million revolving reducing credit facility. Under the terms of the amended credit facility, the Company can borrow up to \$11.3 million as of December 31, 2007. The revolving credit facility has a 12 year term with quarterly payments and reductions in the amount available. Borrowings under the facility have an adjustable rate, less patronage credits, that can be converted to a fixed rate at the Company's option. The loan is secured by a pledge of the stock of all of the subsidiaries of the Company.

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

The CoBank term loan is secured by a pledge of the stock of the Company's subsidiaries. The outstanding balance of the CoBank term loan at December 31, 2007 is \$21.7 million, which is at fixed rates ranging from approximately 6.67% to 8.05%. The stated rate excludes patronage credits that are received from CoBank. These patronage credits are a distribution of profits of CoBank, which is a cooperative required to distribute its profits to its members. During the first quarter of 2007 and 2006, the Company received patronage credits of approximately 100 and 100 basis points, respectively, on its outstanding CoBank debt balance. The Company accrued 100 basis points in the year ended December 31, 2007, in anticipation of the early 2008 distribution of the credits by CoBank.

The Company is required to meet financial covenants for the CoBank debt measured at the end of each quarter, based on a trailing 12-month basis and calculated on continuing operations. The Company was in compliance with all covenants at December 31, 2007.



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

Year	Amount
	<i>(in thousands)</i>
2008	\$ 4,248
2009	4,399
2010	4,561
2011	3,975
2012	2,648
Later years	2,076
	<u>\$ 21,907</u>

The estimated fair value of fixed rate debt instruments as of December 31, 2007 and 2006 was \$22.5 million and \$28.3 million, respectively, determined by discounting the future cash flows of each instrument at rates offered for similar debt instruments of comparable maturities as of the respective year-end dates.

**Note 6. Income Taxes**

Total income taxes for the years ended December 31, 2007, 2006 and 2005 were allocated as follows:

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

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

	Years Ended December 31,		
	2007	2006	2005
	<i>(in thousands)</i>		
Current expense			
Federal taxes	\$ 11,812	\$ 12,077	\$ 7,356
State taxes	2,367	1,938	868
Total current provision	14,179	14,015	8,224
Deferred expense (benefit)			
Federal taxes	(1,611)	(2,026)	(851)
State taxes	403	381	(657)

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Total deferred provision (benefit)	(1,208)	(1,645)	(1,508)
Income tax expense	\$ 12,971	\$ 12,370	\$ 6,716

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A reconciliation of income taxes determined by applying the federal and state tax rates to income from continuing operations is as follows for the years ended December 31, 2007, 2006 and 2005:

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

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

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

In assessing the ability to realize deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon generating future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods for which the deferred tax assets are deductible, management believed it more likely than not that the Company would realize the benefits of the deferred tax assets and eliminated the valuation allowance at December 31, 2005. The Company has generated net operating loss carryforwards of approximately \$13.8 million from its operations in several states. These carryforwards expire at varying dates beginning in the year 2019 and ending in 2027.

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

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

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**Note 7. Significant Contractual Relationship**

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

Under the Sprint Nextel agreements, Sprint Nextel provides the Company significant support services such as customer service, billing, collections, long distance, national network operations support, inventory logistics support, use of the Sprint Nextel brand names, national advertising, national distribution and product development. In addition, prior to 2007, the Company derived substantial travel revenue and incurred substantial travel expenses when Sprint Nextel and Sprint Nextel's PCS Affiliate partners' subscribers incurred minutes of use in the Company's territory and when the Company's subscribers incurred minutes of use in Sprint Nextel and Sprint Nextel's PCS Affiliate partners' territories. These transactions were recorded as travel revenue, travel cost, cost of equipment and selling and marketing expense in the Company's consolidated statements of income. Cost of service related to access to the nationwide network, including travel transactions and long distance expenses, were recorded in cost of goods sold. The costs of services such as billing, collections and customer service were included in selling, general and administrative costs. Cost of equipment transactions between the Company and Sprint Nextel relate to inventory purchased and subsidized costs of handsets. These costs also included transactions related to subsidized costs on handsets and commissions paid to Sprint Nextel for sales of handsets through Sprint Nextel's national distribution programs.

