HICKORY TECH CORP
Form 10-Q
October 30, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

o 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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

The total number of shares of the registrant's common stock outstanding as of October 30, 2007: 13,276,158.

TABLE OF CONTENTS

PART I. Financial Information

Description	
Item 1.	Financial Statements:
	Consolidated Statements of Operations (unaudited) for the Three Months and Nine Months Ended September 30, 2007 and 2006
	Consolidated Balance Sheets (unaudited) as of September 30, 2007 and December 31, 2006
	Consolidated Statements of Cash Flows (unaudited) for the Nine Months Ended September 30, 2007 and 2006
	Condensed Notes to Consolidated Financial Statements (unaudited)
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures

PART II. Other Information

Description	
Item 1.	Legal Proceedings
Item 1A.	Risk Factors
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Submission of Matters to a Vote of Security Holders
Item 5.	Other Information
Item 6.	Exhibit Listing
	Signatures
	Exhibits

HICKORY TECH CORPORATION

Consolidated Statements of Operations

(Unaudited)

(In Thousands Except Per Share Amounts)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Operating revenues:				
Telecom sector	**$ 18,647**	$ 18,698	**$ 58,132**	$ 56,264
Enventis sector	**17,212**	13,972	**60,256**	43,234
Total operating revenues	**35,859**	32,670	**118,388**	99,498
Costs and expenses:				
Cost of sales, Enventis	**8,705**	7,183	**35,578**	23,322
Cost of services (excluding depreciation and amortization)	**11,137**	11,131	**32,832**	32,468
Selling, general and administrative expenses (excluding depreciation and amortization)	**5,900**	5,598	**17,627**	17,490
Depreciation	**4,254**	4,235	**13,190**	12,488
Amortization of intangibles	**289**	293	**867**	879
Total costs and expenses	**30,285**	28,440	**100,094**	86,647
Operating income	**5,574**	4,230	**18,294**	12,851
Other income/(expense):				
Interest and other income	**68**	40	**199**	109
Interest expense	**(2,028)**	(1,913)	**(6,241)**	(5,392)
Total other income/(expense)	**(1,960)**	(1,873)	**(6,042)**	(5,283)
Income before income taxes	**3,614**	2,357	**12,252**	7,568
Income taxes	**1,532**	728	**5,148**	2,819
Income from continuing operations	**2,082**	1,629	**7,104**	4,749
Discontinued operations:				
Loss from operations of discontinued component	**(12)**	(308)	**(27)**	(902)
Income tax benefit	**(4)**	(124)	**(10)**	(361)
Loss from discontinued operations	**(8)**	(184)	**(17)**	(541)
Net income	**$ 2,074**	$ 1,445	**$ 7,087**	$ 4,208
Basic earnings per share - continuing operations	**$ 0.16**	$ 0.12	**$ 0.54**	$ 0.36
Basic loss per share - discontinued operations		(0.01)		(0.04)
	$ 0.16	$ 0.11	**$ 0.54**	$ 0.32
Basic weighted average common shares outstanding	**13,268**	13,172	**13,250**	13,152
Diluted earnings per share - continuing operations	**$ 0.16**	$ 0.12	**$ 0.54**	$ 0.36
Diluted loss per share - discontinued operations		(0.01)		(0.04)
	$ 0.16	$ 0.11	**$ 0.54**	**$ 0.32**
Diluted weighted average common and equivalent common shares outstanding	**13,273**	13,172	**13,251**	13,155
Dividends per share	**$ 0.12**	$ 0.12	**$ 0.36**	$ 0.36

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

3

HICKORY TECH CORPORATION

Consolidated Balance Sheets

(Unaudited)

