

HICKORY TECH CORP  
Form 10-Q/A  
August 15, 2002

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-Q/A**

(Mark One)

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

**FOR THE QUARTERLY PERIOD ENDED June 30, 2002**

**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.)

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**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)

(Former name, former address and former fiscal year, if changed since last report)

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

The total number of shares of the registrant's common stock outstanding as of June 30, 2002: 14,046,196.

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**HICKORY TECH CORPORATION**

June 30, 2002

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****CONSOLIDATED STATEMENTS OF INCOME**

(UNAUDITED)

(In Thousands Except Per Share Amounts)	For Quarter Ended		For Six Months Ended	
	6/30/2002	6/30/2001	6/30/2002	6/30/2001
<b>OPERATING REVENUES:</b>				
Telecom	\$ 21,405	\$ 21,153	\$ 42,122	\$ 42,241
Information Solutions	1,049	965	2,083	1,943
Enterprise Solutions	3,037	4,836	6,398	10,001
<b>TOTAL OPERATING REVENUES</b>	<b>25,491</b>	<b>26,954</b>	<b>50,603</b>	<b>54,185</b>
<b>COSTS AND EXPENSES:</b>				
Cost of Sales, Enterprise Solutions	2,033	3,236	4,217	6,637
Operating Expenses, excluding Depreciation and Amortization	14,290	13,880	27,576	27,805
Depreciation	3,931	2,999	7,744	5,945
Amortization of Intangibles	380	790	741	1,579
<b>TOTAL COSTS AND EXPENSES</b>	<b>20,634</b>	<b>20,905</b>	<b>40,278</b>	<b>41,966</b>
<b>OPERATING INCOME</b>	<b>4,857</b>	<b>6,049</b>	<b>10,325</b>	<b>12,219</b>
<b>OTHER INCOME (EXPENSE):</b>				
Equity in Net Income (Loss) of Investees	21	(6)	2	(13)
Gain on Sale of Assets		141		141
Interest and Other Income	29	38	72	75
Interest Expense	(1,858)	(2,819)	(3,814)	(5,691)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>(1,808)</b>	<b>(2,646)</b>	<b>(3,740)</b>	<b>(5,488)</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>3,049</b>	<b>3,403</b>	<b>6,585</b>	<b>6,731</b>
<b>INCOME TAXES</b>	<b>1,247</b>	<b>1,399</b>	<b>2,693</b>	<b>2,764</b>

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NET INCOME	\$	1,802	\$	2,004	\$	3,892	\$	3,967
Basic Earnings Per Share	\$	0.13	\$	0.14	\$	0.28	\$	0.28
Dividends Per Share	\$	0.11	\$	0.11	\$	0.22	\$	0.22
Weighted Average Common Shares Outstanding		14,006		13,894		13,984		13,889
Diluted Earnings Per Share	\$	0.13	\$	0.14	\$	0.28	\$	0.28
Weighted Average Common and Equivalent Shares Outstanding		14,096		13,973		14,078		13,990

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

**HICKORY TECH CORPORATION**

June 30, 2002

**CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

(In Thousands Except Share and Per Share Amounts)	6/30/2002	12/31/2001
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 735	\$ 2,008
Receivables, Net of Allowance for Doubtful Accounts of \$2,396 and \$1,231	12,535	14,616
Income Taxes Receivable		1,675
Costs in Excess of Billings on Contracts	555	1,520
Inventories	5,293	4,989
Deferred Income Taxes	646	646
Other	1,895	2,329
<b>TOTAL CURRENT ASSETS</b>	<b>21,659</b>	<b>27,783</b>
<b>INVESTMENTS</b>	<b>10,786</b>	<b>10,701</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>	<b>241,094</b>	<b>231,675</b>
Less ACCUMULATED DEPRECIATION	103,560	96,031
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>137,534</b>	<b>135,644</b>
<b>OTHER ASSETS:</b>		
Goodwill	25,086	25,086
Intangible Assets, Net	76,764	76,991
Deferred Costs and Other	6,524	7,087
<b>TOTAL OTHER ASSETS</b>	<b>108,374</b>	<b>109,164</b>
<b>TOTAL ASSETS</b>	<b>\$ 278,353</b>	<b>\$ 283,292</b>
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts Payable	\$ 3,243	\$ 5,301
Accrued Expenses	3,117	3,372
Income Taxes Payable	902	
Accrued Interest	584	382
Billings in Excess of Costs on Contracts	598	169
Advanced Billings and Deposits	3,559	3,580
Current Maturities of Long-Term Obligations	1,376	1,242
<b>TOTAL CURRENT LIABILITIES</b>	<b>13,379</b>	<b>14,046</b>

