

HICKORY TECH CORP  
Form 10-Q/A  
November 09, 2012

---

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

FORM 10-Q/A  
Amendment No. 1

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the quarterly period ended March 31, 2012

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the transition period from     to     .

Commission file number 0-13721

HICKORY TECH CORPORATION  
(Exact name of registrant as specified in its charter)

Minnesota  
(State or other jurisdiction of  
incorporation or organization)

41-1524393  
(I.R.S. Employer  
Identification No.)

221 East Hickory Street  
Mankato, Minnesota 56002-3248  
(Address of principal executive offices and zip code)

(800) 326-5789  
(Registrant's telephone number, including area code)

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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Edgar Filing: HICKORY TECH CORP - Form 10-Q/A

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definition of “large accelerated filer, accelerated filer, and smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The total number of shares of the Registrant’s common stock outstanding as of April 27, 2012: 13,479,677.

---

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A amends our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, which was filed on May 1, 2012 with the Securities and Exchange Commission.

The amendment is a result of the restatement of our consolidated financial statements for the quarters ended March 31, 2012 and 2011.

We are restating our previously reported financial information for these periods to change our accounting for interest rate swaps. We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations on a portion of our variable-interest rate debt.

We account for our financial derivative instruments in accordance with FASB ASC 815 "Derivatives and Hedging" ("the Standard"). The Standard requires all derivative instruments (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met. We applied a method of cash flow hedge accounting under FASB ASC 815 to account for the interest rate swap agreements that allowed us to record changes in the instruments' fair value in other comprehensive income (the "cash flow" method). After discussing the matter with our independent registered public accounting firm, we recently concluded that the interest rate swap agreements did not qualify as a "cash flow" hedge in prior periods because of insufficient contemporaneous documentation. Under FASB ASC 815, cash flow hedge accounting is not allowed retrospectively because the documentation required was not in place at the inception of the hedge as well as on an ongoing basis. Eliminating the application of cash flow hedge accounting reverses the fair value adjustments that were made in other comprehensive income and transfers the fair value adjustments to earnings.

We have amended each item of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 that has been affected by the restatement. This Amendment No. 1 does not reflect events occurring after the May 1, 2012 filing of our Form 10-Q or modify or update the disclosures set forth therein in any way, except as required to reflect the effects of the restatement.

There is no effect on previously reported cash flows from operating, investing, or financing activities for this change. The change in the accounting treatment has not impacted the economics of the interest rate swap agreements. Likewise, this change has no effect on total comprehensive income, operating income, total stockholders' equity, EBITDA as defined by our debt agreement, or the Company's ability to pay dividends.

None of the financial covenants to our senior credit agreement were breached as a result of this restatement. We did notify the lenders in the agreement that restatement did result in breach of our representation to them about our financial statements being prepared in accordance with Generally Accepted Accounting Principles (GAAP). We have requested, and we did receive waivers regarding this temporary breach from the lenders involved in our credit agreements. No event of default exists regarding our credit agreement.

We have reassessed our disclosure controls and procedures as shown in Item 4 related to the material weakness in our internal control over financial reporting with respect to accounting for derivative instruments.

TABLE OF CONTENTS

PART I Financial Information

<u>Item 1.</u>	<u>Financial Statements</u>	<u>4</u>
	<u>Consolidated Statements of Operations (unaudited) for the Three Months Ended March 31, 2012 and 2011</u>	<u>4</u>
	<u>Consolidated Statement of Comprehensive Income (unaudited) for the Three Months Ended March 31, 2012 and 2011</u>	<u>5</u>
	<u>Consolidated Balance Sheets (unaudited) as of March 31, 2012 and December 31, 2011</u>	<u>6</u>
	<u>Consolidated Statements of Cash Flows (unaudited) for the Three Months Ended March 31, 2012 and 2011</u>	<u>7</u>
	<u>Condensed Notes to Consolidated Financial Statements (unaudited)</u>	<u>8</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>32</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>32</u>

PART II Other Information

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>34</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>34</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
<u>Item 3.</u>	<u>Defaults Upon Senior Securities</u>	<u>34</u>
<u>Item 4.</u>	<u>Mine Safety Disclosures</u>	<u>34</u>
<u>Item 5.</u>	<u>Other Information</u>	<u>34</u>
<u>Item 6.</u>	<u>Exhibit Listing</u>	<u>34</u>
	<u>Signatures</u>	<u>35</u>
	Exhibits	36

## Part I Financial Information

## Item 1. Financial Statements

HICKORY TECH CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(Unaudited)

	Three Months Ended March 31	
	2012	2011
(Dollars in thousands, except share and per share amounts)	(Restated)	(Restated)
Operating revenue:		
Equipment	\$ 15,299	\$ 8,195
Services	31,645	30,427
Total operating revenue	46,944	38,622
Costs and expenses:		
Cost of sales, excluding depreciation and amortization	13,466	6,999
Cost of services, excluding depreciation and amortization	15,326	14,735
Selling, general and administrative expenses	6,706	6,543
Depreciation	6,056	5,591
Amortization of intangibles	138	88
Total costs and expenses	41,692	33,956
Operating income	5,252	4,666
Other income and expense:		
Interest and other income	20	10
Interest expense	(1,411 )	(729 )
Total other (expense)	(1,391 )	(719 )
Income before income taxes	3,861	3,947
Income tax provision	1,567	1,601
Net income	\$ 2,294	\$ 2,346
Basic earnings per share		
	\$ 0.17	\$ 0.18
Weighted average common shares outstanding		
	13,450,850	13,329,603
Diluted earnings per share		
	\$ 0.17	\$ 0.18
	13,468,749	13,341,871

Weighted average common and equivalent shares  
outstanding

Dividends per share	\$	0.14	\$	0.135
---------------------	----	------	----	-------

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

4

---

HICKORY TECH CORPORATION  
STATEMENT OF COMPREHENSIVE INCOME  
(Unaudited)

(Dollars in thousands)	Three Months Ended March 31	
	2012	2011
	(Restated)	(Restated)
Net Income	\$ 2,294	\$ 2,346
Other comprehensive income:		
Post-retirement benefit plan:		
Amounts included in net periodic benefit cost:		
Net actuarial loss	135	107
Prior service credit	(19 )	(14 )
Transition asset	15	15
Income tax expense	(52 )	(43 )
Other Comprehensive Income	79	65
Comprehensive Income	\$ 2,373	\$ 2,411

The accompanying notes are an integral part of the consolidated financial statements.

[Table of Contents](#)

5

---

**HICKORY TECH CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited)

(Dollars in thousands except share and per share amounts)

	March 31, 2012 (Restated)	December 31, 2011 (Restated)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 20,724	\$ 13,057
Receivables, net of allowance for doubtful accounts of \$169 and \$436	20,554	25,317
Inventories	5,460	9,297
Income taxes receivable	-	498
Deferred income taxes, net	1,559	1,559
Prepaid expenses	2,382	1,801
Other	597	964
Total current assets	51,276	52,493
Investments	3,199	4,277
Property, plant and equipment	409,879	396,816
Accumulated depreciation	(235,184 )	(242,886 )
Property, plant and equipment, net	174,695	153,930
Other assets:		
Goodwill	29,034	27,303
Intangible assets, net	5,476	2,314
Deferred costs and other	3,784	3,669
Total other assets	38,294	33,286
Total assets	\$ 267,464	\$ 243,986
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 6,481	\$ 4,661
Extended term payable	8,615	6,920
Accrued income taxes	1,072	-
Deferred revenue	5,778	6,251
Accrued expenses and other	6,868	10,175
Current maturities of long-term obligations	1,621	1,407
Total current liabilities	30,435	29,414
Long-term liabilities:		
Debt obligations, net of current maturities	140,272	118,828
Accrued income taxes	154	154
Deferred revenue	1,125	1,131
Financial derivative instruments	2,516	2,469
Accrued employee benefits and deferred compensation	18,409	18,166



Edgar Filing: HICKORY TECH CORP - Form 10-Q/A

Deferred income taxes	30,660	30,627
Total long-term liabilities	193,136	171,375
Total liabilities	223,571	200,789
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, \$.10 stated value		
Shares authorized: 100,000,000		
Shares issued and outstanding: 13,488,490 in 2012		
and 13,396,176 in 2011	1,349	1,340
Additional paid-in capital	15,875	15,683
Retained earnings	30,725	30,309
Accumulated other comprehensive (loss)	(4,056 )	(4,135 )
Total shareholders' equity	43,893	43,197
Total liabilities and shareholders' equity	\$ 267,464	\$ 243,986

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

6

**HICKORY TECH CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)

(Dollars in thousands)	2012	Three Months Ended March 31	
		(Restated)	2011 (Restated)
<b>OPERATING ACTIVITIES:</b>			
Net income	\$	2,294	\$ 2,346
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization		6,194	5,679
Accrued patronage refunds		(161 )	(97 )
Stock based compensation		114	254
(Gain) loss on financial derivative instruments		47	(339 )
Other		353	122
Changes in operating assets and liabilities, net of effect from acquired net assets			
Receivables		4,998	5,036
Prepaid expenses		(580 )	(693 )
Inventories		3,950	246
Accounts payable and accrued expenses		(1,996 )	(1,427 )
Deferred revenue, billings and deposits		(485 )	280
Income taxes		1,556	4,562
Other		1,648	928
Net cash provided by operating activities		17,932	16,897
<b>INVESTING ACTIVITIES:</b>			
Additions to property, plant and equipment		(4,955 )	(3,742 )
Broadband stimulus grant received		1,321	-
Acquisition of IdeaOne Telecom		(28,180 )	-
Proceeds from sale of assets		-	69
Net cash (used in) investing activities		(31,814 )	(3,673 )
<b>FINANCING ACTIVITIES:</b>			
Borrowings on extended term payable arrangement		11,137	11,382
Payments on extended term payable arrangement		(9,442 )	(12,678 )
Borrowings on credit facility		22,000	16,000
Payments on credit facility and capital lease obligations		(355 )	(16,173 )
Proceeds from issuance of common stock		86	66
Change in cash overdraft		-	(238 )
Dividends paid		(1,877 )	(1,797 )
Net cash provided by (used in) financing activities		21,549	(3,438 )
Net increase in cash and cash equivalents		7,667	9,786
		13,057	73

Cash and cash equivalents at beginning of the period

Cash and cash equivalents at the end of the period	\$	20,724	\$	9,859
--	----	--------	----	-------

Supplemental disclosure of cash flow information:

Cash paid for interest	\$	1,358	\$	1,078
Net cash paid (received) for income taxes	\$	11	\$	(2,961 )

Non-cash investing and financing activities:

Property, plant and equipment acquired with capital leases	\$	14	\$	-
--	----	----	----	---

Change in other comprehensive income from post-retirement benefits	\$	79	\$	65
--	----	----	----	----

The accompanying notes are an integral part of the consolidated financial statements.