Prior to 2007, the Company received and paid travel fees for inter-market usage of the network by Sprint Nextel wireless subscribers not homed in a market in which they may use the service. Sprint Nextel and its PCS Affiliates paid the Company for the use of its network by their wireless subscribers, while the Company paid Sprint Nextel and its PCS Affiliates reciprocal fees for Company subscribers using other segments of the network not operated by the Company. The rates paid on inter-market travel have been reduced to \$0.058 per minute since January 1, 2003. This rate remained in effect through December 31, 2006.

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

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

- Amend, as of January 1, 2007, the existing management and services agreements with Sprint Nextel to further simplify the methods used to settle revenue and expenses between the Company and Sprint Nextel;
- Transfer, effective May 2007, all Sprint Nextel operated Nextel store locations within the Company's PCS service area to the Company's PCS Subsidiary. The Company now sells Sprint Nextel iDEN (Integrated Digital Enhanced Network) phones and provides local customer service support for Sprint Nextel iDEN customers in the Company's service area;
- Provide the Company and Sprint Nextel with the right under certain circumstances and subject to agreement on appropriate terms to participate in future Sprint Nextel wireless service offerings within the Company's PCS service area; and
- Settle all outstanding claims arising out of the merger of Sprint Corporation and Nextel Communications, Inc. and the subsequent acquisition by Sprint Nextel of Nextel Partners, Inc.

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

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

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

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

The Sprint Nextel agreements require the Company to maintain certain minimum network performance standards and to meet other performance requirements. The Company was in compliance in all material respects with these requirements as of December 31, 2007.

### **Note 8. Related Party Transactions**

ValleyNet, an equity method investee of the Company, resells capacity on the Company's fiber network under an operating lease agreement. Facility lease revenue from ValleyNet was approximately \$3.5 million, \$3.7 million and \$3.8 million in the years ended December 31, 2007, 2006 and 2005, respectively. At December 31, 2007 and 2006, the Company had accounts receivable from ValleyNet of approximately \$0.3 million and \$0.3 million, respectively. The Company's PCS operating subsidiary leases capacity through ValleyNet fiber facilities. Payment for usage of these facilities was \$1.3 million, \$1.0 million and \$1.0 million in the years ended December 31, 2007, 2006 and 2005, respectively.

Virginia Independent Telephone Alliance, an equity method investee of the Company, provides SS7 signaling services to the Company. These transactions are recorded as expense on the Company's books and were less than \$30 thousand in each of the years ended December 31, 2007, 2006 and 2005.

### **Note 9. Retirement Plans**

The Company maintains a noncontributory defined benefit pension plan and a separate defined contribution 401(k) plan. On November 30, 2006, the Company announced its intention to offer early retirement benefits for certain

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employees (up to five years of additional age and service for those employees 50 years of age and older with 10 or more years of service); to freeze the defined benefit pension plan as of January 31, 2007; and subsequently, to settle benefits earned under the plan and terminate the plan. Settlement and termination are expected to be finalized during 2008. The Company reflected the effects of freezing the plan during 2006, and recognized costs of the special termination benefits in 2006 for those seven employees who elected to accept the early retirement offer as of December 31, 2006. The Company recognized additional special termination benefits during 2007 as 25 additional employees elected to accept the early retirement offer.

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

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

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

Net amount recognized	\$	(653)	\$	1,324
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Components of net periodic benefit costs:

	2007	2006	2005
Service cost	\$ —	\$ 953	\$ 744
Interest cost	588	876	774
Expected return on plan assets	(775)	(940)	(793)
Amortization of prior service costs	—	337	31
Amortization of net loss	570	109	71
Change in plan provisions	280	—	—
Curtailement gain	—	(1,791)	—
Special termination benefits	1,313	369	—
<b>Net periodic benefit cost</b>	<b>\$ 1,976</b>	<b>\$ (87)</b>	<b>\$ 827</b>

Other changes in plan assets and benefit obligations recognized in other comprehensive income:

Amortization of net loss	(570)	—	
Net loss for the period	640	1,701	
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	<b>\$ 2,046</b>	<b>\$ 1,614</b>	

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

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

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

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

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

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

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

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

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### Investment Policy

The investment policy of the Company's Pension Plan has historically been for assets to be invested in a manner consistent with the fiduciary standards of the Employee Retirement Income Security Act of 1974, as amended. As a result of the Company's decision in 2006 to freeze, settle and terminate the plan, the Company has increased the liquidity of the pension plan assets to accommodate the expected distribution of accrued benefits to participants.