(In Thousands Except Per Share Amounts)		September 30, 2007		December 31, 2006
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**2,588**	$	84
Receivables, net of allowance for doubtful accounts of $1,049 and $851		**21,222**		20,780
Inventories		**7,297**		11,294
Deferred income taxes		**815**		815
Prepaid expenses		**1,294**		1,903
Other		**1,061**		1,662
Total current assets		**34,277**		36,538
Investments		**3,830**		3,554
Property, plant and equipment		**316,083**		309,264
Less accumulated depreciation		**164,602**		156,429
Property, plant and equipment, net		**151,481**		152,835
Other assets:				
Goodwill		**25,239**		25,239
Intangible assets, net		**2,273**		3,140
Financial derivative instruments				2,489
Deferred costs and other		**2,775**		3,105
Total other assets		**30,287**		33,973
Total assets	**$**	**219,875**	$	226,900
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Checks written in excess of available cash balances	**$**		$	1,475
Short-term financing		**10,141**		7,719
Accounts payable		**4,065**		4,211
Accrued expenses		**6,750**		5,826
Accrued income taxes		**347**		4,528
Advanced billings and deposits		**4,889**		3,488
Current maturities of long-term obligations		**1,587**		1,560
Total current liabilities		**27,779**		28,807
Long-term liabilities:				
Debt obligations, net of current maturities		**127,722**		141,529
Financial derivative instruments		**461**		
Accrued income taxes		**6,900**		
Deferred income taxes		**14,097**		15,332
Deferred revenue		**1,505**		2,596
Accrued employee benefits and deferred compensation		**8,893**		8,550
Total long-term liabilities		**159,578**		168,007
Total liabilities		**187,357**		196,814
Commitments and contingencies (Note 8)				

Shareholders equity:				
Common stock, no par value, $.10 stated value shares authorized: 100,000 Shares issued and outstanding: 13,276 in 2007 and 13,208 in 2006		**1,328**		1,321
Additional paid-in capital		**10,757**		9,992
Retained earnings		**20,708**		18,323
Accumulated other comprehensive income/(loss)		**(275)**		450
Total shareholders equity		**32,518**		30,086
Total liabilities and shareholders equity	**$**	**219,875**	$	226,900

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

HICKORY TECH CORPORATION

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars In Thousands)	Nine Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net income	**$ 7,087**	$ 4,208
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	**17**	541
Depreciation and amortization	**14,057**	13,367
Amortization of gain on sale of financial derivative instrument	**(940)**	
Accrued patronage refunds	**(70)**	(796)
Deferred income tax provision/(benefit)	**(60)**	148
Other	**682**	566
Changes in operating assets and liabilities:		
Receivables, net	**(688)**	(3,884)
Inventories	**3,996**	(5,384)
Accounts payable and accrued expenses	**718**	(296)
Deferred revenue, billings and deposits	**310**	485
Prepaid expenses	**607**	3,531
Income taxes	**2,780**	1,004
Other	**1,181**	1,439
Net cash provided by operating activities	**29,677**	14,929
Cash flows from investing activities:		
Additions to property, plant and equipment	**(11,388)**	(16,773)
Other	**100**	183
Net cash used in investing activities	**(11,288)**	(16,590)
Cash flows from financing activities:		
Short-term financing, net	**2,422**	5,734
Checks written in excess of available cash balances	**(1,475)**	(514)
Payments of capital lease obligations	**(295)**	(374)
Repayments on credit facility	**(21,475)**	(19,510)
Borrowings on credit facility	**7,500**	20,500
Proceeds from the sale of financial derivative instrument	**1,936**	
Proceeds from issuance of common stock	**283**	470
Dividends paid	**(4,764)**	(4,732)
Net cash provided by/(used in) financing activities	**(15,868)**	1,574
Cash flows from discontinued operations		
Net cash provided by/(used in) operating activities	**(17)**	631
Net cash used in investing activities		(26)
Net cash provided by/(used in) discontinued operations	**(17)**	605
Net increase in cash and cash equivalents	**2,504**	518
Cash and cash equivalents at beginning of period	**84**	601
Cash and cash equivalents at end of period	**$ 2,588**	$ 1,119
Supplemental disclosure of cash flow information:		

Cash paid for interest	**$**	**7,033**	$	5,646
Net cash paid for income taxes	**$**	**2,375**	$	1,290
Non-cash investing activities:				
Property, plant and equipment acquired with capital leases	**$**	**490**	$	162

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

HICKORY TECH CORPORATION

SEPTEMBER 30, 2007

PART 1. FINANCIAL INFORMATION

ITEM 1. CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements of Hickory Tech Corporation (HickoryTech or the Company) 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 the Company s 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 Company s financial statements and present fairly the results of operations, financial position and cash flows of the Company 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 the Company s audited consolidated financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of financial statements in conformity with GAAP require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, 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.

The condensed consolidated financial statements of HickoryTech include Hickory Tech Corporation and its subsidiaries in the following two business segments: the Telecom Sector and the Enventis Sector. All inter-company transactions have been eliminated from the consolidated financial statements.

