

HICKORY TECH CORP
Form 10-Q
November 14, 2003

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2003 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)

(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 ☐

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☐

The total number of shares of the registrant's common stock outstanding as of September 30, 2003: 13,997,543.

HICKORY TECH CORPORATION
September 30, 2003
PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In Thousands Except Per Share Amounts)	For Quarter Ended		For Nine Months Ended	
	9/30/2003	9/30/2002	9/30/2003	9/30/2002
OPERATING REVENUES:				
Telecom Sector	\$ 18,810	\$ 18,100	\$ 56,058	\$ 52,857
Information Solutions Sector	702	981	2,609	3,064
Enterprise Solutions Sector	3,565	5,257	10,859	11,655
TOTAL OPERATING REVENUES	23,077	24,338	69,526	67,576
COSTS AND EXPENSES:				
Cost of Sales, Enterprise Solutions	2,606	3,688	7,675	7,905
Operating Expenses, excluding Depreciation and Amortization	11,475	12,557	35,242	35,651
Depreciation	3,780	3,448	11,013	10,085
Amortization of Intangibles	236	336	761	989
TOTAL COSTS AND EXPENSES	18,097	20,029	54,691	54,630
OPERATING INCOME	4,980	4,309	14,835	12,946
OTHER INCOME (EXPENSE):				
Equity in Net Income/(Loss) of Investees	1	(29)	(4)	(27)
Interest and Other Income	10	66	35	138
Interest Expense	(1,579)	(1,752)	(4,624)	(5,566)
TOTAL OTHER INCOME (EXPENSE)	(1,568)	(1,715)	(4,593)	(5,455)
INCOME BEFORE INCOME TAXES	3,412	2,594	10,242	7,491
INCOME TAXES	1,395	1,060	4,186	3,061
INCOME FROM CONTINUING OPERATIONS	2,017	1,534	6,056	4,430
DISCONTINUED OPERATIONS (Note 4)				
Income (Loss) from operations of discount component, including loss of the disposal of \$25,345,000 in 2003	(24,873)	949	(23,487)	2,637
Income Taxes (Benefit)	(10,198)	389	(9,630)	1,081
INCOME (LOSS) ON DISCONT. OPERATIONS	(14,675)	560	(13,857)	1,556
NET INCOME (LOSS)	\$ (12,658)	\$ 2,094	\$ (7,801)	\$ 5,986
Basic Earnings Per Share				
Basic Earnings Per Share - Continuing Operations	\$ 0.14	\$ 0.11	\$ 0.43	\$ 0.32
Basic Earnings Per Share - Discontinued Operations	(1.05)	0.04	(0.99)	0.11
	\$ (0.91)	\$ 0.15	\$ (0.56)	\$ 0.43
Dividends Per Share	\$ 0.11	\$ 0.11	\$ 0.33	\$ 0.33
Weighted Average Common Shares Outstanding	13,974	14,059	13,973	14,009

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Diluted Earnings Per Share - Continuing Operations	\$	0.14	\$	0.11	\$	0.43	\$	0.32
Diluted Earnings Per Share - Discontinued Operations		(1.05)		0.04		(0.99)		0.11
	\$	(0.91)	\$	0.15	\$	(0.56)	\$	0.43
Weighted Average Common and Equivalent Shares Outstanding		14,024		14,117		14,031		14,093

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

HICKORY TECH CORPORATION
September 30, 2003
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In Thousands Except Share and Per Share Amounts)	9/30/2003	12/31/2002
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 880	\$ 1,874
Receivables, Net of Allowance for Doubtful Accounts of \$1,201 and \$1,358	10,343	11,056
Income Taxes Receivable		3,222
Costs in Excess of Billings on Contracts	839	2,107
Inventories	4,825	5,059
Deferred Income Taxes	951	951
Other	2,534	2,840
Assets Held for Sale	2,181	
TOTAL CURRENT ASSETS	22,553	27,109
INVESTMENTS	6,741	10,517
PROPERTY, PLANT AND EQUIPMENT	224,482	247,375
Less ACCUMULATED DEPRECIATION	112,807	111,101
PROPERTY, PLANT AND EQUIPMENT, NET	111,675	136,274
OTHER ASSETS:		
Goodwill	25,086	25,086
Intangible Assets, Net	507	34,669
Financial Derivative Instrument	1,961	
Deferred Income Taxes	5,211	
Deferred Costs and Other	4,945	6,556
Assets Held for Sale	27,481	
TOTAL OTHER ASSETS	65,191	66,311
TOTAL ASSETS	\$ 206,160	\$ 240,211
LIABILITIES & SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts Payable	\$ 2,608	\$ 4,543
Accrued Expenses	2,495	3,719
Accrued Interest	60	512
Accrued Income Taxes	1,576	
Billings in Excess of Costs on Contracts	275	80
Advanced Billings and Deposits	2,846	3,741
Liabilities Held for Sale	1,568	
Current Maturities of Long-Term Obligations	1,482	1,441
TOTAL CURRENT LIABILITIES	12,910	14,036
LONG-TERM OBLIGATIONS, Net of Current Maturities	140,096	157,599
LONG-TERM LIABILITIES HELD FOR SALE	31	
DEFERRED INCOME TAXES		4,377
DEFERRED REVENUE AND BENEFITS	5,766	5,604

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TOTAL LIABILITIES	158,803	181,616
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS' EQUITY:		
Common Stock, no par value, \$.10 stated value		
Shares authorized: 100,000,000		
Shares outstanding: 13,997,543 in 2003 and 13,983,929 in 2002	1,400	1,398
Additional Paid-In Capital	8,519	7,885
Retained Earnings	36,281	49,312
Accumulated Other Comprehensive Income	1,157	
TOTAL SHAREHOLDERS' EQUITY	47,357	58,595
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 206,160	\$ 240,211

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

HICKORY TECH CORPORATION
September 30, 2003
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Dollars In Thousands)	For Nine Months Ended	
	9/30/2003	9/30/2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income (Loss)	\$ (7,801)	\$ 5,986
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	13,545	12,918
Intangible Asset Impairment	21,000	
Long-Lived Asset Impairment	4,345	
(Gain) on Sale of Assets	(2)	
Loss on Disposal of Assets	632	
Deferred Income Taxes	(10,391)	
Stock-Based Compensation	234	701
Employee Retirement Benefits and Deferred Compensation	242	460
Accrued Patronage Refunds	(443)	(589)
Equity in Net (Income) Loss of Investees	4	27
Provision for Losses on Accounts Receivable	601	2,218
Changes in Operating Assets and Liabilities:		
Receivables	3,180	1,365
Inventories	(69)	(124)
Billings and Costs on Contracts	1,462	(53)
Accounts Payable and Accrued Expenses	(2,787)	(116)
Advance Billings and Deposits	(152)	230
Deferred Revenue and Benefits	(49)	28
Other	1,253	(226)
Net Cash Provided By Operating Activities	24,804	22,825
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property, Plant and Equipment	(7,532)	(12,222)
Redemption of Investments	4,100	100
Proceeds from Sale of Assets	97	243
Net Cash Used In Investing Activities	(3,335)	(11,879)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of Capital Lease Obligations	(385)	(329)
Repayments on Credit Facility	(18,500)	(10,950)
Borrowings on Credit Facility	1,250	2,200
Proceeds from Issuance of Common Stock	628	952
Dividends Paid	(4,610)	(4,438)
Stock Repurchase	(846)	

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Net Cash Used In Financing Activities	(22,463)	(12,565)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(994)	(1,619)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	1,874	2,008
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 880	\$ 389
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	\$ 5,355	\$ 5,845
Cash Paid for Income Taxes, Net of Tax Refunds of \$1,600 and \$307	\$ 150	\$ (47)
NON-CASH INVESTING ACTIVITIES:		
Property, Plant and Equipment Acquired with Capital Leases	\$ 173	\$ 492

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

HICKORY TECH CORPORATION
SEPTEMBER 30, 2003
PART 1. 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, 2002.