Table of Contents

7

---

HICKORY TECH CORPORATION

March 31, 2012

Item 1. Condensed Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated financial statements of HickoryTech Corporation and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in annual financial statements prepared in accordance with GAAP have been omitted or condensed pursuant to such rules and regulations. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring accruals) considered necessary for the fair presentation of the financial statements and present fairly the results of operations, financial position and cash flows for the interim periods presented as required by Regulation S-X, Rule 10-01. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with our audited consolidated financial statements and notes thereto contained in our Amendment No. 1 on Form 10-K/A for the year ended December 31, 2011.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. The results of operations for the interim periods presented are not necessarily indicative of the results that may be expected for the fiscal year as a whole or any other interim period.

Our consolidated financial statements report the financial condition and results of operations for HickoryTech Corporation and its subsidiaries in three business segments: Fiber and Data, Equipment and Telecom. Inter-company transactions have been eliminated from the consolidated financial statements.

Cost of Sales (excluding depreciation and amortization)

Cost of sales for the Equipment Segment are primarily for equipment and materials associated with the installation of products for customers. Labor associated with installation work is not included in this category, but is included in cost of services (excluding depreciation and amortization) described below.

Cost of Services (excluding depreciation and amortization)

Cost of services includes all costs related to delivery of communication services and products for all segments. These operating costs include all costs of performing services and providing related products including engineering, customer service, billing and collections, network monitoring and transport costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses include direct and indirect selling expenses, advertising and all other general and administrative costs associated with the operations of the business.

Recent Accounting Developments

We reviewed all significant newly issued accounting pronouncements and determined they are either not applicable to our business or that no material effect is expected on our financial position, results of operations or disclosures.

Note 2. Restatement

We are restating our previously reported financial information for the quarters ended March 31, 2012 and 2011 to change our accounting for interest rate swap agreements under ASC 815, "Derivatives and Hedging."

8

---

ASC 815 requires that all derivative instruments be recorded on the balance sheet as either an asset or a liability measured at its fair value, and that changes in the derivatives fair value be recognized in earnings unless specific hedge accounting criteria are met. We had applied the method of cash flow hedge accounting under ASC 815 to account for the interest rate swap agreements that allowed us to record changes in the instruments' fair value in other comprehensive income (the "cash flow" method). We recently concluded that the interest rate swap agreements did not qualify for the cash flow method because the documentation was not in place at the inception of the hedge as well as on an ongoing basis. This change reverses the fair value adjustments that were made in other comprehensive income to be recognized in earnings.

Although the swaps do not qualify for the cash flow method under ASC 815, there is no effect on cash flows from operating, investing, or financing activities for these changes. The change in the accounting treatment has not impacted the economics of the interest rate swap agreements.

The following table details the impact of the restatement on the Company's Statement of Operations and Balance Sheets for the periods ended March 31, 2012 and 2011.

(Dollars in thousands, except share data)

	Three Months Ended March 31, 2012			Three Months Ended March 31, 2011		
	As Reported	Restatement	Restated	As Reported	Restatement	Restated
Statement of Operations Data:						
Operating income	\$ 5,252	\$ -	\$ 5,252	\$ 4,666	\$ -	\$ 4,666
Other income and expense:						
Interest and other income	20	-	20	10	-	10
Interest expense	(1,364 )	(47 )	(1,411 )	(1,068 )	339	(729 )
Total other (expense)	(1,344 )	(47 )	(1,391 )	(1,058 )	339	(719 )
Income before income taxes	3,908	(47 )	3,861	3,608	339	3,947
Income tax provision	1,586	(19 )	1,567	1,466	135	1,601
Net income	\$ 2,322	\$ (28 )	\$ 2,294	\$ 2,142	\$ 204	\$ 2,346
Other comprehensive income, net of taxes	\$ 51	\$ 28	\$ 79	\$ 269	\$ (204 )	\$ 65
Total comprehensive income	\$ 2,373	\$ -	\$ 2,373	\$ 2,411	\$ -	\$ 2,411
EPS	\$ 0.17	\$ -	\$ 0.17	\$ 0.16	\$ 0.02	\$ 0.18
Diluted EPS	\$ 0.17	\$ -	\$ 0.17	\$ 0.16	\$ 0.02	\$ 0.18

	As of March 31, 2012			As of December 31, 2011		
	As Reported	Restatement	Restated	As Reported	Restatement	Restated
Balance Sheet Data:						
Shareholders' equity:						
Common stock	\$ 1,349	\$ -	\$ 1,349	\$ 1,340	\$ -	\$ 1,340
Additional paid-in capital	15,875	-	15,875	15,683	-	15,683
Retained earnings	32,241	(1,516 )	30,725	31,797	(1,488 )	30,309
Accumulated other comprehensive income (loss)	(5,572 )	1,516	(4,056 )	(5,623 )	1,488	(4,135 )
Total shareholders' equity	\$ 43,893	\$ -	\$ 43,893	\$ 43,197	\$ -	\$ 43,197

Note 3. Earnings and Cash Dividends per Common Share

Basic earnings per share (EPS) are computed by dividing net income by the weighted average number of shares of common stock outstanding during the applicable period. Shares used in the EPS dilution calculation are based on the weighted average number of shares of common stock outstanding during the period increased by potentially dilutive common shares. Potentially dilutive common shares include stock options and stock subscribed under the HickoryTech Corporation Amended and Restated Employee Stock Purchase Plan (ESPP). Dilution is determined using the treasury stock method.

Table of Contents

9

---

Edgar Filing: HICKORY TECH CORP - Form 10-Q/A

(Dollars in thousands, except share and earnings per share amounts)	Three Months Ended March 31	
	2012 (Restated)	2011 (Restated)
Net Income	\$ 2,294	\$ 2,346
Weighted average shares outstanding	13,450,850	13,329,603
Stock options (dilutive only)	16,737	10,667
Stock subscribed (ESPP)	1,162	1,601
Total dilutive shares outstanding	13,468,749	13,341,871
Earnings per share:		
Basic and Diluted	\$ 0.17	\$ 0.18
Dividends per share	\$ 0.14	\$ 0.135

Options to purchase 87,950 and 238,250 for the three months ended March 31, 2012 and 2011, respectively were not included in the computation of diluted EPS, because their effect on diluted EPS would have been anti-dilutive.

Cash dividends are based on the number of common shares outstanding at their respective record dates. The number of shares outstanding as of the record date for the first quarter of 2012 and 2011, respectively, are as follows:

Shares outstanding on record date	2012	2011
First quarter (February 15)	13,409,941	13,311,817

Dividends per share are based on the quarterly dividend per share as declared by the HickoryTech Board of Directors. HickoryTech paid dividends of \$0.14 and \$0.135 per share in the first quarter of 2012 and 2011, respectively. During the first three months of 2012 and 2011, shareholders have elected to reinvest \$71,000 and \$66,000, respectively, of dividends into HickoryTech common stock pursuant to the HickoryTech Corporation Dividend Reinvestment Plan.

#### Note 4. Acquisition

On March 1, 2012, we purchased all of the capital stock of IdeaOne Telecom for a purchase price of \$28,180,000 expanding our business and broadband services in the Fargo, North Dakota market. The acquisition was funded with existing liquidity through cash reserves of \$6,180,000 and \$22,000,000 of term loan debt which is integrated with our senior credit facility.

The table below sets forth the provisional IdeaOne Telecom purchase price allocation. The purchase price allocation resulted in goodwill of \$1,731,000. The fair value of the property and equipment, intangible assets and other assets and liabilities was determined based on level 3 inputs.

(Dollars in thousands)	2012
Property and equipment	\$ 23,077
Accounts receivable	310
Identifiable intangible assets:	
Customer relationships and contracts	3,200
Trade name	100
Goodwill	1,731
Other assets	273
Liabilities	(511 )



Allocation of purchase consideration	\$ 28,180
--------------------------------------	-----------

Goodwill from our acquisition is a result of the value of acquired employees along with the expected synergies from the combination of IdeaOne Telecom and our operations. IdeaOne Telecom operations have been integrated with and goodwill will be recorded within our Fiber and Data Segment. Goodwill resulting from this acquisition is deductible for tax purposes.

Table of Contents

10

---

Of the identified intangible assets above, customer relationships and contracts have useful lives between four and seven years and the trade name has a useful life of two years. Useful lives for identifiable intangible assets were estimated at the time of the acquisition based on the period of time from which we expect to derive benefits from the identifiable intangible assets. The identifiable intangible assets are amortized using the straight-line method, which reflects the pattern in which the assets are consumed.

Acquisition related expenses of \$510,000 were reflected in selling, general and administrative expenses in results for the fourth quarter ended December 31, 2011. In the three months ended March 31, 2012, acquisition related expenses were insignificant and are reflected in selling, general and administrative expenses. The Company has expensed all acquisition related costs except those related to the incremental debt. The costs incurred related to the incremental term debt financing have been capitalized and are amortized over the life of the debt facility using the effective interest rate method.