### Contributions

As a result of the freeze and expected settlement of benefits under the plan, the Company expects to contribute approximately \$2.4 million to the plan, and anticipates distributing approximately \$11.4 million to participants, during 2008. The Company contributed \$1.0 million to the plan during the year ended December 31, 2006. No contribution was made during 2007.

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

In May 2003, the Company adopted an unfunded nonqualified Supplemental Executive Retirement Plan (the "SERP") for named executives. The plan was established to provide retirement benefits in addition to those provided under the Retirement Plan that covers all employees. In conjunction with the changes in the qualified defined benefit pension plan at the end of 2006 as described above, the SERP was amended effective January 1, 2007 from a defined benefit plan to a defined contribution plan. Benefits were recalculated as of January 1, 2007, reflecting changes in benefits under the SERP from the change in the defined benefit plan; benefits so calculated became the opening participant balances of the defined contribution plan. The amended plan is non-contributory; the Company will credit each participant's account with a contribution of 7% of compensation (generally, base pay plus incentive pay), and 5% of a participant's compensation in excess of IRS or ERISA limitations on compensation under the 401(k) plan. One participant in this plan accepted the early retirement offer described above, and a lump sum distribution of his account balance was made in October 2007.

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

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



	2006	2005
Components of net periodic benefit costs:		
Service cost	\$ 189	\$ 152
Interest cost	110	71
Amortization of prior service costs	449	36
Amortization of net loss	50	20
Net periodic benefit cost	\$ 798	\$ 279
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net loss for the period	1,330	
Amortization of net loss	(51)	
Total recognized in net periodic benefit cost and other comprehensive income	\$ 1,279	

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

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

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

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

#### Note 10. Stock Incentive Plans

The Company maintains two shareholder-approved Company Stock Incentive Plans providing for the grant of equity based incentive compensation to essentially all employees. The 1996 Plan authorized grants of up to 1,440,000 shares of common stock over a ten-year period beginning in 1996. The term of the 1996 Plan expired in February of 2006. During 2005, the 2005 Plan was approved, under which 1,440,000 shares may be granted over a ten-year period beginning in 2005. Under both Plans, grants may take the form of stock awards, awards of options to acquire stock, stock appreciation rights, and other forms of equity based compensation. Prior to 2007, most awards were granted in the form of options to acquire stock as described more fully below; during 2007, both options to acquire stock and stock awards have been granted. Details about the stock grants will follow discussion of the Company's stock option grants.

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

#### Options Awards

The option price for all grants has been at the current market price at the time of the grant. Grants have generally provided that one-half of the options vest and become exercisable on each of the first and second anniversaries of the grant date, with the options expiring on the fifth anniversary of the grant date. In the year ended December 31, 2003, the Company also issued a grant pursuant to which the options are vested over a five-year period beginning on the third anniversary of the grant date. The participant may exercise 20% of the total grant after each anniversary date from the third through the seventh year, with the options expiring on the tenth anniversary of the grant date. In the years ended



December 31, 2005 and 2004, the Company also made grants pursuant to which the options would have vested over a four-year period beginning on the third anniversary of the grant date; all of these grants were cancelled during 2006 due to the grantees' termination of employment. The Company did not grant any options during 2006.

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

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

In periods prior to the adoption of SFAS 123(R), the Company accounted for its stock options by applying the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, including Financial Accounting Standards Board ("FASB") Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation," an interpretation of APB Opinion No. 25 issued in March 2000. Under this method, compensation expense was recorded on the date of the grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, "Accounting for Stock-Based Compensation" established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. The Company provided the disclosures required under SFAS No. 123, as amended by SFAS No. 148, "Accounting for Stock-Based Compensation—Transition and Disclosures." No compensation expense was recognized in years prior to 2004 since all such options were granted with an exercise price equal to the market price at the date of the grant. For the tandem awards granted during 2004 and 2005, the Company recognized compensation expense for the vested portion of the awards of \$1.3 million for the year ended December 31, 2005. For both the 2004 and 2005 SARs grants, the adoption of SFAS 123(R) resulted in a change in the measurement of compensation expense from an intrinsic method to a fair value method.

Effective July 1, 2006, certain holders of 2004 SARs voluntarily relinquished their right to receive cash from the Company upon exercise. The fair value of these awards calculated as of the date of modification was transferred from liability to equity. Subsequently, certain holders of 2004 SARs who did not relinquish their right to receive cash elected, upon exercise, to take shares instead of cash. For such exercises, the fair value of the exercised options was transferred from liability to equity.