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. The operations of this partnership ended during the second quarter of 2003 with dissolution to follow later in 2003. No material wind-down costs are anticipated. All inter-company transactions have been eliminated from the consolidated financial statements.

Certain reclassifications were made to the financial statements as of and for the three and nine months ended September 30, 2002 to conform to the 2003 presentation. These reclassifications did not change previously reported net income (loss), shareholders' equity or cash flows.

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 cost of sales for the Enterprise Solutions Sector.

On September 18, 2003, HickoryTech executed a definitive agreement to sell the stock of its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC). The wireless operations are reported as part of the Telecom Sector. The results of operations of the wireless business are reported as discontinued operations for all periods presented (see Note 4).

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 applicable period. 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 Nine Months Ended	
	9/30/2003	9/30/2002	9/30/2003	9/30/2002
Weighted Average Shares Outstanding	13,973,920	14,058,750	13,972,741	14,008,985
Stock Options (dilutive only)	32,952	42,885	41,236	68,996
Weighted Average Stock Subscribed (ESPP)	17,347	15,692	16,885	14,951
Weighted Average Dilutive Shares Outstanding	14,024,219	14,117,327	14,030,862	14,092,932

Options to purchase 408,883 and 117,150 shares for the three months ended September 30, 2003 and 2002, respectively and 112,950 and 76,650 shares for the nine months ended September 30, 2003 and 2002, respectively, were not included in the computation of earnings per share assuming dilution calculation 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 is the number of shares outstanding as of the record date for the first three quarters of 2003 and 2002.

Shares Outstanding on Record Date	2003	2002
First Quarter (Feb. 15)	14,003,335	13,971,484
Second Quarter (May 15)	13,942,662	14,007,250
Third Quarter (August 15)	13,962,261	14,049,776

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

During the first nine months of 2003 and 2002, shareholders have elected to reinvest \$202,000 and \$185,000, respectively, of dividends into HickoryTech common stock pursuant to the HickoryTech Dividend Reinvestment Plan.

NOTE 3. COMPREHENSIVE INCOME

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 (loss), HickoryTech's comprehensive income includes changes in unrealized gains and losses on derivative instruments qualifying and designated as cash flow hedges. Comprehensive income (loss) for the three months ended September 30, 2003 and September 30, 2002 was (\$12,082,000) and \$2,094,000, respectively. Comprehensive income (loss) for the nine months ended September 30, 2003 and September 30, 2002 was (\$6,644,000) and \$5,986,000, respectively.

NOTE 4. DISCONTINUED OPERATIONS

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On September 18, 2003, HickoryTech executed a definitive agreement to sell the stock of its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC), for \$25,000,000, subject to working capital and construction in progress adjustments to be determined at closing. The selling price is comprised of approximately one million shares of HickoryTech common stock to be returned to HickoryTech by WWC, and \$12,800,000 in cash. The market value of these shares was approximately \$12,200,000 as of September 30, 2003. The final fair market value of this stock consideration will be measured by the Company on the closing date of the sale. HickoryTech will retire the shares of HickoryTech stock currently owned by WWC. The transaction is expected to close in the fourth quarter of 2003, subject to approval of the Federal Communications Commission and satisfaction of various other closing conditions. The wireless operations are reported as part of the Telecom Sector. The condensed consolidated statements of operations for all periods presented have been restated to reflect wireless operations as discontinued operations.

In connection with the determination by management in the third quarter of 2003 that it would pursue the sale of its wireless operations and that the purchase price would likely be less than the current carrying value of the wireless net assets, the Company completed an impairment test in the third quarter of 2003 for the FCC licenses pursuant to the requirements of SFAS No. 142, Goodwill and Other Intangible Assets. Management estimated the fair value of the FCC licenses using a discounted cash flow technique consistent with the method used by the Company in performing its most recent impairment analysis at December 31, 2002. As a result of this assessment, management determined that the FCC licenses were impaired and recorded an impairment charge of approximately \$21 million (\$12,390,000 after-tax), in the third quarter of 2003. This impairment charge is recorded as a component of the loss on discontinued operations on HickoryTech's condensed consolidated statement of operations for the quarter ended September 30, 2003. HickoryTech believes that the decline in the fair value of its FCC licenses is due principally to the rapid pace of technological change being undertaken by the major wireless service providers to adopt new protocols (i.e. GSM or CDMA) and potentially move away from HickoryTech's current primary protocol called TDMA, which has greatly hindered HickoryTech's position in finding a future roaming partner. Other factors include declining roaming revenues, increasing price competition, and the protracted downturn in the telecommunications market. The FCC licenses were tested for impairment on an aggregate basis, which is consistent with HickoryTech's management of the wireless business.

As a result of the Company's commitment to sell the wireless business, the Company made a determination during the third quarter of 2003 that the remaining assets of the wireless operations should be considered held for sale pursuant to SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, (SFAS No. 144). Pursuant to SFAS No. 144 the Company recorded an impairment charge during the third quarter of 2003 related to the other long-lived assets of the wireless business of \$4,345,000 (\$2,564,000 after tax). This charge is also recorded as a component of the loss on discontinued operations on HickoryTech's condensed consolidated statement of operations for the quarter ended September 30, 2003. As of September 30, 2003, the carrying value of the remaining net assets of the wireless business is equal to its estimated selling price less the costs to sell it. The carrying value of the wireless assets and the related loss on discontinued operations is subject to adjustment to the extent that the fair market value of the HickoryTech shares to be received upon closing of the sale is higher or lower than the September 30, 2003 fair market value of the shares, or to the extent that actual costs to sell the wireless business are higher or lower than estimated.