Cost of Sales

Cost of sales for the Enventis Sector includes the material costs associated with the installation of products for customers.

Cost of Services (excluding depreciation and amortization)

Cost of services includes all costs related to the delivery of communication services for all HickoryTech Sectors. Those operating costs include engineering, customer service, billing and collections, network monitoring and transport costs.

Selling, General and Administrative Expenses (excluding depreciation and amortization)

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.

Reclassifications

Certain reclassifications of prior period data have been made to conform to the current period s presentation. The most significant of these reclassifications was to reclassify approximately $1,600,000 of transport costs from cost of sales to cost of services for the first and second quarters of 2006. This reclassification resulted in reporting these costs for the Enventis Sector in a manner consistent with the remainder of the organization. These reclassifications did not affect the Company s cash flows, financial position or net income.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements . SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for the calendar year 2008. The Company is currently assessing the impact of SFAS No. 157 on its results of operations, cash flows and financial condition.

In February 2007, FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 . SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for the calendar year 2008. The Company is currently assessing the impact of SFAS No. 159 on its results of operations, cash flows and financial condition.

NOTE 2 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 Hickory Tech Corporation Amended and Restated Employee Stock Purchase Plan (ESPP). Dilution is determined using the treasury stock method. The dilutive effect shown below for 2006 has been revised from what was previously reported to reflect the treasury stock method, which is consistent with the method currently applied. There was no impact to EPS due to this revision.

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2007	**2006**	**2007**	**2006**
Income from continuing operations	$ 2,082	$ 1,629	$ 7,104	$ 4,749
Loss from discontinued operations	(8)	(184)	(17)	(541)
Net Income	$ 2,074	$ 1,445	$ 7,087	$ 4,208
Weighted average shares outstanding	13,267,649	13,171,658	13,250,033	13,152,435
Stock options (dilutive only)	5,655		712	
Stock subscribed (ESPP)		427		2,353
Total dilutive shares outstanding	13,273,304	13,172,085	13,250,745	13,154,788
Earnings (loss) per share:				
Basic - continuing operations	$ 0.16	$ 0.12	$ 0.54	$ 0.36
Basic - discontinued operations	$	$ (0.01)	$	$ (0.04)
Diluted - continuing operations	$ 0.16	$ 0.12	$ 0.54	$ 0.36
Diluted - discontinued operations	$	$ (0.01)	$	$ (0.04)

Options to purchase 415,551 shares and 565,251 shares for the three months ended September 30, 2007 and 2006, respectively, and 415,551 shares and 502,161 shares for the nine months ended September 30, 2007 and 2006, 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. Listed below is the number of shares outstanding as of the record date for the first, second and third quarters of 2007 and 2006, respectively.

Shares outstanding on record date	2007	2006
First quarter (Feb. 15)	13,207,970	13,133,928
Second quarter (May 15)	13,243,525	13,153,067
Third quarter (August 15)	13,253,812	13,156,490

Dividends per share are based on the quarterly dividend per share as declared by the HickoryTech Board of Directors. HickoryTech paid dividends of $0.12 per share for both the third quarter of 2007 and 2006, respectively.

During the first nine months of 2007 and 2006, shareholders have elected to reinvest $179,000 and $186,000, respectively, of dividends into HickoryTech common stock pursuant to the Hickory Tech Corporation Dividend Reinvestment Plan.

NOTE 3 ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

HickoryTech follows the provisions of SFAS No. 130, Reporting Comprehensive Income . This statement established rules for the reporting of comprehensive income and its components. In addition to net income, HickoryTech s comprehensive income includes changes in unrealized gains and losses on derivative instruments qualifying and designated as cash flow hedges and recognized Net Periodic Benefit Cost related to the Company s Post-Retirement Benefit Plans. Comprehensive income for the three months ended September 30, 2007 and 2006 was $1,125,000 and $847,000, respectively. Comprehensive income for the nine months ended September 30, 2007 and 2006 was $6,362,000 and $3,820,000, respectively.

In March 2007, the Company terminated its two outstanding interest-rate swap agreements with original maturities in June 2008, in exchange for $1,936,000 in proceeds. Immediately following the termination of these two agreements, HickoryTech executed a new interest-rate swap agreement, effectively locking in the interest rate on $60,000,000 of variable-interest rate debt through March 2010.

The market value of the cumulative gain or (loss) on financial derivative instruments is reported as a component of accumulated other comprehensive income (loss) in shareholders equity and will be recognized in earnings over the term of the original swap agreement.