The amount of IdeaOne revenue and net income included in our Consolidated Statements of Operations for the three months ended March 31, 2012, and the following unaudited pro forma consolidated results of operations for the three months ended March 31, 2012 and 2011, have been prepared as if the acquisition of IdeaOne had occurred at January 1, 2011:

(unaudited) (Dollars in thousands)	Revenue	Net Income	Diluted Earnings Per Share
Actual from March 1, 2012 to March 31, 2012	\$ 1,049	\$ 97	\$ 0.01
Supplemental pro forma for the three months ended March 31, 2012	\$ 49,061	\$ 2,381	\$ 0.18
Supplemental pro forma for the three months ended March 31, 2011	\$ 41,529	\$ 2,391	\$ 0.18

The proforma results are presented for illustrative purposes and are not intended to be indicative of the results that would have actually been obtained if the merger had occurred as of the date indicated, nor do the pro forma results intend to be a projection of future results that may be obtained.

#### Note 5. Goodwill and Other Intangible Assets

The carrying value of our goodwill and intangible assets increased during the first quarter of 2012 due to our acquisition of IdeaOne Telecom which closed on March 1, 2012. Goodwill was \$29,034,000 as of March 31, 2012 compared to \$27,303,000 at December 31, 2011. We have goodwill in all three of our operating units: Fiber and Data Segment goodwill resulted from our acquisition of IdeaOne Telecom in 2012, CP Telecom in 2009 and Enventis Telecom in 2005. Equipment Segment goodwill also resulted from our acquisition of Enventis Telecom and Telecom Segment goodwill resulted from our acquisition of Heartland Telecommunications in 1997.

(Dollars in thousands)	March 31, 2012	December 31, 2011
Fiber and Data	\$ 5,390	\$ 3,659
Equipment	\$ 596	\$ 596
Telecom	\$ 23,048	\$ 23,048

We test acquired goodwill for impairment annually by first completing a qualitative analysis to determine whether or not it is more likely than not that the fair value of a reporting unit exceeds its carrying amount. We also test goodwill for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. We completed our annual impairment test for acquired goodwill as of December 31, 2011, which resulted in no impairment charges to goodwill. In the first three months of

2012, there was no event or change in circumstance that would have more likely than not reduced the fair value below its carrying value.

Intangible assets with finite lives are amortized over their respective estimated useful lives to their estimated residual value. Identifiable intangible assets that are subject to amortization are evaluated for impairment on an annual basis or if an event occurs or a change in circumstances indicates the carrying value may not be recoverable. Our acquisition price for IdeaOne Telecom included intangible assets of \$3,200,000 in customer relationships and \$100,000 of other intangibles.

Table of Contents

11

---

The components of intangible assets are as follows:

(Dollars in thousands)	Useful Lives	As of March 31, 2012		As of December 31, 2011	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-Lived Intangible Assets					
Customer relationships	1 - 8 years	\$ 8,499	\$ 4,845	\$ 5,299	\$ 4,746
Other intangibles	1 - 5 years	2,930	1,108	2,830	1,069
<b>Total</b>		<b>\$ 11,429</b>	<b>\$ 5,953</b>	<b>\$ 8,129</b>	<b>\$ 5,815</b>

Amortization expense related to the definite-lived intangible assets was \$138,000 and \$88,000 for the three months ended March 31, 2012 and 2011, respectively. Total estimated amortization expense for the remaining nine months of 2012 and the five years subsequent to 2012 is as follows: 2012 (April 1 – December 31) – \$665,000; 2013 - \$893,000; 2014 - \$762,000; 2015 - \$629,000; 2016 - \$567,000; 2017 - \$414,000.

#### Note 6. Fair Value of Financial Instruments

Fair value is the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. Three levels of inputs used to measure fair value are as follows:

- Level 1– quoted prices in active markets for identical assets and liabilities.
- Level 2– observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3– unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

The fair value of cash and cash equivalents, net accounts receivables and payables, other short-term monetary assets and liabilities was estimated by management to approximate fair value due to the relatively short period of time to maturity for these instruments.

On a recurring basis we measure the fair value of our long-term debt and interest rate swaps, which are considered level 2 instruments. The fair value estimate for our long-term debt is based on the overall weighted average interest rates and maturity compared to rates and terms currently available in the long-term financing markets. The fair value estimate of our interest rate swaps represent the net present value of future cash flows based on projections of the three month LIBOR rate over the life of each swap. Our interest rate swaps are recognized at fair value under the long-term liabilities on the Consolidated Balance Sheet as of March 31, 2012 and December 31, 2011.

The fair value and carrying value of our long-term debt, after deducting current maturities and our interest rate swaps are as follows at March 31, 2012 and December 31, 2011.

(Dollars in thousands)	Input Level	March 31, 2012		December 31, 2011	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	2	\$ 140,272	\$ 144,727	\$ 118,828	\$ 122,886
Interest rate swaps	2	\$ 2,516	\$ 2,516	\$ 2,469	\$ 2,469

#### Note 7. Debt and Other Obligations

Our long-term obligations as of March 31, 2012 were \$140,272,000, excluding current maturities of \$1,420,000 on debt and \$201,000 on current maturities of capital leases. Long-term obligations as of December 31, 2011 were \$118,828,000 excluding current maturities of \$1,200,000 on debt and \$207,000 of capital leases.

Table of Contents

12

---

On August 11, 2011, we entered into a \$150,000,000 credit agreement with a syndicate of nine banks that matures on December 31, 2016. The credit facility is comprised of a \$30,000,000 revolving credit component (\$29,965,000 available to borrow as of March 31, 2012; \$35,000 is reserved for outstanding letters of credit) and a \$120,000,000 term loan component. On March 1, 2012 we borrowed an additional \$22,000,000 of incremental term loan debt under our existing credit facility to fund our acquisition of IdeaOne Telecom.

The term loans are structured in a Term Loan B facility. The outstanding principal balance of Term Loan B is \$119,400,000 as of March 31, 2012. Terms require us to make quarterly principal payments of \$300,000. The outstanding principal balance of the Incremental Term is \$22,000,000 as of March 31, 2012 and requires us to make quarterly principal payments of \$55,000. There was no outstanding principal balance under the revolving credit component as of March 31, 2012 and the revolving credit component does not require quarterly principal payments. Any remaining amounts outstanding on the revolving credit component and Term Loans will be due at maturity on December 31, 2016.

The term loan component has a provision whereby we periodically receive patronage capital refunds. Patronage refunds are recorded as an offset to interest expense and amounted to \$161,000 in the first quarter of 2012 compared to \$97,000 in the first quarter of 2011.

Our credit facility requires us to comply, on a consolidated basis, with specified financial ratios and tests. Specifically, the maximum leverage ratio is not to exceed 3.5 through December 31, 2012, 3.25 in 2013 and 3.00 thereafter. Our leverage ratio as of March 31, 2012 was 2.9. The second financial ratio, the debt service coverage ratio, must not be less than 2.5 during the term of the agreement. Our debt service coverage ratio as of March 31, 2012 was 5.4. Tables outlining these calculations can be found in the Liquidity and Capital Resources section found on page 30. The credit facility includes new allowances for continued payment of dividends and common stock repurchases and eliminates a specific capital expenditures limitation which was in place in our previous facility.

Our obligations under the credit facility are secured by a first-priority lien on the property and assets, tangible and intangible, of HickoryTech and its current subsidiaries, which includes total assets except for the Equipment Segment accounts receivable and inventory. We have also given a first-priority pledge of the capital stock of our current subsidiaries to secure the credit facility. The credit facility contains certain restrictions that, among other things, limit or restrict our ability to create liens or encumbrances; incur additional debt; issue stock; make asset sales, transfers, or dispositions; and engage in mergers and acquisitions, pay dividends or purchase/redeem Company stock over specified maximum values.

The credit facility requires us to enter in or maintain effective interest rate protection agreements on at least 50% of the Term Loans outstanding balance for a period of two years to manage our exposure to interest rate fluctuations. We continually monitor the interest rates on our bank loans. We currently have interest rate swap agreements, effectively fixing the LIBOR rate portion of the interest rate on \$72,000,000 of our variable interest rate. Additional information on our interest-rate swap agreements can be found under Note 8. "Financial Derivative Instruments."

#### Note 8. Financial Derivative Instruments

We utilize interest-rate swap agreements to manage our exposure to interest rate fluctuations on a portion of our variable-interest rate debt. Our interest-rate swaps increase or decrease the amount of cash paid for interest depending on the increase or decrease of interest required on the variable rate debt. We have effectively changed our exposure to varying cash flows on the variable-rate portion of our debt into fixed-rate cash flows. We do not enter into derivative instruments for any purpose other than to manage interest rate exposure. That is, we do not engage in interest rate speculation using derivative instruments.

We account for derivatives in accordance with FASB ASC Topic 815, “Derivatives and Hedging.” ASC 815 requires that all derivative instruments be recorded on the balance sheet as either an asset or a liability measured at its fair value, and that changes in the derivatives’ fair value be recognized in earnings unless specific hedge accounting criteria are met. Our financial derivative instruments are not designated as hedges as of the end of and during the periods presented.

The fair value of our interest rate swap agreements were determined based on Level 2 inputs. Listed below are the interest-rate swap agreements which lock in our interest rates on existing variable-interest rate debt.

Interest-Rate Swap Agreement Effective Dates	Coverage	
	Amount	Rate
September 2011 - September 2014	\$ 24,000,000	1.66 %
September 2011 - March 2015	\$ 24,000,000	1.91 %
September 2011 - September 2015	\$ 24,000,000	2.14 %

The fair value of our derivatives at March 31, 2012 and December 31, 2011 are recorded as financial derivative instruments under the long-term liabilities section of our balance sheet. The fair value of our derivatives at March 31, 2012 and December 31, 2011 is a net liability of \$2,516,000 and \$2,469,000, respectively. The change in the fair value of financial derivative instruments is recognized in earnings in that period. The table below illustrates the effect of derivative instruments on consolidated operations for the periods ending March 31, 2012 and 2011, respectively.