Wireless business revenue and income before income taxes included in discontinued operations are as follows:

(Dollars in Thousands)	For Three Months Ended		For Nine Months Ended	
	9/30/2003	9/30/2002	9/30/2003	9/30/2002
Revenues	\$ 4,009	\$ 4,374	\$ 11,370	\$ 11,739
Income (Loss) Before Income Taxes	\$ (24,873)	\$ 949	\$ (23,487)	\$ 2,637

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The carrying amounts and major classes of the assets and liabilities, which are presented as assets and liabilities held for sale in the accompanying balance sheet as of September 30, 2003 are as follow:

(Dollars in Thousands)

Current Assets Held for Sale:		
Accounts Receivable	\$	1,729
Inventories		304
Other		148
Total	\$	2,181

Long-Term Assets Held for Sale:		
Property, Plant and Equipment	\$	14,449
Intangible Assets FCC Licenses, (Net)		13,000
Other		32
Total	\$	27,481

Current Liabilities Held for Sale:		
Accounts Payable	\$	615
Accrued Expenses		209
Other		744
Total	\$	1,568

Long-Term Liabilities Held for Sale:		
Deferred Revenue	\$	31

NOTE 5. INVENTORIES

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

NOTE 6. INTANGIBLE ASSETS

Effective January 1, 2002, HickoryTech adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 established new standards related to how acquired goodwill and other intangible assets are to be recorded upon their acquisition as well as how they are to be accounted for after they have been initially recognized in the financial statements.

Effective with the adoption of this standard, HickoryTech is no longer amortizing acquired goodwill. Instead, SFAS No. 142 requires acquired goodwill to be evaluated for impairment using a two-step test based upon a fair value approach. The first step is used to identify potential impairment, while the second step calculates the amount of impairment, if any. Upon adoption of this standard, HickoryTech completed a

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transitional impairment test for its acquired goodwill, determining the fair value using primarily a discounted cash flow model. The determined fair value was sufficient to pass the first step impairment test, and therefore no impairment was recorded. On a prospective basis, HickoryTech is required to test acquired goodwill for impairment on an annual basis based upon a fair value approach. Additionally, goodwill shall be tested 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.

Additionally, upon adoption of SFAS No. 142, HickoryTech was required to reassess the useful lives of its other intangible assets. HickoryTech's other intangible assets primarily consist of wireless FCC licenses (FCC licenses). The renewal of FCC licenses is a routine matter involving a nominal fee and HickoryTech has determined that no legal, regulatory, contractual, competitive, economic or other factors currently exist that limit the useful life of its FCC licenses. As such, effective with the adoption of SFAS No. 142, HickoryTech is no longer amortizing FCC licenses as they are deemed to be intangible assets that have indefinite lives. SFAS No. 142 requires that indefinite lived intangible assets be tested for impairment by comparing the fair value of the assets to their carrying amount. Due to the pending sale of Minnesota Southern Wireless Company, HickoryTech completed an impairment test in the third quarter of 2003 for the FCC licenses, as discussed in Note 4.

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The carrying value of HickoryTech's goodwill is \$25,086,000 as of September 30, 2003 and December 31, 2002.

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

(Dollars in Thousands)	As of September 30, 2003		As of December 31, 2002	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-Lived Intangible Assets				
Customers	\$ 821	\$ 314	\$ 821	\$ 237
Other Intangibles	100	100	185	100
Total	\$ 921	\$ 414	\$ 1,006	\$ 337
Indefinite-Lived Intangible Assets				
FCC Licenses	\$ 13,000		\$ 34,000	

Amortization expense related to the definite-lived intangible assets for the three months ended September 30, 2003 and 2002 was \$26,000 and \$124,000, respectively. Amortization expense related to the definite-lived intangible assets for the nine months ended September 30, 2003 and 2002 was \$77,000 and \$351,000, respectively. Total estimated amortization expense for the remaining three months of 2003 and the five years subsequent to 2003 is as follows: 2003 (October 1 through December 31) - \$25,000; 2004 - \$102,000; 2005 - \$102,000; 2006 - \$102,000; 2007 - \$102,000 and 2008 - \$74,000.

The FCC licenses are included in assets held for sale as of September 30, 2003.

NOTE 7. RECENT ACCOUNTING DEVELOPMENTS

In June 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations. SFAS No. 143 requires entities to record the fair value of the liability for legal obligations associated with an asset retirement in the period in which the obligation is incurred. When the liability is initially recorded, the entity capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset.

HickoryTech's incumbent local exchange carrier companies (ILECs) follow the provisions of SFAS No. 71, and therefore conform to the accounting principles as prescribed by the respective state public utilities commissions and other federal agencies and, where applicable, accounting principles generally accepted in the United States of America. On December 20, 2002, the Federal Communications Commission (FCC) notified carriers that they would not adopt SFAS No. 143 for regulatory accounting purposes. At January 1, 2003, HickoryTech determined the amount of asset retirement obligations required to be recorded for its ILEC companies under the provisions of SFAS No. 143 were not significant, and therefore the implementation of SFAS No. 143 on January 1, 2003 did not impact HickoryTech's financial position or results of operations.

HickoryTech's competitive local telephone companies (CLEC), Enterprise Solutions, and Information Solutions, also adopted SFAS No. 143 effective January 1, 2003. HickoryTech has determined that its competitive local telephone companies along with Enterprise Solutions and Information Solutions do not have a material legal obligation to remove long-lived assets as described by SFAS No. 143, and accordingly, adoption of SFAS No. 143 did not impact HickoryTech's financial position or results of operations.

HickoryTech also adopted the provisions of SFAS No. 143 for its wireless operations as of January 1, 2003. HickoryTech performed an analysis to identify all potential Asset Retirement Obligations. The legal obligations identified consist of obligations to remediate leased property where cell sites are located. However, based upon HickoryTech's experience and expectations, there is significant uncertainty as to whether third parties that own these leased properties would enforce their remediation rights related to the sites. Furthermore, HickoryTech determined the amount of asset retirement obligations, if any, related to its wireless operations under the provisions of SFAS No. 143 were not significant, and therefore the implementation of SFAS No. 143 on January 1, 2003 did not impact HickoryTech's financial position or results of operations. In addition, due to the pending sale of the wireless operations (see Note 4), HickoryTech does not expect to incur any asset retirement obligations related to its wireless operations.

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. HickoryTech adopted the provisions of SFAS No. 145 on January 1, 2003. Adoption of this standard had no impact on the financial statements presented in this Form 10-Q.

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities, which replaces Emerging Issues Task Force (EITF) Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring). SFAS No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. HickoryTech has engaged in no activities in the three or nine months ended September 30, 2003 that are subject to the provisions of SFAS No. 146. Accordingly, the adoption of SFAS No. 146 did not impact HickoryTech's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition Disclosure an amendment of SFAS No. 123 (SFAS No. 148). This Statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The provisions of SFAS No. 148 are effective for financial statements for fiscal years ending after December 15, 2002, and disclosure requirements shall be effective for interim periods beginning after December 15, 2002. The Company will continue to account for stock-based compensation to its employees and directors using the intrinsic value method prescribed by APB Opinion No. 25, and related interpretations. The Company adopted the provisions of SFAS No. 148 and has made certain disclosures required by SFAS No. 148 in the consolidated financial statements presented in this report. The adoption of SFAS No. 148 did not impact HickoryTech's financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others. This interpretation elaborates on the disclosures required in financial statements concerning obligations under certain guarantees. It also clarifies the requirements related to the recognition of liabilities by a guarantor at the inception of certain guarantees. The disclosure requirements of this interpretation were effective for HickoryTech on December 31, 2002 but did not require any additional disclosures. The recognition provisions of the interpretation are effective for HickoryTech in 2003 and are applicable only to guarantees issued or modified after December 31, 2002. The adoption of Interpretation No. 45 did not impact the financial position, results of operations, or cash flows of HickoryTech.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. This statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 149 is effective for certain contracts entered into or modified after June 30, 2003. This standard did not change the accounting for HickoryTech's interest rate swap contract and therefore had no impact on HickoryTech's consolidated financial position, results of operations or cash flows (see Note 11).