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LONG-TERM OBLIGATIONS, Net of Current Maturities	<b>163,298</b>	169,659
DEFERRED INCOME TAXES	<b>13,876</b>	13,876
DEFERRED REVENUE AND BENEFITS	<b>5,112</b>	4,946
<b>TOTAL LIABILITIES</b>	<b>195,665</b>	202,527
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY:		
Common Stock, no par value, \$.10 stated value Shares authorized: 100,000,000 Shares outstanding: 2002, 14,046,196; 2001, 13,935,308	<b>1,405</b>	1,394
Additional Paid-In Capital	<b>7,352</b>	6,254
Retained Earnings	<b>73,931</b>	73,117
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>82,688</b>	80,765
<b>TOTAL LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>	<b>\$ 278,353</b>	<b>\$ 283,292</b>

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

## HICKORY TECH CORPORATION

June 30, 2002

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

In Thousands	For Six Months Ended	
	6/30/2002	6/30/2001
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 3,892	\$ 3,967
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	8,485	7,524
Stock-Based Compensation	343	533
Employee Retirement Benefits and Deferred Compensation	228	142
Accrued Patronage Refunds	(446)	(497)
Equity in Net (Income) Loss of Investees	(2)	13
Gain on Sale of Assets		(141)
Provision for Losses on Accounts Receivable	1,647	467
Changes in Operating Assets and Liabilities:		
Receivables	2,110	255
Inventories	(304)	(401)
Billings and Costs on Contracts	1,394	(624)
Accounts Payable and Accrued Expenses	(1,439)	(3,604)
Advance Billings and Deposits	(20)	14
Deferred Revenue and Benefits	(63)	(144)
Other	744	97
Net Cash Provided By Operating Activities	16,569	7,601
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to Property, Plant and Equipment	(9,325)	(15,133)
Additions to Capitalized Software Development Costs		(2,154)
Redemption of Investments	100	
Proceeds from Sale of Assets	184	724
Acquisition of Licenses		(11,357)
Net Cash Used In Investing Activities	(9,041)	(27,920)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in Cash Overdraft		3,836
Repayments of Debt		(108)
Payments of Capital Lease Obligations	(219)	
Borrowings on Credit Facility	1,500	21,500

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Repayments on Credit Facility	<b>(8,000)</b>	(1,500)
Proceeds from Issuance of Common Stock	<b>996</b>	281
Dividends Paid	<b>(3,078)</b>	(3,056)
Net Cash (Used In) Provided By Financing Activities	<b>(8,801)</b>	20,953
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<b>(1,273)</b>	634
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>2,008</b>	1,190
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>\$ 735</b>	<b>\$ 1,824</b>

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



HICKORY TECH CORPORATION

JUNE 30, 2002

PART I. FINANCIAL INFORMATION

ITEM 1. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of Hickory Tech Corporation's (HickoryTech) results for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires 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. These unaudited interim condensed consolidated financial statements should be read in conjunction with HickoryTech's Annual Report on Form 10-K for the year ended December 31, 2001.

The consolidated financial statements of HickoryTech include Hickory Tech Corporation and its subsidiaries in the following three business segments: (i) Telecom Sector, (ii) Information Solutions Sector and (iii) Enterprise Solutions Sector. An investment in an unconsolidated partnership for the Information Solutions Sector is accounted for using the equity method. All intercompany transactions have been eliminated from the consolidated financial statements.

Beginning in the first quarter 2002, HickoryTech reports its previously reported business segments of Telephone, Communications Services and Wireless Services as a single segment referred to as the Telecom Sector. This new basis of segment reporting reflects the integration of HickoryTech's management, sales, service and support functions in these three areas, as well as reflecting the level at which management now reviews and makes resource allocation and other management decisions regarding the operations of the company. All segment information reported in 2001 has been reclassified to conform to this new presentation.

In addition to the change in business segments, certain reclassifications were made to the financial statements as of and for the three months and six months ended June 30, 2001 to conform to the 2002 presentation. These reclassifications had no impact on previously reported operating revenue, net income or shareholders' equity.

Operating expenses include all costs related to delivery of HickoryTech's communications services and products. These costs include all selling, general and administrative costs and all costs of performing services and providing related products, except for costs associated with the depreciation and amortization of property, plant and equipment and intangible assets and Enterprise Solutions Sector costs of sales.