Table of Contents

(Dollars in thousands) Derivative Instruments Hedging Relationships	Location of Financial Impact of Derivatives into Income	Increase/(Decrease) in Interest Expense	
		2012 (Restated)	2011 (Restated)
Interest Rate Contracts	Interest Expense	\$ 47	\$ (339 )

#### Note 9. Extended Term Payable

Enterprise Integration Services, Inc., a wholly owned subsidiary, has an \$18,000,000 wholesale financing agreement with a financing company to fund equipment purchases from certain approved vendors. Advances under this financing arrangement are collateralized by the assets of our Equipment Segment and a guaranty of an amount up to \$2,500,000 by HickoryTech. The agreement requires Enterprise Integration Services to maintain specific levels of collateral relative to the outstanding balance due, provide selected monthly financial information, and make all payments when due or on demand in the event of a collateral shortfall, among other requirements. A default on the financing agreement by Enterprise Integration Services would require HickoryTech to perform under the guaranty. The financing agreement provides 60 day, interest-free payment terms for working capital and can be terminated at any time by either party. The balance outstanding under the financing arrangement was \$8,615,000 and \$6,920,000 at March 31, 2012 and December 31, 2011, respectively. These balances are classified as current liabilities in the accompanying Balance Sheets and are excluded from our debt financing per our senior credit agreement.

#### Note 10. Employee Post-Retirement Benefits

HickoryTech provides post-retirement health care and life insurance benefits for eligible employees. We are currently not funding these post-retirement benefits, but have accrued these liabilities. We are required to recognize the funded status of our post-retirement benefit plans on our consolidated balance sheet and recognize as a component of accumulated other comprehensive income (loss), net of tax, the gains and losses and prior service costs or credit that arise during the period but are not recognized as components of net periodic benefit cost. New employees are not eligible for post-retirement health care and life insurance benefits.

#### Table of Contents



(Dollars in thousands)	Three Months Ended March	
	2012	2011
Components of net periodic benefit cost		
Service cost	\$ 150	\$ 127
Interest cost	188	200
Expected return on plan assets	-	-
Amortization of transition obligation	15	15
Amortization of prior service cost	(19 )	(14 )
Recognized net actuarial loss	135	107
Net periodic benefit cost	\$ 469	\$ 435
Employer's contributions for current premiums:		March 31,
Contributions made for the three months ended March 31, 2012		2012
Expected contributions for remainder of 2012		258
Total estimated employer contributions for fiscal year 2012		\$ 341

#### Note 11. Inventories

Inventory includes parts, materials and supplies stored in our warehouses to support basic levels of service and maintenance as well as scheduled capital projects and equipment awaiting configuration for customers. Inventory also includes parts and equipment shipped directly from vendors to customer locations while in transit and parts and equipment returned from customers which is being returned to vendors for credit, as well as maintenance contracts associated with customer sales which have not yet transferred to the customer. The inventory value in the Fiber and Data Segment and the Telecom Segment are comprised of raw materials. The inventory value in the Equipment Segment is primarily comprised of finished goods in transit to customers or at customers' locations of which title has not yet transferred. The inventory level in the Equipment Segment is subject to the fluctuations in the equipment revenue and the timing of individual customer orders.

(Dollars in thousands)	March 31,	December
	2012	31, 2011
Fiber and Data	\$ 1,222	\$ 950
Equipment	\$ 2,653	\$ 6,631
Telecom	\$ 1,585	\$ 1,716

We value inventory using the lower of cost (perpetual weighted average-cost or specific identification) or market method. We adjust our inventory carrying value for estimated obsolescence or unmarketable inventory to the estimated market value based upon assumptions about future demand and market conditions. As market and other conditions change, we may establish additional inventory reserves.

#### Note 12. Accumulated Other Comprehensive Income (Loss)

In addition to net income, our comprehensive income includes unrecognized Net Periodic Benefit Cost related to our Post-Retirement Benefit Plans. Comprehensive income for the three months ended March 31, 2012 and 2011 was \$2,373,000 and \$2,411,000 respectively, in relation to reported net income of \$2,294,000 and \$2,346,000. The following summary sets forth the components of accumulated other comprehensive income (loss), net of tax.

Table of Contents

15

---

	Unrecognized Net Actuarial Loss (1)	Unrecognized Prior Service Credit (1)	Unrecognized Transition Asset (1)	Accumulated Other Comprehensive Income/(Loss) (Restated)
(Dollars in thousands)				
December 31, 2011	\$ (4,375 )	\$ 277	\$ (37 )	(4,135 )
2012 Q1 Activity				-
Q1 Net Periodic Benefit Cost	81	(11 )	9	79
March 31, 2012	\$ (4,294 )	\$ 266	\$ (28 )	\$ (4,056 )

(1) Amounts pertain to our post-retirement benefit plans.

#### Note 13. Income Taxes

The effective income tax rate from operations for the first quarter of 2012 and 2011 was 40.6%. The effective tax rate from operations differs from the federal statutory rate primarily due to state income taxes.

As of March 31, 2012, we had unrecognized tax benefits totaling \$149,000 excluding interest. The amount of the unrecognized tax benefits, if recognized, that would affect the effective income tax rates of future periods is \$130,000. It is reasonably possible that the total amount of unrecognized tax benefits may decrease by approximately \$11,000, including interest, during the next 12 months as a result of expirations of the statute of limitations.

We recognize interest and penalties related to income tax matters as income tax expense. As of March 31, 2012, we have accrued \$5,000 (net of tax) for interest related to unrecognized tax benefits.

We file consolidated income tax returns in the United States federal jurisdiction and combined or separate income tax returns in various state jurisdictions. In general, we are no longer subject to United States federal income tax examinations for the years prior to 2008 except to the extent of losses utilized in subsequent years.

#### Note 14. Stock Compensation

Refer to our Amendment No. 1 on Form 10-K/A for the year ended December 31, 2011 for a complete description of all stock-based compensation plans.

Our stock award plans provide for granting non-qualified stock options, stock awards and restricted stock awards to employees. We recognize stock compensation charges related to stock award plans when management concludes it is probable the participant will earn the award. Share-based compensation expense includes amounts recognized related to the Company Employee Stock Purchase Plan. This plan allows participating employees to acquire shares of common stock at 85% of fair market value on one specified date. Stock-based compensation expense was \$114,000 and \$254,000 respectively in the three months ended March 31, 2012 and 2011. The decrease in the stock-based compensation expense was primarily driven by the decrease we have realized in our stock price in 2012. This includes compensation expense for share-based payment awards granted prior to, but not vested as of March 31, 2012.

The fair value of each option award is estimated on the date of the grant using a Black-Scholes option valuation model. We use a seven-year period to calculate the historical volatility of our stock price for use in the valuation model. The dividend yield rate is based on our current dividend payout pattern and current market price. The risk-free rate for options is based on a U.S. Treasury rate commensurate with the expected terms. The expected term of options granted is derived from historical experience and represents the period of time that options granted are expected to be

outstanding. Historical data is used to estimate pre-vesting forfeitures and are estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from the estimate.

In April 2011, 10,000 options were granted associated with the acceptance of the Chief Operating Officer position. Other than this stock award issued, options were last granted under the Company's Stock Award Plan in September 2006. The weighted average grant date fair value of options issued was \$0.80.

Table of Contents

16

---

As of March 31, 2012, there was \$5,000 of total unrecognized compensation costs related to non-vested stock options granted under the Company's Stock Award Plan. This expense is being recognized over a weighted average period of three years.

A summary of stock option activity is as follows:

	Options	Weighted Average Exercise Price
Outstanding at January 1, 2012	247,650	\$ 11.28
Granted	-	-
Exercised	(1,500 )	10.22
Forfeited	-	-
Expired	(35,000 )	15.03
Outstanding at March 31, 2012	211,150	\$ 10.66
Exercisable at March 31, 2012	201,150	\$ 10.74

The following table provides certain information with respect to stock options outstanding at March 31, 2012:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$6.00 - \$8.00	15,000	\$ 6.95	4.42
\$8.00 - \$12.00	148,150	10.23	2.24
\$12.00 - \$16.00	48,000	13.16	0.17
	211,150	\$ 10.66	1.93
Aggregate intrinsic value:		\$ 142,000	

The following table provides certain information with respect to stock options exercisable at March 31, 2012:

Range of Exercise Prices	Stock Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
\$6.00 - \$8.00	15,000	\$ 6.95	4.42
\$8.00 - \$12.00	138,150	10.32	1.75
\$12.00 - \$16.00	48,000	13.16	0.17

201,150 \$ 10.74 1.57

Aggregate  
intrinsic  
value:

\$ 129,000

Note 15. Quarterly Segment Financial Summary

Our operations are conducted in three segments: (i) Fiber and Data, (ii) Equipment and (iii) Telecom.

Our Fiber and Data Segment serves wholesale, enterprise and small-to-medium business customers with high-speed communications products supported by our extensive statewide fiber network and community access rings. With our experience and communication expertise we are able to provide standard and customized network solutions which can be extended beyond our network to provide end-to-end national connectivity. The Fiber and Data segment also includes revenue from our SingleLink services and voice, data and Internet services sold to SMB business customers in several metropolitan markets.

Table of Contents

17

---

Our Equipment Segment provides equipment solutions and support for a broad spectrum of business customers. Our equipment solutions team plans, designs and implements networks utilizing emerging technological advancements including TelePresence Video, Unified Communications and data center solutions. We provide a complete array of products and services to support the Cisco equipment sold to business customers including professional services, maintenance, total care support and security. Professional services include network assessments, planning, design, implementation and training. Our total care support team provides a single-point-of-contact for the support of applications, systems and infrastructure. We also offer security solutions combining leading network security products with our experience and expertise in integrated communications systems.