The following summary sets forth the components of accumulated other comprehensive income (loss), net of tax:

	Unrecognized Net Actuarial Loss (1)	Unrecognized Prior Service Credit (1)	Unrecognized Transition Asset (1)	Unrealized Gain/(Loss) on Derivatives	Accumulated Other Comprehensive Income/(Loss)
December 31, 2006	$ (867)	$ 37	$ (217)	$ 1,497	$ 450
Derivative Activity				123	123

Net Periodic Benefit Cost	11	(2)	9		18
March 31, 2007	$ (856)	$ 35	$ (208)	$ 1,620	$ 591
Derivative Activity				65	65
Net Periodic Benefit Cost	11	(2)	9		18
June 30, 2007	$ (845)	$ 33	$ (199)	$ 1,685	$ 674
Derivative Activity				(967)	(967)
Net Periodic Benefit Cost	11	(2)	9		18
September 30, 2007	$ (834)	$ 31	$ (190)	$ 718	$ (275)

(1) Amounts pertain to our postretirement benefit plans.

NOTE 4 ACQUISITION, DISPOSITION and DISCONTINUED OPERATIONS

Acquisition of Enventis

On December 30, 2005, HickoryTech purchased all of the capital stock of Enventis from ALLETE, Inc. The initial purchase price was $35,500,000, paid in cash, with the possibility of further purchase price adjustments and transition costs. After purchase price adjustments, the total consideration was $38,602,000. Enventis had no debt at the time of the acquisition and there were no contingent payments or earnouts.

The financing for the estimated $38,602,000 total purchase consideration for Enventis, plus an additional $8,500,000 for Enventis working capital, was obtained entirely from HickoryTech s credit agreement, as established on December 30, 2005. The credit facility is comprised of a $30,000,000 revolving credit component, which expires on December 30, 2011 and a $130,000,000 term loan component, which has partial maturities during its term, with a final maturity on June 30, 2013.

Disposition of Collins

Effective December 31, 2006, HickoryTech sold all of the outstanding capital stock in Collins Communications Systems Co. to Skyview Capital for an initial price of $100,000, paid by delivery of a promissory note, plus up to $1,650,000 of earn-out payments. Skyview repaid HickoryTech $100,000 in February 2007. The remaining selling price is due in contingent payments payable over the next four years if financial targets are reached by Skyview. The $100,000 mentioned above has been included in the calculation of the net loss mentioned below, while the contingent payments have not been included in the net loss. The agreement contains covenants against competition by the new owner in south-central Minnesota. HickoryTech recorded a pre-tax loss on the sale of $3,385,000 ($2,040,000 net of income taxes). The Collins results of operations were formerly reported in the Enterprise Solutions Sector. The consolidated statements of operations for all periods presented have been restated to reflect the Collins operations as discontinued operations.

NOTE 5 INVENTORIES

Inventory includes parts, materials and supplies stored in HickoryTech warehouses to support basic levels of service and maintenance as well as scheduled telecom sector 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 Telecom Sector, comprised of raw materials, as of September 30, 2007 and December 31 2006 was $3,769,000 and $2,850,000, respectively. The inventory value in the Enventis Sector, comprised of finished goods, as of September 30, 2007 and December 31 2006, was $3,528,000 and $8,444,000, respectively.

Inventories are valued using the lower of cost (perpetual weighted average-cost or specific identification) or market method. HickoryTech adjusts its 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, additional inventory reserves may be established at the time that the facts that give rise to the lower value become known.

NOTE 6 INTANGIBLE ASSETS

Goodwill is subject to an impairment test annually as well as upon certain events that indicate that impairment may be present. The goodwill impairment test includes two steps, the first of which requires management to determine the fair value of several of the Company s reporting units (as defined by SFAS No. 142 Goodwill and Other Intangible Assets). The Company determines the fair value of its reporting units by the application of a discounted cash flow analysis. Management makes estimates that are included in its discounted cash flow analysis based upon the best available information at the time that the determinations of fair value are made. If circumstances change, HickoryTech s estimates of fair value may also change and could result in a determination of additional impairment charges to reduce the carrying value of goodwill.

The carrying value of HickoryTech s goodwill is $25,239,000 as of September 30, 2007 and December 31, 2006.