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NOTE 8. QUARTERLY SECTOR FINANCIAL SUMMARY

Business segment information for the first three quarters of 2003 and 2002 is as follows. Certain amounts in 2002 have been reclassified to conform to the 2003 presentation.

(In Thousands)	Telecom	Information Solutions	Enterprise Solutions	Corporate and Eliminations	HickoryTech Consolidated
Three Months Ended 9/30/03					
Operating Revenue from Unaffiliated Customers	\$ 18,810	\$ 702	\$ 3,565	\$	\$ 23,077
Intersegment Revenues	69	848		(917)	
Total	18,879	1,550	3,565	(917)	23,077
Depreciation and Amortization	3,319	618	61	18	4,016
Operating Income (Loss)	5,803	(826)	(369)	372	4,980
Interest Expense	3	15		1,561	1,579
Income Taxes (Benefit)	2,409	(376)	(154)	(484)	1,395
Income (Loss) from Continuing Operations	3,475	(540)	(221)	(697)	2,017
Income (Loss) from Discont. Operations Including Intersegment Revenues	(14,871)	139		57	(14,675)
Net Income (Loss)	(11,396)	(401)	(221)	(640)	(12,658)
Identifiable Assets	143,121	7,346	9,627	16,404	176,498
Property, Plant and Equip., Net	105,722	5,219	524	210	111,675
Capital Expenditures	1,935	7	12	3	1,957
Three Months Ended 9/30/02					
Operating Revenue from Unaffiliated Customers	\$ 18,100	\$ 981	\$ 5,257	\$	\$ 24,338
Intersegment Revenues	68	841		(909)	
Total	18,168	1,822	5,257	(909)	24,338
Depreciation and Amortization	3,144	519	65	56	3,784
Operating Income (Loss)	5,757	(821)	282	(909)	4,309
Interest Expense	9	14		1,729	1,752
Income Taxes (Benefit)	2,386	(383)	109	(1,052)	1,060
Income (Loss) from Continuing Operations	3,446	(552)	157	(1,517)	1,534
Income (Loss) from Discont. Operations Including Intersegment Revenues	371	131		58	560
Net Income (Loss)	3,817	(421)	157	(1,459)	2,094
Identifiable Assets	152,953	7,086	9,603	12,877	182,519
Property, Plant and Equip., Net	112,266	5,820	527	180	118,793

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Capital Expenditures	1,110	658	72	1,840
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(In Thousands)	Telecom	Information Solutions	Enterprise Solutions	Corporate and Eliminations	HickoryTech Consolidated
Nine Months Ended 9/30/03					
Operating Revenue from Unaffiliated Customers	\$ 56,058	\$ 2,609	\$ 10,859	\$	\$ 69,526
Intersegment Revenues	206	2,379		(2,585)	
Total	56,264	4,988	10,859	(2,585)	69,526
Depreciation and Amortization	9,779	1,743	182	70	11,774
Operating Income (Loss)	18,654	(2,510)	(853)	(456)	14,835
Interest Expense	10	53		4,561	4,624
Income Taxes (Benefit)	7,675	(1,142)	(359)	(1,988)	4,186
Income (Loss) from Continuing Operations	11,076	(1,643)	(516)	(2,861)	6,056
Income (Loss) from Discont. Operations Including Intersegment Revenues	(14,387)	386		144	(13,857)
Net Income (Loss)	(3,311)	(1,257)	(516)	(2,717)	(7,801)
Identifiable Assets	143,121	7,346	9,627	16,404	176,498
Property, Plant and Equip., Net	105,722	5,219	524	210	111,675
Capital Expenditures	5,091	151	201	156	5,599
Nine Months Ended 9/30/02					
Operating Revenue from Unaffiliated Customers	\$ 52,857	\$ 3,064	\$ 11,655	\$	\$ 67,576
Intersegment Revenues	205	2,325		(2,530)	
Total	53,062	5,389	11,655	(2,530)	67,576
Depreciation and Amortization	9,156	1,548	201	169	11,074
Operating Income (Loss)	17,027	(2,289)	(169)	(1,623)	12,946
Interest Expense	18	44		5,504	5,566
Income Taxes (Benefit)	7,008	(1,038)	(90)	(2,819)	3,061
Income (Loss) from Continuing Operations	10,111	(1,495)	(129)	(4,057)	4,430
Income (Loss) from Discont. Operations Including Intersegment Revenues	1,060	352		144	1,556
Net Income (Loss)	11,171	(1,143)	(129)	(3,913)	5,986
Identifiable Assets	152,953	7,086	9,603	12,877	182,519
Property, Plant and Equip., Net	112,266	5,820	527	180	118,793
Capital Expenditures	6,462	1,866	55	211	8,594

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The Telecom Segment Identifiable Assets, Property Plant and Equipment and Capital Expenditures presented above, exclude the following amounts related to the wireless business which is reported as a discontinued operation:

(Dollars in Thousands)	Three Months Ended		Nine Months Ended	
	9/30/2003	9/30/2002	9/30/2003	9/30/2002
Identifiable Assets	\$ 29,662	\$ 95,887	\$ 29,662	\$ 95,887
Property, Plant and Equip., Net	14,449	17,526	14,449	17,526
Capital Expenditures	1,116	1,057	1,934	3,628

NOTE 9. 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.

NOTE 10. STOCK COMPENSATION

At September 30, 2003, HickoryTech has four stock-based employee and director compensation plans, which are described more fully in the HickoryTech Annual Report on Form 10-K for the year ended December 31, 2002. HickoryTech has elected to account for these employee and director stock compensation plans using the intrinsic value method as permitted by Accounting Principles Board Opinion No. 25 and related interpretations.

In 2002, HickoryTech's Board of Directors modified the terms of the stock options of a retiring officer. The modification extended the period after retirement during which the officer can exercise his vested options. This modification resulted in HickoryTech recognizing \$173,000 of compensation expense during the first quarter of 2003. During the third quarter of 2003, the Board of Directors extended the period during which this option holder can exercise his vested options to December 31, 2004. This extension will not result in any additional compensation charges.