Our Telecom Segment provides telephone services to Mankato and adjacent areas of south central Minnesota and to eleven rural communities in northwest Iowa as an ILEC. This segment operates fiber optic cable transport facilities in Minnesota and Iowa. It also offers an alternative choice for local telecommunications service, known as CLEC service in the communications industry, to customers in Minnesota and Iowa not currently in HickoryTech's ILEC service area. In addition, the Telecom Segment resells long distance service to Minnesota and Iowa subscribers in its ILEC and CLEC markets. Through NIBI, the Telecom Segment also provides data processing and related services to HickoryTech's other product lines and to other external telephone companies, municipalities, utilities and wireless and cable TV providers.

Our presentation of segments has changed from our previous 10-Q filing to portray the organization as our chief operating decision-makers base their decisions. In 2011, changes to our organizational and management structure, as well as the formation of a separate entity to isolate our equipment distribution operation, we were able to more clearly and completely separate our Business Sector into two reportable segments for operating decision-making. The segment information below has been reclassified to reflect these changes.

Segment information for the three months ended March 31, 2012 and 2011 is as follows:

(Dollars in thousands)				Corporate and		
Three Months Ended March 31, 2012	Fiber and Data	Equipment	Telecom	Eliminations (Restated)	Consolidated (Restated)	
Revenue from unaffiliated customers	\$ 13,219	\$ 17,421	\$ 16,304	\$ -	\$ 46,944	
Intersegment revenue	193	-	410	(603 )	-	
<b>Total operating revenue</b>	<b>13,412</b>	<b>17,421</b>	<b>16,714</b>	<b>(603 )</b>	<b>46,944</b>	
Depreciation and amortization	1,966	71	4,133	24	6,194	
Operating income (loss)	2,345	820	2,187	(100 )	5,252	
Interest expense	-	-	13	1,398	1,411	
Income tax provision (benefit)	950	334	883	(600 )	1,567	
<b>Net Income (loss)</b>	<b>1,395</b>	<b>486</b>	<b>1,299</b>	<b>(886 )</b>	<b>2,294</b>	
Total assets	101,996	16,144	122,512	26,812	267,464	
Property, plant and equipment, net	83,055	1,389	90,150	101	174,695	
Additions to property, plant and equipment	1,965	73	1,596	-	3,634	

[Table of Contents](#)

Three Months Ended March 31, 2011	Fiber and Data	Equipment	Telecom	Corporate and	Consolidated (Restated)
				Eliminations (Restated)	
Revenue from unaffiliated customers	\$ 10,861	\$ 10,424	\$ 17,337	\$ -	\$ 38,622
Intersegment revenue	161	-	412	(573 )	-
Total operating revenue	11,022	10,424	17,749	(573 )	38,622
Depreciation and amortization	1,586	68	4,003	22	5,679
Operating income (loss)	1,485	498	2,901	(218 )	4,666
Interest expense	-	-	18	711	729
Income tax provision (benefit)	602	204	1,168	(373 )	1,601
Net Income (loss)	883	295	1,716	(548 )	2,346
Total assets	67,519	16,608	129,109	15,641	228,877
Property, plant and equipment, net	54,981	1,126	97,008	146	153,261
Additions to property, plant and equipment	1,806	6	1,930	-	3,742

#### Note 16. Commitments and Contingencies

We are involved in certain contractual disputes in the ordinary course of business. We do not believe the ultimate resolution of any of these existing matters will have a material adverse effect on our financial position, results of operations or cash flows.

In August 2010, we were awarded a National Telecommunications Information Administration (NTIA) Broadband Technology Opportunities Program (BTOP) grant to extend our middle mile fiber-optic network across greater Minnesota connecting health care facilities, schools, libraries, higher education institutions and public offices with an advanced high-capacity broadband network. This project involves approximately \$24,000,000 of capital expenditures of which \$16,800,000 is funded by the NTIA grant. We began capitalizing costs associated with this project in 2010 and began receiving grant funds in June 2011. The table below provides an overview of the capital expenditures incurred on this project along with reimbursements pending or received from the program.

(Dollars in thousands)	Project Activity		
	YTD	YTD	Project Total
	March 31, 2012	December 31, 2011	
Capital Expenditures Incurred	\$ 383	\$ 12,664	\$ 13,047
Capital Expenditures Pending Reimbursement	\$ 867	\$ -	\$ 867
NTIA Reimbursements Received	\$ 1,321	\$ 6,945	\$ 8,266

We anticipate the completion of this project by August 2013.

#### Note 17. Subsequent Events

On November 5, 2012 the banks in our credit facility syndicate provided a waiver of our specific breaches in representations provided to them regarding GAAP related to the financial information restatement.



We have evaluated and disclosed subsequent events through the filing date of this amendment to the Quarterly Report on Form 10-Q/A.

Table of Contents

19

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward Looking Statements

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This Quarterly Report on Form 10-Q/A may include forward-looking statements. These statements may include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities and growth rates, acquisition and divestiture opportunities, business strategies, business and competitive outlook, and other similar forecasts and statements of expectation. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," "targets," "projects," "will," "may," "continues," and "should" of these words and similar expressions, are intended to identify these forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially from such statements. Factors that might cause such a difference include, but are not limited to, those contained in Item 1A of Part II, "Risk Factors" of this quarterly report on Form 10-Q/A and Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2011 which is incorporated herein by reference.

Because of these risks, uncertainties, and assumptions and the fact that any forward-looking statements made by us and our management are based on estimates, projections, beliefs, and assumptions of management, they are not guarantees of future performance and you should not place undue reliance on them. In addition, forward-looking statements speak only as of the date they are made. With the exception of the requirements set forth in the federal securities laws or the rules and regulations of the Securities and Exchange Commission, we do not undertake any obligations to update any forward-looking information, whether as a result of new information, future events or otherwise.

### Critical Accounting Policies

The preparation of our financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and the related disclosure of contingent assets and liabilities. A description of the accounting policies that we consider particularly important for the portrayal of our results of operations and financial position, and which may require a higher level of judgment by our management, is contained under the caption, "Critical Accounting Policies," in the Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2011 and Amendment No. 1 on Form 10-K/A.

### Acquisition/Business Combinations

We utilize the acquisition accounting method for acquisitions/business combinations requiring us to recognize assets acquired, liabilities assumed and any noncontrolling interest in the acquiree at fair value on the acquisition date. Acquisition costs are expensed as incurred.

### Financial Derivative Instruments

We enter into fixed interest rate swap agreements (financial derivative instruments) to manage exposure to interest rate fluctuations on a portion of our variable-interest rate debt. Our interest rate swaps increase or decrease the amount of cash paid for interest depending on the increase or decrease of interest required on our variable rate debt.

We account for our financial derivative instruments in accordance with ASC 815, "Derivatives and Hedging." ASC 815 requires that all derivative instruments be recorded on the balance sheet as either an asset or a liability measured at its fair value, and that changes in the derivatives' fair value be recognized in earnings unless specific hedge accounting criteria are met. The fair value estimate of our interest rate swaps represent the net present value of future cash flows

based on projections of the three month LIBOR rate over the life of each swap. Our financial derivative instruments are not designated as hedges and therefore are not accounted for using hedge accounting. The difference between interest paid and interest received, which may change as market interest rates change, is accrued and recognized as a component of interest expense.

Table of Contents

20

---

## Results of Operations

We conduct our operations in three business segments: (i) Fiber and Data, (ii) Equipment and (iii) Telecom.

Our Fiber and Data Segment serves wholesale, enterprise and small-to-medium business customers with high-speed communications products supported by our extensive statewide fiber network and community access rings. With our experience and communication expertise we are able to provide standard and customized network solutions which can be extended beyond our network to provide end-to-end national connectivity. The Fiber and Data segment also includes revenue from our SingleLink services and voice, data and Internet services sold to SMB business customers in several metropolitan markets.

Our Equipment Segment provides equipment solutions and support for a broad spectrum of business customers. Our equipment solutions team plans, designs and implements networks utilizing emerging technological advancements including TelePresence Video, Unified Communications and data center solutions. We provide a complete array of products and services to support the Cisco equipment sold to business customers including professional services, maintenance, total care support and security. Professional services include network assessments, planning, design, implementation and training. Our total care support team provides a single-point-of-contact for the support of applications, systems and infrastructure. We also offer security solutions combining leading network security products with our experience and expertise in integrated communications systems.

Our Telecom Segment provides bundled residential and business services including high-speed Internet, broadband services, digital TV, local voice and long distance services in our legacy telecom service area. Telecom is comprised of two markets. The first includes an incumbent local exchange carrier (“ILEC”) operating in 13 south central Minnesota communities and 13 rural northwest Iowa communities. The second market is a competitive local exchange carrier (“CLEC”) operation. We own our network in both the ILEC and CLEC communities. The Telecom Segment, through National Independent Billing, Inc., also provides data processing and related billing services to HickoryTech and external communication providers including wireline, wireless and entertainment providers.

## Executive Summary

Total consolidated revenue of \$46.9 million during the first quarter of 2012 represents an increase of 22% over the first quarter of 2011. Net income of \$2.3 million, or \$0.17 per diluted share, compares to net income of \$2.3 million, or \$0.18 per diluted share, earned during the same period in 2011.

Our Fiber and Data Segment posted revenue of \$13.4 million in the first quarter of 2012, an increase of \$2.4 million or 22% compared to 2011. Organic business revenue grew by \$1.3 million with the balance attributable to one month of results from our IdeaOne Telecom acquisition which closed on March 1, 2012. Our Equipment Segment had a high of \$17.4 million of revenue in the first quarter of 2012, a \$7.0 million increase from the first quarter of 2011 driven by advanced unified communication and data center equipment sales.