The components of HickoryTech s other intangible assets are as follows:

(Dollars in Thousands)	Useful Lives	September 30, 2007 Gross Carrying Amount	September 30, 2007 Accumulated Amortization	December 31, 2006 Gross Carrying Amount	December 31, 2006 Accumulated Amortization
Definite-lived intangible assets					
Customer relationships	1 - 8 years	$ 4,229	$ 2,218	$ 4,229	$ 1,504
Other intangibles	1 - 5 years	730	468	730	315
Total		$ 4,959	$ 2,686	$ 4,959	$ 1,819

As required by SFAS No. 142, we periodically reassess the carrying value, useful lives and classifications of identifiable assets. Amortization expense relating to the definite-lived intangible assets for the three months ended September 30, 2007 and 2006 was $289,000 and $293,000, respectively. Amortization expense relating to the definite-lived intangible assets for the nine months ended September 30, 2007 and 2006 was $867,000 and $879,000, respectively. Total estimated amortization expense for the remaining three months of 2007 and the five years subsequent to 2007 is as follows: 2007 (October 1 through December 31) - $290,000; 2008 - $1,127,000; 2009 - $853,000; 2010 - $3,000; 2011 and 2012 - $0.

NOTE 7 QUARTERLY SECTOR FINANCIAL SUMMARY

(Dollars In Thousands)	Telecom	Enventis	Corporate and Eliminations	HickoryTech Consolidated
Three Months Ended September 30, 2007				
Revenue from unaffiliated customers	$ 18,647	$ 17,212	$	$ 35,859
Intersegment revenues	116	152	(268)	
Total operating revenues	18,763	17,364	(268)	35,859
Depreciation and amortization	3,616	916	11	4,543
Operating income/(loss)	3,972	1,689	(87)	5,574
Interest expense	(19)		(2,009)	(2,028)
Income taxes/(benefit)	1,585	684	(737)	1,532
Income/(loss) from continuing operations	2,376	1,026	(1,320)	2,082
Identifiable assets	153,074	57,895	8,906	219,875
Property, plant and equipment, net	116,746	34,575	160	151,481
Capital expenditures	3,345	1,928	80	5,353

	Telecom	Enventis	Corporate and Eliminations	HickoryTech Consolidated
Three Months Ended September 30, 2006				
Revenue from unaffiliated customers	$ 18,698	$ 13,972	$	$ 32,670
Intersegment revenues	58		(58)	
Total operating revenues	18,756	13,972	(58)	32,670
Depreciation and amortization	3,781	732	15	4,528
Operating income/(loss)	3,633	680	(83)	4,230
Interest expense	(12)		(1,901)	(1,913)
Income taxes/(benefit)	1,448	274	(994)	728
Income/(loss) from continuing operations	2,174	403	(948)	1,629
Identifiable assets	157,617	57,420	10,318	225,355
Property, plant and equipment, net	120,982	31,828	80	152,890
Capital expenditures	5,300	1,240	(35)	6,505

(Dollars In Thousands)	Telecom	Enventis	Corporate and Eliminations	HickoryTech Consolidated
Nine Months Ended September 30, 2007				
Revenue from unaffiliated customers	$ 58,132	$ 60,256	$	$ 118,388
Intersegment revenues	334	299	(633)	
Total operating revenues	58,466	60,555	(633)	118,388
Depreciation and amortization	11,318	2,718	21	14,057
Operating income/(loss)	14,314	4,718	(738)	18,294
Interest expense	(54)		(6,187)	(6,241)
Income taxes/(benefit)	5,732	1,902	(2,486)	5,148
Income/(loss) from continuing operations	8,551	2,838	(4,285)	7,104
Identifiable assets	153,074	57,895	8,906	219,875
Property, plant and equipment, net	116,746	34,575	160	151,481
Capital expenditures	7,279	4,029	80	11,388

	Telecom	Enventis	Corporate and Eliminations	HickoryTech Consolidated
Nine Months Ended September 30, 2006				
Revenue from unaffiliated customers	$ 56,264	$ 43,234	$	$ 99,498
Intersegment revenues	122		(122)	
Total operating revenues	56,386	43,234	(122)	99,498
Depreciation and amortization	11,070	2,237	60	13,367
Operating income/(loss)	11,895	1,978	(1,022)	12,851
Interest (expense)/benefit	91		(5,483)	(5,392)
Income taxes/(benefit)	4,800	801	(2,782)	2,819
Income/(loss) from continuing operations	7,198	1,178	(3,627)	4,749
Identifiable assets	157,617	57,420	10,318	225,355
Property, plant and equipment, net	120,982	31,828	80	152,890
Capital expenditures	12,374	4,340	59	16,773

NOTE 8 - COMMITMENTS AND CONTINGENCIES

HickoryTech is involved in certain contractual disputes in the ordinary course of business. HickoryTech does not believe the ultimate resolution of any of these existing matters will have a material adverse effect on its financial position, results of operations or cash flows. HickoryTech did not experience any changes to material contractual obligations in the first nine months of 2007. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for the discussion relating to commitments and contingencies.