NOTE 2. EARNINGS AND CASH DIVIDENDS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the quarter. Shares used in the earnings per share assuming dilution calculation are based on the weighted average number of shares of common stock outstanding during the quarter increased by potentially dilutive common shares. Potentially dilutive common shares include stock options and stock subscribed under the employee stock purchase plan (ESPP).

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	For Three Months Ended		For Six Months Ended	
	6/30/02	6/30/01	6/30/02	6/30/01
Weighted Average Shares Outstanding	14,006,421	13,893,551	13,983,691	13,889,449
Stock Options (dilutive only)	74,775	65,897	82,222	89,308
Weighted Average Stock Subscribed (ESPP)	14,653	13,382	11,967	11,367
Weighted Average Dilutive Shares Outstanding	14,095,849	13,972,830	14,077,880	13,990,124

Options to purchase 76,650 shares and 39,750 shares for the three months and six months ended June 30, 2002 and 2001, respectively, were not included in the computation of earnings per share assuming dilution because their effect on earnings per share would have been antidilutive.

Cash dividends are based on the number of common shares outstanding at the respective record dates. Listed below are the number of shares outstanding as of the record date for the first quarter of 2002 and 2001.

Shares Outstanding on Record Date	2002	2001
First Quarter (Feb. 15)	13,971,484	13,886,669
Second Quarter (May 15)	14,007,250	13,892,254

Dividends per share is based on the quarterly dividend per share as declared by the HickoryTech Board of Directors.

During the first six months of 2002 and 2001, shareholders have elected to reinvest \$121,000 and \$123,000, respectively, of dividends into HickoryTech common stock pursuant to the HickoryTech Dividend Reinvestment Plan.

**NOTE 3. COMPREHENSIVE INCOME**

For the three months and six months ended June 30, 2002 and 2001, comprehensive income was comprised solely of net income.

**NOTE 4. INVENTORIES**

Inventories, which consist of equipment for resale, materials and supplies, are stated at the lower of average cost or market.

**NOTE 5. INTANGIBLE ASSETS**

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HickoryTech adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. SFAS No. 142 required that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Accordingly, at January 1, 2002, HickoryTech ceased amortizing its goodwill (net carrying value as of June 30, 2002 of \$25,086,000) and FCC licenses (net carrying value as of June 30, 2002 of \$75,635,000). HickoryTech also tested these intangible assets for impairment at January 1, 2002 pursuant to the method prescribed by SFAS No. 142 and determined that these assets carrying values are not impaired.

The following table adjusts previously reported net income to exclude amortization expense recognized from goodwill and FCC licenses as if SFAS No. 142 had taken effect in 2001:

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(Dollars in Thousands, except Per Share Amounts and shown Net of Income Tax)	For Three Months Ended		For Six Months Ended	
	6/30/02	6/30/01	6/30/02	6/30/01
Reported Net Income	\$ 1,802	\$ 2,004	\$ 3,892	\$ 3,967
Goodwill Amortization		113		226
FCC License Amortization		259		518
Adjusted Net Income	\$ 1,802	\$ 2,376	\$ 3,892	\$ 4,711
Basic and Diluted Earnings Per Share:				
Reported Net Income	\$ 0.13	\$ 0.14	\$ 0.28	\$ 0.28
Goodwill Amortization		0.01		0.02
FCC License Amortization		0.02		0.04
Adjusted Net Income	\$ 0.13	\$ 0.17	\$ 0.28	\$ 0.34

Upon adoption at January 1, 2002, SFAS No. 142 also required HickoryTech to reassess the useful lives over which its other intangible assets are amortized. These useful lives were not changed as a result of this reassessment and, accordingly, these assets continue to be amortized over periods ranging from two to eight years.

The components of HickoryTech's intangible assets are shown in the following table:

	As of June 30, 2002		As of December 31, 2001	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Amortized Intangible Assets</b>				
Customers	\$ 1,701	\$ 920	\$ 1,701	\$ 780
Other Intangibles	538	190	538	103
Total	\$ 2,239	\$ 1,110	\$ 2,239	\$ 883
<b>Unamortized Intangible Assets</b>				
FCC Licenses	\$ 75,635		\$ 75,635	

Amortization expense related to the amortized intangible assets for the three months and six months ended June 30, 2002 amounted to \$123,000 and \$227,000, respectively. Total estimated amortization expense for 2002 and the five years subsequent to 2002 is as follows: 2002 - \$466,000; 2003 - \$326,000; 2004 - \$185,000; 2005 - \$102,000; 2006 - \$102,000 and 2007 - \$102,000.