If HickoryTech had elected to recognize compensation cost based on the fair value of the options and other stock compensation as prescribed by SFAS No. 123, the following operating results would have occurred using the Black-Scholes option-pricing model to determine the fair value of the options:

(Dollars in Thousands)	For Three Months Ended		For Nine Months Ended	
	9/30/2003	9/30/2002	9/30/2003	9/30/2002
Reported Net Income (Loss)	\$ (12,658)	\$ 2,094	\$ (7,801)	\$ 5,986
Add: Stock-based employee compensation expense included in reported net income (loss)	(168)	358	234	701

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Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	72	(451)	(531)	(1,035)
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Pro Forma Net Income (Loss)	\$ (12,754)	\$ 2,001	\$ (8,098)	\$ 5,652
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Earnings (Loss) per share:

Basic - as reported	\$ (0.91)	\$ 0.15	\$ (0.56)	\$ 0.43
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Basic - pro forma	\$ (0.91)	\$ 0.14	\$ (0.58)	\$ 0.40
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Diluted - as reported	\$ (0.91)	\$ 0.15	\$ (0.56)	\$ 0.43
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Diluted - pro forma	\$ (0.91)	\$ 0.14	\$ (0.58)	\$ 0.40
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NOTE 11. FINANCIAL DERIVATIVE INSTRUMENTS

HickoryTech accounts for derivative instruments in accordance with SFAS No. 133, as amended by SFAS No. 149, Accounting for Derivative Instruments and Hedging Activities, which requires derivative instruments to be recorded on the balance sheet at fair value. Changes in fair value of derivative instruments must be recognized in earnings unless specific hedge accounting criteria are met, in which case the gains and losses are included in other comprehensive income rather than in earnings.

(Dollars in Thousands)	Interest Rate Swap Agreement
Accumulated other comprehensive income balance at December 31, 2002.	\$
Market value increase on interest rate swap agreement	1,157
Accumulated other comprehensive income balance at September 30, 2003.	\$ 1,157

HickoryTech has variable rate debt instruments, which subject the company to interest rate risk. Beginning in the second quarter of 2003, HickoryTech entered into interest rate swap agreements, with remaining maturities of nine months to fifty-seven months, to manage its exposure to interest rate movements on a portion of its variable rate debt obligations. The market value of the cumulative gain or loss on these derivative instruments is reported as a component of accumulated other comprehensive income in shareholders' equity and is recognized in earnings when the term of the swap agreement is concluded.

The fair value of the HickoryTech's derivatives at September 30, 2003 is a net asset of \$1,961,000, which is included in other assets in the accompanying condensed consolidated balance sheet.

NOTE 12. ABANDONED INITIATIVE

In September of 2003 HickoryTech abandoned a CLEC initiative. As a result, HickoryTech wrote off property, plant and equipment with a carrying value of \$632,000. This \$632,000 charge is included in the operating expenses of the Telecom Sector in the condensed consolidated statement of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-Q that are not historical fact are forward-looking statements that are based on management's current expectations, estimates and projections about the industry in which HickoryTech operates and management's beliefs and assumptions. Such forward-looking statements are subject to important risks and uncertainties that could cause HickoryTech's future actual results to differ materially from such statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and probabilities, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that might cause such a difference include, but are not limited to, those contained in this Management's Discussion and Analysis (Item 2) and Exhibit 99 (Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995) to HickoryTech's Annual Report on Form 10-K for the year ended December 31, 2002, which is incorporated herein by reference. You are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date on which they were made. Except as otherwise required by federal securities law, HickoryTech undertakes no obligation to update any of its forward-looking statements for any reason.

BUSINESSES

HickoryTech operates in three business segments: the Telecom, Information Solutions and Enterprise Solutions Sectors. Its largest and oldest business (since 1898) has been the operation of incumbent local exchange carriers (ILECs) or traditional wireline telephone service. The ILEC business is in HickoryTech's Telecom Sector. In 1998, HickoryTech began its competitive local exchange carrier (CLEC) line of business, competing for the telephone dial tone, data and long distance calling business in other ILECs' territories. The CLEC business is in HickoryTech's Telecom Sector. Since 1964, HickoryTech's Information Solutions Sector has provided computer data processing and software, predominantly for HickoryTech's Telecom Sector operations and also to other telecommunications companies. HickoryTech acquired its Enterprise Solutions Sector in 1990 and it has operated as a leading telecommunications and data equipment distributor from a base in Minneapolis/St. Paul, Minnesota. HickoryTech also began its wireless operations in 1998 by acquiring its first wholly owned wireless service license, an additional wireless service license in 1999 and two PCS licenses in 2001. In the third quarter of 2003, HickoryTech entered into a definitive agreement to sell its wireless operations. Management expects to complete the sale of its wireless business in the fourth quarter of 2003, subject to the approval of the Federal Communications Commission. The wireless operations are reported as part of the Telecom Sector. All financial statements and schedules have been restated to reflect wireless operations as discontinued operations.

THE COMPANY

The eight subsidiaries of HickoryTech, all of which publicly operate and conduct business as HickoryTech, and the business segments in which they operate are:

TELECOM SECTOR

Mankato Citizens Telephone Company (MCTC)
Mid-Communications, Inc. (Mid-Comm)
Heartland Telecommunications Company of Iowa, Inc. (Heartland)
Cable Network, Inc. (CNI)
Crystal Communications, Inc. (Crystal)
Minnesota Southern Wireless Company (MSWC) Discontinued Operation

INFORMATION SOLUTIONS SECTOR

National Independent Billing, Inc. (NIBI)

ENTERPRISE SOLUTIONS SECTOR

Collins Communications Systems Co. (Collins)

HickoryTech and its subsidiaries are engaged in businesses that provide services to their customers for a fee. Many of these services are repetitive and recurring, and, as a result, backlog orders and seasonality are not significant factors. Working capital requirements primarily involve the funding of the construction and maintenance of fixed assets, the payroll costs of highly skilled labor and the inventory to service its telephone equipment customers.

The materials and supplies that are necessary for the operation of the businesses of HickoryTech and its subsidiaries are available from a variety of sources, and no future supply problems are anticipated. All of HickoryTech's central office switches, as well as a majority of HickoryTech's equipment sold in its Enterprise Solutions Sector, are supplied by Nortel. Nortel is a leading supplier of communications equipment, and HickoryTech's dependence on this brand is not viewed as a significant risk. An additional layer of network infrastructure equipment for broadband services is provided by Nextlevel. Nextlevel is a newer supplier of communications equipment and the Company is monitoring the

risk level of maintaining Nextlevel as a supplier in light of its status as a wholly owned subsidiary of Motorola.

INDUSTRY SEGMENTS

TELECOM SECTOR

HickoryTech's Telecom Sector provides local exchange wireline telephone service, long distance, dial-up Internet access and owns and operates fiber optic cable facilities. This sector includes three incumbent local exchange carriers (ILECs): MCTC, Mid-Comm and Heartland. MCTC and Mid-Comm provide telephone service in south central Minnesota, specifically Mankato (a regional hub) and eleven rural communities surrounding Mankato. The third ILEC, Heartland, provides telephone service for eleven rural communities in northwest Iowa.

The Telecom Sector also includes Crystal, a competitive local exchange carrier (CLEC). Crystal provides local telephone service, long distance and dial-up Internet access on a competitive basis. Crystal has customers in eight rural communities in Minnesota and two communities in Iowa that are not in HickoryTech's ILEC service areas.