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

The adjustments to net income in the table below reflect the impact of compensation related to the 2005 equity classified stock appreciation rights and the impact of the pro forma compensation expense, both net of the income tax effect. No adjustments to net income have been made for the 2004 liability classified stock appreciation rights since there were no differences between APB Opinion No. 25 and SFAS No. 123 pro forma compensation expense. Had compensation expense been recorded for the options based on fair values of the awards at the grant date (the method

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prescribed in SFAS No. 123), reported net income and earnings per share would have been reduced to the pro forma amounts shown in the following table for the year ended December 31, 2005:

	2005
	(in thousands, except per share amounts)
<b>Net Income</b>	
As reported	\$ 10,735
Add: Recorded stock based compensation expense included in reported net income, net of related income tax effects	211
Deduct: Pro forma compensation expense, net of related income tax effects	(199)
Pro forma	<u>\$ 10,747</u>

<b>Earnings per share, basic and diluted</b>	
As reported, basic	\$ 0.47
As reported, diluted	0.46
Pro forma, basic	0.47
Pro forma, diluted	0.47

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

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

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

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

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

For 2006, the assumptions were used to calculate the fair value of the options classified as a liability. The fair value of options classified as a liability is calculated at the grant date and each subsequent reporting date until the options are settled. As of December 31, 2007 and 2006, 10,656 and 15,534 options, respectively, were classified as liability-type options. For 2007, the assumptions shown were used to calculate the fair value of the options granted to recently-hired officers; for the remaining liability-type options, change in fair value over the year was

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essentially equal to the change in the stock price, as the remaining term of these options (15 months as of December 31, 2007) and its interaction with the other assumptions used in the option pricing model had little impact on the determination of fair value.

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

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As required by SFAS 123(R), management has made an estimate of expected forfeitures and is recognizing compensation costs only for those awards expected to vest. Compensation cost recognized in 2007 and 2006 totaled \$207 thousand and \$350 thousand, respectively, and the income tax benefit for option-based compensation arrangements recognized in 2007 and 2006 was \$110 thousand and \$105 thousand, respectively.

A summary of outstanding options at December 31, 2007, 2006 and 2005 and changes during the years ended on those dates is as follows:

	Options	Weighted Average Grant Price Per Option	Fair Value Per Option
Outstanding December 31, 2004	716,433	\$ 6.99	
Granted	237,093	10.53	\$ 3.50 to 6.04
Cancelled	(60,786)	8.44	
Exercised	(170,151)	6.08	
Outstanding December 31, 2005	722,589	8.24	
Granted	—	—	n/a
Cancelled	(153,450)	9.41	
Exercised	(201,177)	7.14	
Outstanding December 31, 2006	367,962	8.36	
Granted	60,000	20.50	\$ 7.77
Cancelled	(1,773)	3.37	
Exercised	(129,648)	3.31	
Outstanding December 31, 2007	296,541	\$ 10.97	

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

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

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

### Stock Awards

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



normal retirement, shares will vest only if the target price is achieved and the recipient has remained employed through the anniversary date that the target price is achieved on. Employee shares can vest at the fourth or fifth anniversary of the grant date on otherwise similar terms.

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

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

The Company has estimated expected forfeitures of 40% for management shares and 35% for employee shares. Through December 31, 2007, 1,324 employee shares were forfeited due to employees' termination of employment.

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

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

#### Note 11. Major Customer

The Company has one major customer relationship that is a significant source of revenue. Approximately 62% of total operating revenues for the year ended December 31, 2007, 68% of total operating revenues for the year ended December 31, 2006, and 65% of total operating revenues for the year ended December 31, 2005 were generated by or through Sprint Nextel and its customers using the Company's portion of Sprint Nextel's nationwide PCS network. No other customer relationship generated more than 2.5% of the Company's total operating revenues for the years ended December 31, 2007, 2006 or 2005.