NOTE 6. RECENT ACCOUNTING DEVELOPMENTS

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HickoryTech adopted the provisions of SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, as of January 1, 2002. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell and also sets forth requirements for recognizing and measuring impairment losses on certain long-lived assets to be held or used. The adoption of SFAS No. 144 had no impact on HickoryTech's financial position or its results of operations.

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development or normal use of the asset. SFAS No. 143 is effective January 1, 2003. HickoryTech is currently evaluating the provisions of SFAS No. 143 and does not expect that adoption will have a material impact on its financial position or its results of operations.

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In April 2002, the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 rescinds FASB Statement No. 4, Reporting Gains and Losses from Extinguishment of Debt, and an amendment of that Statement, FASB Statement No. 64, Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements. SFAS No. 145 also rescinds FASB Statement No. 44, Accounting for Intangible Assets of Motor Carriers, and amends FASB Statement No. 13, Accounting for Leases. In June 2000, HickoryTech recorded an extraordinary loss of \$233,000, net of income tax benefit of \$158,000, as a result of an extinguishment of debt. Under SFAS No. 145, this extraordinary loss on debt extinguishment would be reclassified to operating expenses.

NOTE 7. QUARTERLY SECTOR FINANCIAL SUMMARY

(In Thousands)	Telecom	Information Solutions	Enterprise Solutions	Corporate and Eliminations	HickoryTech Consolidated
<b>Three Months Ended 6/30/02</b>					
Operating Revenue from Unaffiliated Customers	\$ 21,405	\$ 1,049	\$ 3,037	\$	\$ 25,491
Intersegment Revenues	69	944		(1,013)	
Total	21,474	1,993	3,037	(1,013)	25,491
Depreciation and Amortization	3,669	519	66	57	4,311
Operating Income/(Loss)	5,997	(568)	(300)	(272)	4,857
Interest Expense	4	16		1,838	1,858
Income Taxes	2,456	(257)	(130)	(822)	1,247
Net Income/(Loss)	3,541	(370)	(187)	(1,182)	1,802
Identifiable Assets	248,272	7,827	7,962	13,640	277,701
Property, Plant and Equip.,Net	130,750	5,413	591	128	136,882
Capital Expenditures	5,136	686	15		5,837
<b>Three Months Ended 6/30/01</b>					
Operating Revenue from Unaffiliated Customers	\$ 21,153	\$ 965	\$ 4,836	\$	\$ 26,954
Intersegment Revenues	69	1,242		(1,311)	
Total	21,222	2,207	4,836	(1,311)	26,954
Depreciation and Amortization	3,541	100	88	60	3,789
Operating Income/(Loss)	5,675	298	225	(149)	6,049
Interest Expense	9			2,810	2,819
Income Taxes	2,292	109	86	(1,088)	1,399
Net Income/(Loss)	3,288	158	124	(1,566)	2,004
Identifiable Assets	246,991	5,105	8,724	15,848	276,668
Property, Plant and Equip.,Net	121,489	3,413	689	46	125,637
Capital Expenditures	8,466	682	85	144	9,377
<b>Six Months Ended 6/30/02</b>					
Operating Revenue from Unaffiliated Customers	\$ 42,122	\$ 2,083	\$ 6,398	\$	\$ 50,603
Intersegment Revenues	137	1,859		(1,996)	
Total	42,259	3,942	6,398	(1,996)	50,603

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Depreciation and Amortization	7,207	1,029	136	113	8,485
Operating Income/(Loss)	12,507	(1,093)	(451)	(638)	10,325
Interest Expense	9	30		3,775	3,814
Income Taxes	5,099	(501)	(199)	(1,706)	2,693
Net Income/(Loss)	7,354	(722)	(286)	(2,454)	3,892
Identifiable Assets	248,272	7,827	7,962	13,640	277,701
Property, Plant and Equip.,Net	130,750	5,413	591	128	136,882
Capital Expenditures	7,923	1,208	55	139	9,325

**Six Months Ended 6/30/01**

Operating Revenue from Unaffiliated Customers	\$	42,241	\$	1,943	\$	10,001	\$	54,185
Intersegment Revenues		138		2,545		(2,683)		
Total		42,379		4,488		10,001		(2,683)
Depreciation and Amortization		7,029		200		173		122
Operating Income/(Loss)		11,536		860		592		(769)
Interest Expense		16						5,675
Income Taxes		4,636		333		229		(2,434)
Net Income/(Loss)		6,661		480		329		(3,503)