HickoryTech also owns and operates fiber optic cable facilities (CNI) in Minnesota, which are used to transport interexchange communications as a service to telephone industry customers. HickoryTech's Minnesota ILECs and its CLEC are the primary users of the fiber optic cable facilities.

MCTC derives its principal revenues and income from local services charged to subscribers in its service area, access services charged to interexchange carriers and the operation of a toll tandem switching center in Mankato, Minnesota. Revenues and income for Mid-Comm are also derived from local service charges in its area of operation and by providing access to long distance services for its subscribers through the toll center in Mankato. Local and interexchange telephone access for the two companies is provided on an integrated basis. The local and interexchange telephone access for both telephone companies utilize the same facilities and equipment and is managed and maintained by a common work force. Heartland derives its principal revenues and income from local services charged to subscribers in its service area in Iowa, as well as from providing interexchange access for its subscribers. Interexchange telephone access is provided by all three of HickoryTech's telephone subsidiaries by connecting the communications networks of interexchange and wireless carriers with the equipment and facilities of end users through its switched networks or private lines.

MCTC and Mid-Comm are Minnesota public utilities operating pursuant to indeterminate permits issued by the Minnesota Public Utilities Commission. Heartland is also a public utility, which operates pursuant to a certificate of public convenience and necessity issued by the Iowa Utilities Board. These state agencies regulate the services provided by MCTC, Mid-Comm and Heartland. CNI's operations are not subject to regulation by the state regulatory authority. Neither the Minnesota Public Utilities Commission nor the Iowa Utilities Board regulates the rate of return or profits of each of HickoryTech's ILEC operations due to the size of these companies relative to state regulation. In Minnesota, MCTC and Mid-Comm's price and service levels are monitored by regulators. MCTC's and Mid-Comm's local service rates are below those of most Minnesota ILECs. Regardless of whether a particular rate is subject to regulatory review, the ability of HickoryTech and its subsidiaries to change rates will be determined by various factors, including economic and competitive circumstances.

As local exchange telephone companies, MCTC, Mid-Comm and Heartland provide end office switching and dedicated circuits to long distance interexchange carriers. These relationships allow HickoryTech's telephone subscribers to place long distance telephone calls and gain access to the telephone network. HickoryTech provides long distance access for all of the individual customers who select an alternative long distance carrier. The long distance interexchange carriers are significant customers of HickoryTech, but no carrier represents more than ten percent of

HickoryTech's consolidated revenues.

Alternatives to HickoryTech service include customers leasing private line switched voice and data services in or adjacent to the territories served by HickoryTech, which permits the bypassing of local telephone switching facilities. In addition, microwave transmission services, wireless communications, fiber optic and coaxial cable deployment and other services provided by other companies permit bypass of the local exchange network. These alternatives to local exchange service represent a potential threat to HickoryTech's long-term ability to provide local exchange service at economical rates.

Competition in HickoryTech's ILEC service area exists in one of Heartland's exchanges. In the city of Hawarden, Iowa, the municipal city government overbuilt the city's telephone service infrastructure and is providing an alternative to HickoryTech's telephone service. The Hawarden CLEC has acquired approximately 1,000 access lines, or approximately 60%, of that community's telephone business from HickoryTech. HickoryTech management does not believe there will be significant further impact from competition in Hawarden. HickoryTech responds to competitive changes with active programs to market products and to engineer its infrastructure for higher customer satisfaction.

Competition also exists for some of the services provided to interexchange carriers, such as customer billing services, dedicated private lines, network switching and network routing. This competition comes primarily from the interexchange carriers themselves. The provision of these services is either of a contractual nature or is month-to-month service out of a general tariff, but in either case is primarily controlled by the interexchange carriers. As interexchange carriers make these service decisions, changes have the potential of changing the Company's revenue in the Telecom Sector. Other services, such as directory advertising and wireless communications, are open to competition. Competition is based primarily on service and experience.

In September 2003, a potential competitor filed a request to negotiate interconnection arrangements with HickoryTech's Minnesota ILECS, MCTC & Mid-Comm. This potential competitor is an experienced company with the ability to offer bundled services. MCTC and Mid-Comm have made a filing with the Minnesota Public Utilities commission exerting their rural exemption from certain components of this request. The potential competitor has not, as yet, followed through with its competitive filings in any other jurisdiction. At this time, HickoryTech is unable to predict the outcome of this proceeding.

The passage of the 1996 Telecommunications Act created the opportunity for HickoryTech to offer communications service in territories served by other telephone companies, and Crystal began operations in January 1998 as a new competitive local exchange carrier (CLEC). Crystal offers local service, long distance and dial-up Internet access services on a competitive basis to customers in southern Minnesota and Iowa, which are not served by HickoryTech's Telecom Sector service area. These service offerings provide customers alternatives to the incumbent telephone carrier in various communities and are offered under the brand name HickoryTech wireline service. These services are currently offered to customers in eight rural communities in Minnesota, as well as two communities in Iowa. Crystal's primary strategy is to provide service by overbuilding with new telecommunications switching networks and telephone lines. Crystal also provides the long distance service and dial-up Internet access services to HickoryTech's subscribers in both ILEC and CLEC markets.

CLEC activities require Crystal to file for authority to operate with the appropriate public utilities commission in each state it serves. Crystal competes directly against existing ILECs in the areas in which Crystal operates. Crystal is not dependent upon any single customer or small group of customers. No single customer in Crystal accounts for ten percent or more of HickoryTech's consolidated revenues.

On September 18, 2003, HickoryTech executed a definitive agreement to sell the stock of its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC), for \$25,000,000, subject to working capital and construction in progress adjustments to be determined at closing. The selling price is comprised of approximately one million shares of HickoryTech common stock to be returned to HickoryTech by WWC, and \$12,800,000 in cash. The market value of these shares was approximately \$12,200,000 as of September 30, 2003. The final fair market value of this stock consideration will be measured by the Company on the closing date of the sale. HickoryTech will retire the shares of HickoryTech stock currently owned by WWC. The transaction is expected to close in the fourth quarter of 2003, subject to approval of the Federal Communications Commission and satisfaction of various other closing conditions. The wireless operations are reported as part of the Telecom Sector. All statements of operations data and schedules included herein have been restated to reflect wireless operations as discontinued operations.

In connection with the determination by management in the third quarter of 2003 that it would pursue the sale of its wireless operations and that the purchase price would likely be less than the current carrying value of the wireless net assets, the Company completed an impairment test in the third quarter of 2003 for the FCC licenses pursuant to the requirements of SFAS No. 142, Goodwill and Other Intangible Assets. Management estimated the fair value of the FCC licenses using a discounted cash flow technique consistent with the method used by the Company in performing its most recent impairment analysis at December 31, 2002. As a result of this assessment, management determined that the FCC licenses were impaired and recorded an impairment charge of approximately \$21 million (\$12,390,000 after-tax), in the third quarter of 2003. This impairment charge is recorded as a component of the loss on discontinued operations on HickoryTech's condensed consolidated statement of operations for the quarter ended September 30, 2003. HickoryTech believes that the decline in the fair value of its FCC licenses is due principally to the rapid pace of technological change being undertaken by the major wireless service providers to adopt new protocols (i.e. GSM or CDMA) and potentially move away from HickoryTech's current primary protocol called TDMA, which has greatly hindered HickoryTech's position in finding a future roaming partner. Other factors include declining roaming revenues, increasing price competition, and the protracted downturn in the telecommunications market. The FCC licenses were tested for impairment on an aggregate basis, which is consistent with HickoryTech's management of the wireless business.