#### Note 12. Shareholder Rights Plan

Effective as of February 8, 2008, the Board of Directors adopted a new Shareholder Rights Plan to replace an expiring plan which was adopted in 1998. Under certain circumstances, holders of each right (granted at one right per share of outstanding common stock) will be entitled to purchase for \$40 one half a share of the Company's common stock (or, in certain circumstances, \$80 worth of cash, property or other securities of the Company for \$40). The rights are neither exercisable nor traded separately from the Company's common stock. The rights are only exercisable if a person or group becomes or attempts to become, the beneficial owner of 15% or more of the Company's common stock. Under the terms of both Shareholder Rights Plans, such a person or group would not be entitled to the benefits of the rights. The new Shareholder Rights Plan provides that the Board of Directors may redeem the outstanding rights at any time for \$.001 per right, and except with respect to the redemption price of the rights, any of the provisions of the Rights Agreement may be amended by the Board of Directors of the Company. The new Shareholder Rights Plan provides for the Board of Directors to appoint a committee (the "TIDE Committee") that is comprised of independent directors of the Company to review and evaluate the Shareholder Rights Plan in order to consider whether it continues to be in the interest of the Company and its shareholders at least every three years. Following each such review, the TIDE Committee will communicate its conclusions to the full Board of Directors, including any recommendation as to whether the Shareholder Rights Plan should be modified or the Rights should be redeemed.

**Note 13. Lease Commitments**

The Company leases land, buildings and tower space under various non-cancelable agreements, which expire between the years 2008 and 2050 and require various minimum annual rental payments. These leases typically include renewal options and escalation clauses. In general, tower leases have five or ten year initial terms with four renewal terms of five years. The other leases generally contain certain renewal options for periods ranging from five to twenty years.

Future minimum lease payments under non-cancelable operating leases, including renewals that are reasonably assured at the inception of the lease, with initial variable lease terms in excess of one year as of December 31, 2007 are as follows:

Year Ending	Amount
	<i>(in thousands)</i>
2008	\$ 6,358
2009	6,254
2010	5,458
2011	4,480
2012	3,270
2013 and beyond	20,949
	\$ 46,769

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

As lessor, the Company has leased buildings, tower space and telecommunications equipment to other entities under various non-cancelable agreements, which require various minimum annual payments. The total minimum rental receipts at December 31, 2007 are as follows:

Year Ending	Amount
	<i>(in thousands)</i>
2008	\$ 3,632
2009	3,240
2010	2,861
2011	1,442
2012	598
2013 and beyond	355
	\$ 12,128

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

**Note 14. Acquisitions****Broadband Metro Communications**

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

**Converged Services (formerly NTC)**

On November 30, 2004, the Company purchased the 83.9% of NTC that it did not then own for \$10 million, of which \$1 million was held in escrow for payment of specified potential liabilities, and the assumption of NTC's existing debt and other liabilities. During 2005, goodwill was reduced by approximately \$0.5 million as a result of settling the escrow funds dispute (see Note 1). The results of NTC's operations have been included in the consolidated financial

statements since its acquisition. NTC provides local and long distance voice, video, Internet and data services on an, at times, exclusive basis to multi-dwelling unit communities primarily located near colleges and universities. Effective January 1, 2007, the Company changed the name of NTC to Converged Services, but continues to use the NTC brand.

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

**Note 15. Segment Reporting**

SFAS Statement No. 131, “Disclosures about Segments of an Enterprise and Related Information”, establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision makers. The Company has six reportable segments, which the Company operates and manages as strategic business units organized geographically and by lines of business: (1) PCS, (2) Telephone, (3) Converged Services (NTC), (4) Mobile, (5) Cable TV and (6) Other. During 2007, Cable TV met a threshold for consideration as a reportable segment, and replaced Holding in the Company’s segment reporting for 2007 and prior years.

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

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

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

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

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

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

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

Year	Holding	Telephone	Consolidated Totals
<i>(in thousands)</i>			
2007	\$ 840	\$ 93	\$ 933
2006	(65)	164	99
2005	(283)	57	(226)

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Selected financial data for each segment is as follows:

Year Ended December 31, 2007

In thousands

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

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Year Ended December 31, 2006