NOTE 9 STOCK COMPENSATION

Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for a complete description of its stock-based compensation plans.

On January 1, 2006, the Company adopted SFAS No. 123(R) (revised 2004), Share-Based Payment , (SFAS No. 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases related to the ESPP, based on estimated fair values. SFAS No. 123(R) supersedes the Company s previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) for periods beginning in 2006. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB No. 107) relating to SFAS No. 123(R). The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123(R). The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006.

Share-based compensation expense recognized under SFAS No. 123(R) for the three and nine months ended September 30, 2007 and 2006 is as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	Options 2007	ESPP 2007	Options 2006	ESPP 2006	Options 2007	ESPP 2007	Options 2006	ESPP 2006
Compensation expense	$ 21,000	$ 6,000	$ 38,000	$ 4,000	$ 63,000	$ 18,000	$ 116,000	$ 12,000
Tax	8,000		16,000		25,000		50,000	
Net compensation expense	$ 13,000	$ 6,000	$ 22,000	$ 4,000	$ 38,000	$ 18,000	$ 66,000	$ 12,000

Share-based compensation expense recognized in the Company s Consolidated Statement of Operations for the first nine months of 2007 and 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of September 30, 2007 and 2006. Compensation expense for awards granted prior to 2006 is based on the grant date fair value estimated in accordance with the fair value provisions of SFAS No. 123. Compensation expense for awards granted in 2006 and subsequent periods is determined in accordance with the provisions of SFAS No. 123(R). Historical data is used to estimate pre-vesting forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company accounted for forfeitures as they occurred for the periods prior to 2006. The cumulative adjustment for the change in accounting principle was immaterial.

The fair value of each option award is estimated on the date of the grant using a Black-Scholes option valuation model. The Company uses a seven-year period to calculate the historical volatility of its stock price for use in the valuation model. The dividend yield rate is based on the Company s 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.

There were no stock option awards granted during the nine months ended September 30, 2007. In September 2006, Mr. John W. Finke, current Chief Executive Officer, received a one-time grant of 15,000 options associated with his acceptance of the Chief Executive Officer position. The Stock Award Plan provides for the issuance of stock options, however, no current compensation programs have options as a component. The weighted average grant date fair value for options granted in 2006 was $1.43.

13

As of September 30, 2007 there was $35,000 of total unrecognized compensation costs related to non-vested stock options granted under the Company s Stock Award Plan. This expense is expected to be recognized over a weighted average period of 2 years.

A summary of stock option activity is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2007	515,884	$ 12.75
Granted		
Exercised		
Forfeited	(499)	10.76
Expired	(29,834)	11.43
Outstanding at September 30, 2007	485,551	$ 12.83
Exercisable at September 30, 2007	460,721	$ 13.02

The following table provides certain information with respect to stock options outstanding at September 30, 2007:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$6.00 - $8.00	15,000	$ 6.95	8.9 years
$8.00 - $12.00	182,001	10.27	5.7 years
$12.00 - $16.00	230,050	13.87	3.3 years
$16.00 - $21.00	58,500	18.21	3.5 years
	485,551	$ 12.83	4.4 years
Aggregate intrinsic value:	$ 101,100		

The following table provides certain information with respect to stock options exercisable at September 30, 2007:

Range of Exercise Prices	Stock Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$6.00 - $8.00	5,000	$ 6.95	8.9 years
$8.00 - $12.00	167,171	10.22	5.5 years
$12.00 - $16.00	230,050	13.87	3.3 years
$16.00 - $21.00	58,500	18.21	3.5 years
	460,721	$ 13.02	4.2 years
Aggregate intrinsic value:	$ 73,700		

As of September 30, 2007, the following amount of shares, were available for each stock-based compensation plan:

Employee Stock Purchase Plan	486,208
Retainer Stock Plan for Directors	232,211