As a result of the Company's commitment to sell the wireless business, the Company made a determination during the third quarter of 2003 that the remaining assets of the wireless operations should be considered held for sale pursuant to SFAS No. 144, Accounting for Impairment or Disposal of Long-Lived Assets, (SFAS No. 144). Pursuant to SFAS No. 144 the Company recorded an impairment charge during the third quarter of 2003 related to the other long-lived assets of the wireless business of \$4,345,000 (\$2,564,000 after tax). This charge is also recorded as a component of the loss on discontinued operations on HickoryTech's condensed consolidated statement of operations for the quarter ended September 30, 2003. As of September 30, 2003, the carrying value of the remaining net assets of the wireless business is equal to its estimated selling price less the costs to sell it. This carrying value of the wireless assets and the related loss on discontinued operations is subject to adjustment to the extent that the fair market value of the HickoryTech shares to be received upon closing of the sale is higher or lower than the September 30, 2003 fair market value of the shares, or to the extent that actual costs to sell the wireless business are higher or lower than estimated.

The wireless telephone business consists of the A-side FCC wireless license to operate in Minnesota's Rural Service Area 10 (RSA 10), the Minneapolis/St. Paul Metro A-2 (Metro A-2) wireless license and two digital personal communications services (PCS) licenses covering the Minnesota Basic Trading Areas (BTAs) of Mankato-Fairmont and Rochester-Austin-Albert Lea.

In south central Minnesota, MSWC provides wireless service for Minnesota's Rural Service Area 10 (RSA 10), under the brand name of HickoryTech Wireless. MSWC owns 100% of the A-side FCC wireless license to operate in seven counties in south central Minnesota. The area overlaps and is larger than HickoryTech's Minnesota ILEC and CLEC service areas and serves a population of approximately 240,000. This business also owns the Minneapolis/St. Paul Metro A-2 (Metro A-2) wireless license, which was acquired on June 1, 1999. The Metro A-2 property surrounds the metropolitan Minneapolis/St. Paul area and is located in five Minnesota counties and in one Wisconsin county. Metro A-2 provides service to an area with a population of approximately 185,000. In addition, this business also owns the PCS licenses for the Minnesota BTAs of Mankato-Fairmont and Rochester-Austin-Albert Lea. The two BTAs are located in 16 Minnesota counties and one Iowa county and provide service to an area with a population of approximately 500,000, some of which coincide with the previously mentioned wireless RSA 10 population of 240,000.

MSWC, which owns all four of the Company's FCC wireless licenses, derives its principal revenues and income from providing wireless telephone service to the retail customers in seven counties in south central Minnesota and from wireless roaming traffic. MSWC also derives roaming revenue from the six counties surrounding the metropolitan Minneapolis/St. Paul Metro A-2 area and roaming revenues from the PCS service territory that is comprised of 17 counties. MSWC directly competes against local wireless and PCS companies in southern Minnesota.

REGULATED INDUSTRY

ILEC Minnesota - HickoryTech's two Minnesota ILEC subsidiaries continue to operate under an alternative form of regulation as defined in Minnesota Chapter 237, whereby companies with less than 50,000 customers are regulated on price and service level rather than profit. The Minnesota PUC has been considering intrastate access reform for several years. While no formal action has been concluded, the Minnesota PUC recently issued a Statement of Proposed Inquiry regarding state Access Reform and state Universal Service. Minnesota process in matters such as these, usually involve outcomes that may not be realized until the end of 2004. HickoryTech cannot estimate the impact, if any, of future potential state access revenue changes.

ILEC Iowa - In Iowa, companies with fewer than 15,000 access lines remain unregulated. HickoryTech's Iowa ILEC subsidiary falls below this regulation threshold.

CLEC - HickoryTech's CLEC companies operate in Minnesota and Iowa with less regulatory oversight than the HickoryTech ILEC companies.

Wireline InterState - The HickoryTech ILEC companies do not participate in the NECA traffic sensitive pool and set access rates according to a nationwide average cost of providing access. This biannual rate process was recently completed and established traffic sensitive interstate rates for the period from July 1, 2003 through June 30, 2005. HickoryTech ILEC companies participate in the NECA common line pool. In July of 2003, common line rates charged to interexchange carriers were reduced (to zero), and common line charges to end users were increased in accordance with an FCC October 2001 order (a/k/a MAG Plan). Funds collected are pooled, and HickoryTech revenues are based on settlements distributed from the pool. Pool settlements are adjusted from time to time. HickoryTech's CLEC access rates are established in accordance with the FCC's April 2001 order and no further changes are known at the present time.

Wireless - HickoryTech's wireless business is subject to regulation by the FCC including rules governing the construction and operation of wireless communication systems and licensing and technical standards for provision of wireless communication services. The FCC has refrained from rate regulation of wireless communications services, but retains its statutory authority to impose such regulation. The FCC ordered wireless carriers to be able to pool telephone numbers by November 2002. Further, the FCC has ordered that wireless carriers implement Local Number Portability (LNP) by November 24, 2003. HickoryTech expects to comply with the FCC's wireless LNP mandate. The Company expects the cost of implementing wireless LNP to be approximately \$50,000 for system implementation costs and approximately \$2,500 per month for ongoing maintenance.

INFORMATION SOLUTIONS SECTOR

FORWARD-LOOKING STATEMENTS

Through NIBI, HickoryTech's Information Solutions Sector provides data processing and related services, principally for HickoryTech, other local exchange telephone companies, CLECs, interexchange network carriers, wireless companies, municipalities and utilities. The Information Solutions Sector's principal activity is the provision of monthly batch processing of computerized data for HickoryTech as well as non-affiliated companies. Services for telephone company customers include the processing of long distance telephone calls from data sources and telephone switches, the preparation of the subscriber telephone bills, customer record keeping, carrier access bills and general accounting and payroll services. NIBI, under the brand name HickoryTech Information Solutions, also provides certain billing clearinghouse functions for interexchange carriers.

There are a number of companies engaged in supplying data processing services comparable to those furnished by the Information Solutions Sector. Competition is based primarily on price and service. HickoryTech's Information Solutions Sector has developed an integrated billing and management system called SuiteSolution. SuiteSolution can provide wireline and wireless carriers the individual benefits of a billing platform or a total system solution. Management is unable to quantify what effect, if any, the pending sale of the wireless business may have on the marketplace for this product.