In thousands

	PCS	Telephone	Converged Services (NTC)	Mobile	Cable TV	Other	Eliminations	Consolidated Totals
<b>External revenues</b>								
Service revenues	\$ 75,509	\$ 6,440	\$ 9,976	\$ —	\$ 4,611	\$ 6,609	\$ —	\$ 103,145
Access charges	—	11,319	—	—	—	—	—	11,319
Travel/roaming revenue	34,048	—	—	—	—	—	—	34,048
Facilities and tower lease	—	3,791	2	3,412	—	1,899	—	9,104
Equipment	4,210	28	146	—	48	534	—	4,966
Other	1,688	3,099	543	183	306	794	—	6,613
<b>Total external revenues</b>	<b>115,455</b>	<b>24,677</b>	<b>10,667</b>	<b>3,595</b>	<b>4,965</b>	<b>9,836</b>	<b>—</b>	<b>169,195</b>
Internal revenues	—	5,793	—	1,656	32	2,557	(10,038)	—
<b>Total operating revenues</b>	<b>\$ 115,455</b>	<b>\$ 30,470</b>	<b>\$ 10,667</b>	<b>\$ 5,251</b>	<b>\$ 4,997</b>	<b>\$ 12,393</b>	<b>\$ (10,038)</b>	<b>\$ 169,195</b>
<b>Operating expenses</b>								
Costs of goods and services, exclusive of depreciation and amortization shown separately below	52,511	6,868	8,662	1,595	3,241	7,919	(8,721)	72,075
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	32,958	4,491	4,347	686	1,200	6,291	(1,317)	48,656
Depreciation and amortization	14,326	4,755	5,103	878	1,104	1,124	—	27,290
<b>Total operating expenses</b>	<b>99,795</b>	<b>16,114</b>	<b>18,112</b>	<b>3,159</b>	<b>5,545</b>	<b>15,334</b>	<b>(10,038)</b>	<b>148,021</b>
Operating income (loss)	15,660	14,356	(7,445)	2,092	(548)	(2,941)	—	21,174
Non-operating income (expense)	262	11,144	6	11	25	3,618	(3,509)	11,557
Interest (expense)	(1,250)	(180)	(1,067)	(392)	(287)	(2,695)	3,509	(2,362)

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Income taxes	(5,908)	(10,005)	2,762	(662)	197	1,246	—	(12,370)
Cumulative effect of a change in accounting, net of tax	(11)	(27)	(21)	(1)	(7)	(10)	—	(77)
Net income (loss)	\$ 8,753	\$ 15,288	\$ (5,765)	\$ 1,048	\$ (620)	\$ (782)	—	\$ 17,922
Total assets	\$ 78,637	\$ 62,619	\$ 25,226	\$ 15,758	\$ 8,205	\$ 160,028	\$ (142,753)	\$ 207,720

Year Ended December 31, 2005

In thousands

	PCS	Telephone	Converged Services (NTC)	Mobile	Cable TV	Other	Eliminations	Consolidated Totals
<b>External revenues</b>								
Service revenues	\$ 61,606	\$ 6,486	\$ 9,631	\$ —	\$ 4,675	\$ 6,057	\$ —	\$ 88,455
Access charges	—	11,433	—	—	—	—	—	11,433
Travel/roaming revenue	27,220	—	—	—	—	—	—	27,220
Facilities and tower lease	—	3,921	—	3,147	—	1,306	—	8,374
Equipment	3,459	17	12	—	25	818	—	4,331
Other	2,133	2,881	179	146	301	938	—	6,578
Total external revenues	94,418	24,738	9,822	3,293	5,001	9,119	—	146,391
Internal revenues	1	4,256	—	1,386	31	2,552	(8,226)	—
Total operating revenues	94,419	28,994	9,822	4,679	5,032	11,671	(8,226)	146,391
<b>Operating expenses</b>								
Costs of goods and services, exclusive of depreciation and amortization shown separately below	43,149	6,620	7,275	1,414	3,121	6,171	(6,959)	60,791
Selling, general and administrative, exclusive of depreciation and amortization shown separately below	28,848	5,313	3,886	560	1,114	5,388	(1,267)	43,842
Depreciation and amortization	12,692	4,430	2,575	713	1,052	920	—	22,382



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Total operating expenses	84,689	16,363	13,736	2,687	5,287	12,479	(8,226)	127,015
Operating income (loss)	9,730	12,631	(3,914)	1,992	(255)	(808)	—	19,376
Non-operating income (expense)	11	687	38	166	5	3,745	(3,501)	1,151
Interest (expense)	(1,720)	(320)	(982)	(273)	(279)	(3,003)	3,501	(3,076)
Income taxes	(2,659)	(5,148)	1,557	(750)	(217)	501	—	(6,716)
Net income (loss) \$	\$ 5,362	\$ 7,850	\$ (3,301)	\$ 1,135	\$ (746)	\$ 435	\$ —	\$ 10,735
Total assets	\$ 81,796	\$ 59,873	\$ 27,107	\$ 20,039	\$ 9,414	\$ 157,048	\$ (150,356)	\$ 204,921