Revenue from our Telecom Segment declined by \$1,035,000, or 6%, reflecting a decline in legacy voice and switched access services. Network access services revenue fell by \$909,000 or 16%, reflecting the continued decline in these services as well as the additional impact of certain provisions of FCC order 11-161, released in November 2011. Intense competition and price compression impacted broadband services revenue, which was 1% lower in the first quarter of 2012 compared to 2011. While we cannot predict the ultimate impact of the new FCC order, we anticipate that the new requirements could increase the level of decline in our legacy services. This decline, combined with an intense competitive environment, provides challenges for our Telecom Segment revenue streams. Offsetting a portion of the revenue decline within the Telecom Segment was a \$468,000 or 64% increase in bill processing revenue resulting from the growth in our external customer base utilizing our billing and customer management software

system SuiteSolution®.

Total costs and expenses increased by 23% in the first quarter of 2012 compared to 2011, reflecting higher sales volumes in our Equipment Segment combined with continued investment in growing our Fiber and Data Segment. Depreciation increased 8% driven by our acquisition of IdeaOne Telecom and higher levels of capital spending totaling \$22.9 million in 2010 and \$21.4 million in 2011. We have made significant investments in our network during the last two years expanding our fiber footprint and increasing capacity in strategic locations. These investments, which increase costs in advance of generating revenue, provide the groundwork for continued growth in our Fiber and Data Segment.

Table of Contents

21

---

We completed our IdeaOne Telecom acquisition on March 1, 2012, utilizing a \$22 million expansion of our senior credit facility. This raised our debt obligation (short and long-term) from \$120.2 million at December 31, 2011 to \$141.9 million at March 31, 2012. We have maintained a leverage ratio of approximately 2.9 times debt to EBITDA as defined in our credit agreement, well within acceptable limits for our agreement and our industry. Interest expense in the first quarter of 2012 was \$682,000 or 94% higher than the same period in 2011 as a result of higher interest rates associated with our new credit facility and increased debt levels. Of the increase in interest expense the change in the fair value of our interest rate swap agreements increased 2012 interest expense by \$47,000 while decreasing 2011 interest expense by \$339,000.

Table of Contents

22

---

## Fiber and Data Segment

The following table provides a breakdown of the Fiber and Data Segment operating results.

(Dollars in thousands)	Fiber and Data			
	Three Months Ended March 31		% Change	
	2012	2011		
Operating revenue before intersegment eliminations:				
Services	\$ 13,219	\$ 10,861	22	%
Intersegment	193	161	20	%
Total operating revenue	\$ 13,412	\$ 11,022	22	%
Cost of services (excluding depreciation and amortization)	6,595	5,821	13	%
Selling, general and administrative expenses	2,506	2,130	18	%
Depreciation and amortization	1,966	1,586	24	%
Total costs and expenses	11,067	9,537	16	%
Operating income	\$ 2,345	\$ 1,485	58	%
Net income	\$ 1,395	\$ 883	58	%
Capital expenditures	\$ 1,965	\$ 1,806	9	%

## Revenue

Fiber and Data. We serve wholesale, enterprise and small-to-medium business customers with high-speed communications products delivered through our extensive regional fiber network and community access rings supported by a 24x7x365 network operations center. This revenue stream is generally based on multi-year contracts with retail businesses, regional and national service providers and wireless carriers, building a solid monthly recurring revenue base.

Fiber and Data services revenue increased \$2,390,000 or 22% in the first quarter of 2012 compared to the same period in 2011. Organic growth in the first quarter was \$1,315,000 or 12%, led by revenue from data services such as Ethernet, Multi-Protocol Label Switching (“MPLS”), Internet, data center services and VoIP and dynamic services. Our acquisition of IdeaOne Telecom, a metro fiber network provider serving Fargo, ND, was completed on March 1 and contributed \$1,075,000 to revenue in the first quarter of 2012.

The IdeaOne acquisition advances our strategy of growing our business and broadband services, as approximately 85% of IdeaOne revenue comes from business services. In 2010, we extended our fiber network to Fargo, ND and will further accentuate the capabilities and services we have in this market when we complete our Broadband stimulus route from Brainerd, MN to Fargo, ND in 2012. The IdeaOne acquisition adds 225 fiber route miles to our regional network, extending to 650 on-net fiber-lit buildings within the Fargo market.

## Total Cost and Expenses

IdeaOne Telecom’s operating results are reflected in our financial results of this Segment beginning on March 1, 2012. The primary drivers of expense variances are noted below with the balance of the increases resulting from including this new entity, which is reported within the Fiber and Data Segment.

Table of Contents

23

---



Cost of Services (excluding Depreciation and Amortization)

Fiber and Data Segment cost of services increased by \$774,000 or 13% in the first quarter of 2012 as compared to the same period in 2011. The primary drivers of the increase in cost of services were a \$145,000 increase in volume-driven circuit costs supporting increased revenue and a \$125,000 increase in wages and benefits supporting the organic growth in Fiber and Data services.

Selling, General and Administrative Expenses

Fiber and Data Segment selling, general and administrative expenses increased \$376,000 or 18% in the first quarter of 2012 as compared to the same period in 2011 primarily due to a \$139,000 increase in corporate overhead costs and a \$110,000 increase in wages and benefits.

Depreciation and Amortization

Fiber and Data Segment depreciation and amortization increased by \$380,000 or 24% in the first quarter of 2012 as compared to the same period in 2011. This increase was primarily due to our IdeaOne Telecom acquisition which added \$283,000 of depreciation and amortization to the first quarter and the investments made in our fiber and broadband network during the past several years. Amortization expense remained constant except for the addition of IdeaOne Telecom intangible assets.

Table of Contents

24

---

## Equipment Segment

The following table provides a breakdown of the Equipment Segment operating results.

(Dollars in thousands)	Equipment		% Change	
	2012	2011		
Operating revenue before intersegment eliminations:				
Equipment	\$ 15,299	\$ 8,195	87	%
Services	2,122	2,229	-5	%
Total operating revenue	\$ 17,421	\$ 10,424	67	%
Cost of sales (excluding depreciation and amortization)	13,466	6,999	92	%
Cost of services (excluding depreciation and amortization)	1,712	1,678	2	%
Selling, general and administrative expenses	1,352	1,181	14	%
Depreciation and amortization	71	68	4	%
Total costs and expenses	16,601	9,926	67	%
Operating income	\$ 820	\$ 498	65	%
Net income	\$ 486	\$ 295	65	%
Capital expenditures	\$ 73	\$ 6	1117	%

## Revenue

Equipment. We are a Master Unified Communications and Gold Certified Cisco partner providing Cisco equipment solutions and support for a broad spectrum of business clients. Our equipment solutions team plans, designs and implements networks utilizing emerging technological advancements including TelePresence Video, Unified Communications and data center solutions. Equipment sales are non-recurring in nature, making this revenue dependent upon new sales to existing and new customers, which makes it susceptible to fluctuations on a quarter to quarter basis based on customer contracts and project completion.

Equipment revenue was \$15,299,000, an increase of \$7,104,000 or 87% in the first quarter of 2012 compared to the same period in 2011, and \$6,982,000 higher than our fourth quarter 2011 equipment revenue. In the first quarter we experienced strong sales of advanced unified communication and data center equipment and also had success selling new technology advanced products including converged infrastructure solutions which enable our customers to rapidly deploy cloud computing applications.

Equipment Services. Services include network assessments, planning, design, implementation, and training. Maintenance contracts ("Smartnet" contracts) are offered in collaboration with Cisco systems. Our total care support team provides a single-point-of-contact for the support of applications, systems and infrastructure. We also offer security solutions combining leading network security products with our experience and expertise in integrated communications systems.

Services revenue declined by \$107,000 or 5% in the first quarter of 2012 compared to the same period in 2011, primarily due a decline of \$169,000 in contract services revenue which includes the design, configuration and

installation of voice and data equipment. In late 2010, we implemented a new approach to our network and equipment monitoring services in an attempt to grow recurring revenue streams in the Equipment Segment. In the first quarter of 2012, we realized a year-over-year growth rate of 29% in this area, partially offsetting the decline in contract services.

Table of Contents

25

---

#### Cost of Sales

Equipment Segment cost of sales is composed primarily of equipment material costs. Higher equipment sales volume in the first quarter of 2012 as compared to the same period in 2011 drove the \$6,467,000 or 92% increase in cost of sales. Labor associated with installation of the equipment is included in cost of services (excluding depreciation and amortization) described below.

#### Cost of Services (excluding Depreciation and Amortization)

Equipment Segment cost of services increased by \$34,000 or 2% in the first quarter of 2012 as compared to the same period in 2011 due to an increase of \$171,000 in wages and benefit costs, partly offset by a \$76,000 reduction in contract labor resources.

#### Selling, General and Administrative Expenses

Equipment Segment selling, general and administrative expenses increased \$171,000 or 14% in the first quarter of 2012 as compared to the same period in 2011 primarily due to a \$103,000 increase in corporate overhead costs and a \$83,000 increase in wages and benefits.

#### Depreciation and Amortization

Equipment Segment depreciation and amortization increased by \$3,000 or 4% in the first quarter of 2012 as compared to the same period in 2011.

#### Table of Contents

26

---

## Telecom Segment

The following table provides a breakdown of the Telecom Segment operating results.

(Dollars in thousands)	Telecom		% Change
	2012	Three Months Ended March 31 2011	
Operating revenue before intersegment eliminations:			
Local Service	\$ 3,429	\$ 3,693	-7 %
Network Access	4,903	5,812	-16 %
Broadband	5,002	5,054	-1 %
Directory	782	872	-10 %
Long Distance	648	729	-11 %
Bill Processing	1,205	737	64 %
Intersegment	410	412	0 %
Other	335	440	-24 %
Total Telecom operating revenue	\$ 16,714	\$ 17,749	-6 %
Total Telecom revenue before intersegment eliminations			
Unaffiliated customers	\$ 16,304	\$ 17,337	
Intersegment	410	412	
	16,714	17,749	
Cost of services (excluding depreciation and amortization)	7,561	7,761	-3 %
Selling, general and administrative expenses	2,833	3,084	-8 %
Depreciation and amortization	4,133	4,003	3 %
Total Telecom costs and expenses	14,527	14,848	-2 %
Operating Income	\$ 2,187	\$ 2,901	-25 %
Net income	\$ 1,299	\$ 1,716	-24 %
Capital expenditures	\$ 1,596	\$ 1,930	-17 %
Key metrics			
Business access lines	21,954	23,932	-8 %
Residential access lines	23,679	26,678	-11 %
Total access lines	45,633	50,610	-10 %
Long distance customers	31,498	33,513	-6 %
Digital Subscriber Line customers	19,451	20,032	-3 %
Digital TV customers	10,247	10,591	-3 %

## Revenue

Local Service. We receive monthly recurring revenue from end-user customers primarily for providing local telephone services, enhanced calling features, miscellaneous local services and reciprocal compensation from wireless carriers.

Table of Contents

27

---

Local service revenue declined by \$264,000 or 7% in the first quarter of 2012 as compared to the same period in 2011 with the largest declines experienced in residential access and feature revenue. Total access lines as of March 31, 2012 were 45,633, down 4,977 subscribers or 10% from March 31, 2011. The Telecom Segment's access lines declined at a higher rate than we have experienced in recent years. Some of our own business customers' are replacing traditional wire-line services with our VoIP services, primarily our Enventis Hosted VoIP Solution, Singlelink which is recorded within the Fiber and Data Segment. Also contributing to the decline in our business lines was the modification of a contract with an external communications provider as required by traffic stimulation provisions in FCC order 11-161.

Voice service revenue will continue to be adversely impacted by the decline in access lines due to intense competition, changes within the regulatory environment and continued technological advances providing alternative communications offerings for our customers. In an effort to manage the decline we emphasize our service bundles, which include local phone service and long distance as well as a variety of features and broadband options including: DSL, high-speed internet and digital TV.

**Network Access.** We receive a variety of fees and settlements to compensate us for the origination, transport, and termination of calls and traffic on our network. These include the fees assessed to interexchange carriers, subscriber line charges imposed on end-users, and settlements from nationally administered and jointly funded revenue pools.

Network access revenue declined by \$909,000 or 16% in the first quarter of 2012 as compared to the same period in 2011. Declining switched minutes-of-use from access lines and carriers and lower end-user fees accounted for \$443,000 of the first quarter decline. In the first quarter of 2012 we also experienced a one-time reduction of support totaling \$152,000 from the National Exchange Carrier Association ("NECA"). At December 31, 2011 a type of USAC support reimbursing us for significant investments made in our infrastructure expired lowering year-over-year revenue by approximately \$200,000. We believe the loss of this support mechanism combined with the business customer loss noted below will increase the percentage decline we will realize in this revenue stream in 2012.

In November 2011, the FCC released order 11-161, which contains comprehensive rules reforming all forms of intercarrier compensation and implements a new support mechanism for the deployment of broadband. Generally, the intercarrier compensation reform sets forth a path toward a "Bill & Keep" method where there is no compensation for termination of traffic received from another carrier. The timeline for this transition has numerous steps depending on the type of traffic exchanged and the regulated status of the affected local exchange carrier. We anticipate that these changes will increase the rate of decline in access revenue that we have experienced in prior years and are reflecting these declines in our 2012 and long-term plans.

We felt the first impact of the order in January of 2012, when we modified a contract with an external communications provider due to traffic stimulation provisions in the order. This drove our business line loss percentage to top 8% in the first quarter of 2012, up from loss rates of 3% to 4% in 2011 and 2010, respectively. We will experience additional line loss in the second quarter of 2012 due to this contract termination and then anticipate 2012 business line loss rates to return to levels realized in the past.

**Long Distance.** We charge our end-user customers for toll or long distance service on either a per-call or flat-rate basis. Services include the provision of directory assistance, operator service, and long distance private lines.

Long distance revenue declined by \$81,000 or 11% in the first quarter of 2012 as compared to the same period 2011. This decrease is primarily due to the decline in our customer base, a growing number of residential customers selecting unlimited long distance calling plans and our decision to reduce rates-per-minute charged to customers due to aggressive competition in the markets we serve.

Broadband. We receive monthly recurring revenue for a variety of residential and business broadband data network services. Broadband services include: DSL service, Internet service, digital TV services, and business Ethernet and other data services.

Broadband revenue declined by \$52,000 or 1% in the first quarter of 2012 as compared to the same period in 2011 primarily due to a decline in DSL service revenue driven by a 3% loss in our customer base combined with intense price compression and competition from cable providers within our markets. Also contributing to the decline in Telecom broadband revenue is the replacement of Ethernet services by our enhanced MPLS service offering which is recorded within our Fiber and Data Segment. This migration represents success within our business customer retention strategy and testifies to the strength and diversity of our overall product and service offering portfolio.

Table of Contents

28

---



Directory. We receive monthly recurring revenue from end-user subscribers for yellow page advertising in our telephone directories.

Directory revenue declined by \$90,000 or 10% in the first quarter of 2012 as compared to the same period in 2011. This is primarily due to decreased demand for published advertising by local and national businesses and increased competition from other directories. We expect the trend of declining directory revenue to continue.

Bill Processing. We provide data processing and billing services to other communication service providers. We collect a combination of monthly recurring revenue, software license fees and integration services revenue from companies with whom we have established long-term data processing relationships.

Bill processing revenue increased \$468,000 or 64% in the first quarter of 2012 compared to 2011. We continue to have success selling our billing and customer management software system SuiteSolution® to competitive communications providers. SuiteSolution® provides communications billing, customer management and operations support systems coupled with the latest in database and screen presentation technology. Growth in our external customer base utilizing SuiteSolution® has increased demand for contract and support services strengthening revenue streams from this business.

Other Revenue. Other revenue consists primarily of sales of wholesale contract services, late fees applied to subscriber billings, and add, move, and change revenue on customer premise equipment.

Other revenue declined \$105,000 or 24% in the first quarter of 2012 compared to 2011 primarily due to a decline in revenue from a joint network arrangement combined with a decline in wholesale contract service revenue.

#### Cost of Services (excluding Depreciation and Amortization)

Cost of services (excluding depreciation and amortization) decreased by \$200,000 or 3% in the first quarter of 2012 compared to 2011. The primary cause was a decline of \$157,000 in expense related to the loss of a external communications provider, helping to offset the declines in revenue noted in our discussion of network access revenue. Direct product expenses declined slightly on a year-over-year basis offset by an increase in programming costs of \$99,000

#### Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by \$251,000 or 8% in the first quarter of 2012 compared to 2011. This decline is primarily due to a decrease in corporate cost of \$254,000.

#### Depreciation and Amortization

Depreciation and amortization expense increased by \$130,000 or 3% in the first quarter of 2012 compared to 2011. This increase is primarily due to our continued investment to support broadband infrastructure enhancements on our network.

#### Consolidated Results

##### Interest Expense

Consolidated interest expense increased \$682,000 or 94% in the three months ended March 31, 2012 compared to March 31, 2011. The quarterly increase is driven by higher interest rates associated with our debt refinancing which

took place in the third quarter of 2011 and higher debt levels. The quarterly increase is also driven by the impact of the change in fair value of our interest rate swap agreements which increased interest expense \$47,000 in 2012 and decreased interest expense \$339,000 in 2011. The outstanding balance of our debt obligations (long-term and current portion) has increased \$23,107,000 from \$118,786,000 at March 31, 2011 to \$141,893,000 as of March 31, 2012. The March 31, 2012 debt balance is \$21,658,000 higher than the December 31, 2011 balance of \$120,235,000. The higher debt balance is associated with the \$22,000,000 incremental debt we borrowed to fund the IdeaOne acquisition.

Table of Contents

29

---

## Income Taxes

Our effective income tax rate for the first quarter of 2012 and 2011 was 40.6%. The effective tax rate from operations differs from the federal statutory rate primarily due to state income taxes.

## Liquidity and Capital Resources

### Capital Structure

The total capital structure (long-term and current maturities of long-term debt obligations plus shareholders' equity) was \$185,876,000 at March 31, 2012, reflecting 24% equity and 76% debt. This compares to a total capital structure of \$163,432,000 at December 31, 2011, reflecting 26% equity and 74% debt. In the communications industry, debt financing is most often based on multiples of operating cash flows. Specifically, our current use of the senior credit facility is in a ratio of approximately 2.9 times debt to Earnings before Interest, Tax, Depreciation and Amortization, ("EBITDA") as defined in our credit agreement; well within the acceptable limit for our agreement of 3.5 times debt to EBITDA and our industry.

We employ an extended term payable financing arrangement for the equipment provisioning portion of our Equipment Segment and view this arrangement as a structured accounts payable that is paid within 60 days with no separate interest charge. As such, the extended term payable financing amount of \$8,615,000 and \$6,920,000 as of March 31, 2012 and December 31, 2011, respectively, is not considered to be part of our capital structure and has been excluded from the above amounts (see Note 8 to the Notes to the Consolidated Financial Statements).

Internal operations of our business continue to be our primary source of liquidity. We have invested in capital expenditures, paid interest, taxes, dividends and debt obligations. We have not changed our equity capitalization and equity was not a source of liquidity during this period. Cash and cash equivalents increased approximately \$7,700,000 from \$13,057,000 at December 31, 2011 to \$20,724,000 at March 31, 2012.

### Cash Flows

Management believes we will have the ability to meet our current and long-term liquidity and capital requirements through operating cash flows, borrowings available under our credit facility and other internal and available external resources. For temporary increases in cash demand we use our cash inflow and utilize our senior credit facility for more significant fluctuations in liquidity driven by growth initiatives. These sources coupled with our access to a \$30,000,000 revolving credit facility provide further assurance against interruption in our business plans due to financing. Our primary uses of cash include ongoing operating requirements, capital expenditures, scheduled principal and interest payments on our credit facility, temporary financing of trade accounts receivable and the payment of dividends as they are declared.