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**Note 16. Quarterly Results (unaudited)**

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

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

For the year ended December 31, 2006	First	Second	Third	Fourth	Total
Operating revenues	\$ 39,799	\$ 41,427	\$ 42,594	\$ 45,375	\$ 169,195
Operating income	4,151	4,773	5,927	6,323	21,174
Net income	8,545	2,784	3,381	3,212	17,922
Net income per share – basic	\$ 0.37	\$ 0.12	\$ 0.15	\$ 0.14	\$ 0.77
Net income per share - diluted	0.37	0.12	0.14	0.14	0.77

**Note 17. Verizon Settlement**

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

**Exhibits Index**

<b>Exhibit Number</b>	<b>Exhibit Description</b>
3.1	Amended and Restated Articles of Incorporation of Shenandoah Telecommunications Company filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the period ending June 30, 2007.
3.2	Shenandoah Telecommunications Company Bylaws, as amended, filed as Exhibit 3.2 to the Company's Current Report on Form 8-K dated July 18, 2007.
4.1	Rights Agreement, dated as of February 8, 2008 between the Company and American Stock Transfer and Trust Company filed as Exhibit 4.1 to the Company's Current Report on Form 8-K, dated January 25, 2008.
4.2	Shenandoah Telecommunications Company Dividend Reinvestment Plan filed as Exhibit 4.1 to the Company's Registration Statement on Form S-3 (No. 333-74297).
*4.3	Specimen representing the Common Stock, no par value, of Shenandoah Telecommunications Company.
10.1	Shenandoah Telecommunications Company Stock Incentive Plan filed as Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-21733).
10.2	Shenandoah Telecommunications Company Dividend Reinvestment Plan filed as Exhibit 4.4 to the Company's Registration Statement on Form S-3D (No. 333-74297).
10.3	Settlement Agreement and Mutual Release dated as of January 30, 2004 by and among Sprint Spectrum L.P., Sprint Communications Company L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P. and Shenandoah Personal Communications Company and Shenandoah Telecommunications Company, dated January 30, 2004; filed as Exhibit 10.3 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.4	Sprint PCS Management Agreement dated as of November 5, 1999 by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.4 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.5	Sprint PCS Services Agreement dated as of November 5, 1999 by and between Sprint Spectrum L.P. and Shenandoah Personal Communications Company filed as Exhibit 10.5 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.6	Sprint Trademark and Service Mark License Agreement dated as of November 5, 1999 by and between Sprint Communications Company, L.P. and Shenandoah Personal Communications Company filed as Exhibit 10.6 to the Company's Report on Form 10-K for the year ended December 31, 2003.
10.7	Sprint Spectrum Trademark and Service Mark License Agreement dated as of November 5, 1999 by and between Sprint Spectrum L.P. and Shenandoah Personal Communications Company filed as Exhibit 10.7 to the Company's Report on Form 10-K for the year ended December 31, 2003.

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- 10.8 Addendum I to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.8 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.9 Asset Purchase Agreement dated November 5, 1999 by and among Sprint Spectrum L.P., Sprint Spectrum Equipment Company, L. P., Sprint Spectrum Realty Company, L.P., and Shenandoah Personal Communications Company, serving as Exhibit A to Addendum I to the Sprint PCS Management Agreement and as Exhibit 2.6 to the Sprint PCS Management Agreement filed as Exhibit 10.9 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.10 Addendum II dated August 31, 2000 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.10 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.11 Addendum III dated September 26, 2001 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.11 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.12 Addendum IV dated May 22, 2003 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.12 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.13 Addendum V dated January 30, 2004 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.13 to the Company's Report on Form 10-K for the year ended December 31, 2003.
- 10.14 Supplemental Executive Retirement Plan as amended and restated, filed as Exhibit 10.14 to the Company's Current Report on Form 8-K dated March 23, 2007.
- 10.15 Addendum VI dated May 24, 2004 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., WirelessCo, L.P., APC PCS, LLC, PhillieCo, L.P., and Shenandoah Personal Communications Company filed as Exhibit 10.15 to the Company's Report on Form 10-Q for the quarterly period ended June 30, 2004.
- 10.16 Second Amended and Restated Master Loan Agreement, dated as of November 30, 2004, by and between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.16 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.17 Third Supplement to the Master Loan Agreement dated as Of November 30, 2004, between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.17 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.18 Second Amendment to the Term Supplement to the Master Loan Agreement dated as Of November 30, 2004, between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.18 to the Company's Current Report on Form 8-K dated December 3, 2004.
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- 10.19 Pledge Agreement dated November 30, 2004 between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.19 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.20 Membership Interest Pledge Agreement dated November 30, 2004 between CoBank, ACB and Shenandoah Telecommunications Company filed as Exhibit 10.20 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.21 Membership Interest Pledge Agreement dated November 30, 2004 between CoBank, ACB and Shentel Converged Services, Inc. filed as Exhibit 10.21 to the Company's Current Report on Form 8-K dated December 3, 2004.
- 10.22 Interest Purchase Agreement dated November 30, 2004 by and among Shentel Converged Services, Inc., NTC Communications LLC and the Interest holders named therein filed as Exhibit 10.22 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.23 Form of Incentive Stock Option Agreement under the 1996 Shenandoah Telecommunications Company Stock Incentive Plan (for routine formula grants) filed as Exhibit 10.23 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.24 Forms of Incentive Stock Option Agreement under the 1996 Shenandoah Telecommunications Company Stock Incentive Plan (for newly hired executive employees) filed as Exhibit 10.24 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.25 Description of the Shenandoah Telecommunications Company Incentive Plan filed as Exhibit 10.25 to the Company's Current Report on Form 8-K dated January 21, 2005.
- 10.26 Description of Compensation of Non-Employee Directors. Filed as Exhibit 10.29 to the Company's Current Report on Form 8-K dated May 4, 2005.
- 10.27 Description of Management Compensatory Plans and Arrangements. Filed as Exhibit 10.27 to the Company's Current Report on Form 8-K dated April 20, 2005.
- 10.28 2005 Stock Incentive Plan filed as Exhibit 10.1 to the Company's Registration Statement on Form S-8 (No. 333-127342).
- 10.29 Form of Incentive Stock Option Agreement under the 2005 Stock Incentive Plan. Filed as Exhibit 10.29 to the Company's Report on Form 10-K for the year ended December 31, 2005.
- 10.30 Stock Redemption Agreement dated as of November 10, 2005 among Shenandoah Telephone Company and The Rural Telephone Bank. Filed as Exhibit 10.30 to the Company's report on Form 10-K for the year ended December 31, 2005.
- 10.31 Addendum VII dated March 13, 2007 to Sprint PCS Management Agreement by and among Sprint Spectrum L.P., Wireless Co., L.P., APC PCS, LLC, Phillieco, L.P., and Shenandoah Personal Communications Company, filed as Exhibit 10.31 to the Company's Report on Form 10-K for the year ended December 31, 2006.
- 10.32 Settlement Agreement and Mutual Release dated March 13, 2007 by and among Sprint Nextel Corporation, Sprint Spectrum L.P., Wireless Co., L.P., Sprint Communications Company L.P., APC PCS, LLC, Phillieco, L.P., and Shenandoah Personal Communications
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Company and Shenandoah Telecommunications, filed as Exhibit 10.32 to the Company's Report on Form 10-K for the year ended December 31, 2006.

- 10.33 Form of Performance Share Award to Executives filed as Exhibit 10.33 to the Company's Current Report on Form 8-K dated September 20, 2007.
- 10.34 Letter Agreement with CoBank, ACB dated July 1, 2007, filed as Exhibit 10.34 to the Company's Report on Form 10-Q for the period ended September 30, 2007.
- 10.35 Letter Agreement with CoBank, ACB dated October 26, 2007 and effective as of July 1, 2007 filed as Exhibit 10.35 to the Company's Report on Form 10-Q for the period ending September 30, 2007.
- 10.36 Addendum VIII to the Sprint Management Agreement dated November 19, 2007, filed as Exhibit 10.36 to the Company's Current Report on Form 8-K dated November 20, 2007
- \*21 List of Subsidiaries.
- \*23.1 Consent of KPMG LLP, Independent Registered Public Accounting Firm.
- \*31.1 Certification of President and Chief Executive Officer of Shenandoah Telecommunications Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- \*31.2 Certification of Vice President and Chief Financial Officer of Shenandoah Telecommunications Company pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- \*32 Certifications pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934 and 18 U.S.C. § 1350.

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\* Filed herewith

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