While it is difficult for us to predict the impact general economic conditions may have on our business, we believe that we will be able to meet our current and long-term cash requirements through our operating cash flows. As of March 31, 2012 we were in full compliance with our debt covenants and anticipate that we will be able to plan for and match future liquidity needs with future internal and available external resources. Our senior debt agreement will be the sole external source of financing.

We feel we can adjust the timing or the number of strategic and growth initiatives according to any limitation we may face or be imposed by our capital structure or sources of financing. We do not anticipate our capital structure will limit future growth initiatives over the next 12 months.

Cash from operations represents the amount of cash generated by our daily operations after the payment of operating obligations. This continues to be our primary source of funds. Cash generated from operations in the first three months of 2012 was \$17,932,000 up \$1,035,000 compared to the first three months of 2011. The increase in cash provided by operating activities is driven by the decrease in our inventory balance primarily attributable to our Equipment Segment which is dependent on the timing and volume of equipment orders. This was offset by a decrease in the receipt of routine income tax refunds related to the benefit of bonus depreciation permitted by legislation signed in 2010.

Table of Contents

30

---

Cash used for investing activities was \$31,814,000 up \$28,141,000 driven by our acquisition of IdeaOne Telecom for an adjusted purchase price of \$28,180,000. The acquisition was funded partially with cash reserves and the remainder with additional term loan debt. Capital spending decreased 3% when comparing 2012 and 2011 after taking into account the receipt of \$1,321,000 in BTOP grant reimbursement. We continue to invest in success-based and network expansion projects along with required spending to maintain our network. Investment in business services will continue to support growth and demand in backhaul transport services and optimize long-term revenue opportunities. Overall, 2012 capital spending is expected to range between \$25,000,000-\$29,000,000 (net of government grant).

In 2012, construction will continue on our Greater Minnesota Broadband Collaborative project which is being funded in part by the NTIA Broadband Technology Opportunities Program. The project will extend our fiber-optic network across greater Minnesota to provide governmental, educational and healthcare organizations with a high-capacity broadband network. The project is anticipated to be complete by August 2013.

Financing activities primarily consist of borrowings and payments on our credit facility and the payment of dividends to our shareholders. Cash provided by financing activities was \$21,549,000 in 2012 compared to cash used for financing activities of \$3,438,000 in 2011. On March 1, 2012 we entered into an Incremental Term credit facility for \$22,000,000, an expansion of our senior credit facility we entered into in August 2011, with the proceeds used to fund our IdeaOne Telecom acquisition. Due to the timing and volume of equipment orders in our Equipment Segment, there was a \$1,695,000 increase in our extended term payable in the first three months of 2012 compared to a \$1,296,000 decrease in 2011. We have used \$1,877,000 and \$1,797,000 in cash to make dividend payments to our shareholders in the first three months of 2012 and 2011, respectively.

Our long-term obligations, including current maturities of debt and capital leases as of March 31, 2012 and December 31, 2011 were \$141,893,000 and \$120,235,000, respectively. Our credit facility requires us to comply with specified financial ratios and tests. The financial ratios required by our credit facility are not calculated in accordance with accounting principles generally accepted in the United States (“non-GAAP financial measures”). These calculations allow for the inclusion of historical EBITDA results for IdeaOne Telecom, our acquisition which closed on March 1, 2012. The non-GAAP financial measures are presented below for the purpose of demonstrating compliance with our debt covenants:

(Dollars in thousands)

		March 31, 2012
Leverage Ratio:		
(A)	Total debt	\$ 141,893
(B)	EBITDA per our credit agreement	
	Three Months Ended 6-30-11	10,698
	Three Months Ended 9-30-11	12,162
	Three Months Ended 12-31-11	10,069
	IdeaOne Telecom Historical EBITDA (reflects eleven months)	4,135
	Three Months Ended 3-31-12 (reflects one month of IdeaOne)	11,466
	Total EBITDA per our credit agreement	\$ 48,530
Total Leverage Ratio (A)/(B)		2.9
Maximum leverage ratio allowed		3.5

Debt Service Coverage Ratio:

		March 31, 2012 (Restated)
(A)	EBITDA per our credit agreement, minus Income Taxes	\$ 48,530 (5,474 ) \$ 43,056
(B)	the sum of (i) all scheduled principal payments to be made on debt and (ii) interest expense	7,943
Debt Service Coverage Ratio (A)/(B)		5.4
Minimum debt service ratio allowed		2.5

Table of Contents31

---

## Working Capital

Working capital (i.e. current assets minus current liabilities) was \$20,841,000 as of March 31, 2012 compared to working capital of \$23,079,000 as of December 31, 2011. The ratio of current assets to current liabilities was 1.7 and 1.8 as of March 31, 2012 and December 31, 2011.

## New Accounting Pronouncements

The financial statement impact relating to new accounting standards that have not yet been adopted by us can be found under Note 1. Basis of Presentation and Consolidation - "Recent Accounting Developments."

## Reconciliation of non-GAAP financial measures

In addition to the results reported in accordance with US GAAP, we also use certain non-GAAP measures including EBITDA (as defined in our credit agreement) to evaluate operating performance and to facilitate the comparison of our historical results and trends. These non-GAAP measures are also used to manage and evaluate the operating performance of our reportable segments. These financial measures should not be considered in isolation or as a substitute for net income (loss) as a measure of performance and net cash provided by operating activities as a measure of liquidity. Reconciliations to the most directly comparable GAAP measure are provided below.

(Dollars in thousands)	Three months ended			
	March 31, 2012 (Restated)	Dec 31, 2011 (Restated)	Sept 30, 2011 (Restated)	June 30, 2011 (Restated)
Reconciliation of net income to EBITDA <sup>1</sup> :				
Net income	\$ 2,294	\$ 1,574	\$ 2,133	\$ 2,348
Add:				
Depreciation	6,056	5,812	5,706	5,593
Amortization	138	89	88	89
Interest expense	1,411	1,076	2,880	1,590
Income taxes	1,567	1,008	1,355	1,078
Acquisition related expenses	-	510	-	-
EBITDA	\$ 11,466	\$ 10,069	\$ 12,162	\$ 10,698

<sup>1</sup> EBITDA as defined in our credit agreement

## Item 3. Quantitative and Qualitative Disclosures about Market Risk

We do not have operations subject to risks of foreign currency fluctuations. We do, however, use financial derivative instruments to manage exposure to interest rate fluctuations. Our objective for holding derivatives is to minimize interest rate risks using the most effective methods to eliminate or reduce the impact of these exposures. Variable rate debt instruments are subject to interest rate risk. For any portion of our debt not covered with interest rate swap agreements, our earnings are affected by changes in interest rates as a portion of its long-term debt has variable interest rates based on LIBOR. If interest rates for the portion of our long-term debt based on variable rates had averaged 10% more for the quarter ended March 31, 2012, our interest expense would have increased \$55,000.

## Item 4. Controls and Procedures

### (a) BACKGROUND RELATIVE TO RESTATEMENT

We filed a Form 10-K/A for the year ended December 31, 2011 on November 9, 2012 to restate our previously reported financial information to change our accounting for interest rate swap agreements under FASB ASC 815, “Derivatives and Hedging.” This Form 10-Q/A also presents the interim period financial information as of and for the three ended March 31, 201 and 2011, as restated.

Table of Contents

32

---



(b) DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Quarterly Report on Form 10-Q/A (the Evaluation Date), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by this Quarterly Report, that our disclosure controls and procedures were not effective as a result of the identified material weakness in internal control over financial reporting, the nature of which is summarized below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

As reported in our assessment of the effectiveness of our internal control over financial reporting as of December 31, 2011, included in "Item 9A. Controls and Procedures" of Form 10-K/A for the year ended December 31, 2011, a material weakness existed and is summarized as follows:

The Company did not have effective controls to provide assurance as to the appropriate selection and implementation of accounting methods with respect to accounting for its interest rate swap derivative financial instruments. We lacked adequate technical expertise to ensure the proper application, at inception, of the criteria for the cash flow hedge accounting within the provisions of FASB ASC 815, "Derivatives and Hedging", for our interest rate swaps.

To remediate the material weakness described above and enhance our internal control over financial reporting, management has developed and initiated a plan to implement the following changes:

- Conduct all hedge accounting with the consultation of a third party independent expert, for advice and with consideration of the latest interpretation of the FASB rules.
- Improve training and education and understanding of hedge accounting requirements with generally accepted accounting principles for all relevant personnel involved in derivatives transactions.
- Enlist the services of a third party internal control expert to conduct a review of Company financial reporting controls.
- Prepare designation documentation, when and if we determine to designate our derivative instruments as hedges, to qualify for hedge accounting in accordance with generally accepted accounting principles with the assistance of outside experts. This includes ongoing monitoring and review to ensure the continuing qualification of hedge accounting.

Management believes that these measures, when fully implemented, will mitigate the material weakness described above. The Audit Committee of the Board of Directors and management will continue to monitor the implementation of these remedial measures and the effectiveness of our internal controls and procedures on an ongoing basis.

(c) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the first fiscal quarter of 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

33

---

## Part II Other Information

### Item 1. Legal Proceedings.

Other than routine litigation incidental to our business there are no pending material legal proceedings to which we are a party or to which any of our property is subject.

### Item 1A. Risk Factors.

There have not been any material changes to the risk factors previously disclosed in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

### Item 3. Defaults Upon Senior Securities.

None.

### Item 4. Mine Safety Disclosures.

None.

### Item 5. Other Information.

None.

### Item 6. Exhibits Listing.

Exhibit Number	Description
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

[Table of Contents](#)



Signatures

Pursuant to the requirements 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.

Dated: November 9, 2012

HICKORY TECH CORPORATION

By: /s/ John W. Finke  
John W. Finke, President and Chief  
Executive Officer

By: /s/ David A. Christensen  
David A. Christensen, Senior Vice  
President and Chief Financial Officer

Table of Contents

35

---