ENTERPRISE SOLUTIONS SECTOR

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Through Collins, HickoryTech's Enterprise Solutions Sector provides telephone and data equipment sales and services as well as the sale, installation and service of voice over Internet Protocol business systems to companies primarily based in metropolitan Minneapolis/St. Paul, Minnesota. This sector also supports the business telephone system service for HickoryTech ILEC and CLEC operations in southern Minnesota and Iowa. The customers in the Enterprise Solutions Sector's market are the individual business end users of telecommunications service with ongoing service requirement offerings. Products consist of telecommunication platforms such as Nortel on the voice side of the Enterprise Solutions' business, and Cisco and Bay Networks (Nortel) equipment on the data side of its business. Enterprise Solutions specializes in the quality custom installation and maintenance of data wide area networking solutions.

Revenues are primarily earned by the sales, installation and service of business telephone systems. Enterprise Solutions continues its commitment to service and support of its core product, Nortel, while identifying new opportunities such as call centers, computer telephone integration voice mail and interactive voice response systems.

HickoryTech's Enterprise Solutions Sector is not dependent upon any single customer or small group of customers. No single customer in the Enterprise Solutions Sector accounts for ten percent or more of HickoryTech's consolidated revenues.

Companies compete in equipment sales and service and voice over Internet Protocol communications products market in which Enterprise Solutions operates. Competition is based primarily on price and service. No one company is dominant in this field. Enterprise Solutions offers customer premises telephone and data equipment through well-trained and experienced market representatives with long-term customer relationships. The Enterprise Solutions Sector's activities are focused on the sale, installation and service of business telephone systems and data communications equipment to companies based in metropolitan Minneapolis/St. Paul, Minnesota. This sector also supports the business telephone system service for HickoryTech's ILEC and CLEC operations in Minnesota and Iowa.

RESULTS OF OPERATIONS

CONSOLIDATED OPERATING RESULTS FROM CONTINUING OPERATIONS

The following is a summarized discussion of consolidated results of operations from continuing operations. More detailed discussion of operating results by segment follows this discussion.

OPERATING REVENUES FROM CONTINUING OPERATIONS - Consolidated operating revenues from continuing operations were \$23,077,000, which is \$1,261,000 or 5.2% lower in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Consolidated operating revenues from continuing operations were \$69,526,000, which is \$1,950,000 or 2.9% higher in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The decrease in revenues from continuing operations in the three months ended September 30, 2003 compared to the three months ended September 30, 2002 can be primarily attributed to a decrease in revenue in the Information Solutions Sector and a lower volume of business in the Enterprise Solutions Sector. The decrease in revenues in the Information Solutions sector can be largely attributed to a few customers who have experienced a significant decrease in volumes processed. In the third quarter of 2002, the Enterprise Solutions sector experienced an increase in installation revenues due to revenues related to a significant voice over Internet Protocol network HickoryTech was installing in the corporate offices of a large specialty retailer. This project was substantially completed by the third quarter of 2003, which resulted in the revenue decline between quarters. The increase in revenues from continuing operations in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002 was largely due to increases in revenues in the Telecom Sector resulting from increases in network access revenues, the CLEC customer base and increased broadband data service lines installed. This increase was partially offset by decreases in revenues in the Information Solutions Sector and the Enterprise Solutions Sector. The decrease in revenues in the Information Solutions sector can be largely attributed to a few customers who have experienced a significant decrease in volumes processed. In the third quarter of 2002, the Enterprise Solutions sector experienced an increase in installation revenues due to revenues related to a significant voice over Internet Protocol network HickoryTech was installing in the corporate offices of a large specialty retailer. This project has been substantially completed by the third quarter of 2003, which resulted in the revenue decline between quarters.

COST OF SALES, ENTERPRISE SOLUTIONS - Cost of sales, which is related to the Enterprise Solutions Sector was \$2,606,000 which is \$1,082,000 or 29.3% lower in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Cost of sales was \$7,675,000, which is \$230,000 or 2.9% lower in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. Gross profit margin for this sector in the three and nine months ended September 30, 2003 was 26.9% and 29.3%, respectively, compared to 29.8% and 32.2% for the three and nine months ended September 30, 2002, respectively. The decrease in the cost of sales is the result of lower costs associated with volume of business in the Enterprise Solutions Sector and the decrease in the gross profit margin is the result of lower margins associated with a couple large system installations, which Enterprise Solutions performed in 2003.

OPERATING EXPENSES FROM CONTINUING OPERATIONS (excluding Depreciation and Amortization) - Operating expenses from continuing operations excluding depreciation and amortization was \$11,475,000, which is \$1,082,000 or 8.6% lower in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Operating expenses from continuing operations excluding depreciation and amortization was \$35,242,000, which is \$409,000 or 1.1 % lower in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. In September of 2003, HickoryTech abandoned a CLEC initiative in a specific market. As a result of this operating decision, HickoryTech abandoned approximately \$632,000 of property, plant and equipment which was written down to a carrying value of zero in the third quarter of 2003. The remaining decrease in operating expenses from continuing operations is primarily due to lower bad debt expense in the Telecom Sector of \$499,000 for the three months ended September 30, 2003 compared to three months ended September 30, 2002. The higher bad debt expense in 2002 was due in large part to bankruptcies of interexchange carriers in the telecommunications industry. Another factor contributing to the decrease in expenses in the third quarter of 2003 compared to the third quarter of 2002 was a \$859,000 reduction in compensation accruals associated with management incentives, which are tied to financial metrics and are not expected to be achieved as a result of the loss from discontinued operations recorded in the third quarter of 2003. The decrease in bad debt expense and the incentive compensation in 2003 were partially offset by increased expenses in the Telecom Sector related to the growth in CLEC customers. The Company's initiative to maintain low operating expenses have also contributed to keeping labor and network expenses from rising significantly in 2003. Without the CLEC initiative write-off, operating expenses excluding depreciation and amortization would have been \$34,610,000, which is \$1,041,000 or 2.9% lower in the nine months ended September 30, 2003 compared to nine months ended September 30, 2002. The decrease in bad debt expense in 2003 was partially offset by increased expenses in the Telecom Sector related to the growth in CLEC customers. The Company's initiative to maintain low operating expenses have also contributed to keeping labor and network expenses from rising significantly in 2003.

DEPRECIATION AND AMORTIZATION FROM CONTINUING OPERATIONS - Depreciation expense from continuing operations was \$3,780,000, which is \$332,000 or 9.6% higher in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Depreciation expense from continuing operations was \$11,013,000, which is \$928,000 or 9.2% higher in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. Increases in the Telecom Sector's network assets, specifically the assets associated with the CLEC business, and amortization of new billing software primarily account for the increase in depreciation expense from continuing operations. Amortization expense from continuing operations was \$236,000, which is \$100,000 or 29.8% lower in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Amortization expense from continuing operations was \$761,000, which is \$228,000 or 23.1% lower in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The decrease in amortization expense from continuing operations was largely due to an intangible asset in the Information Solutions Sector becoming fully amortized in the second quarter of 2003 and no amortization expense recorded for an intangible asset that was written off at the end of 2002.

OPERATING INCOME FROM CONTINUING OPERATIONS - Operating income from continuing operations was \$4,980,000, which is \$671,000 or 15.6% higher in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Operating income from continuing operations was \$14,835,000, which is \$1,889,000 or 14.6% higher in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The increase in operating income from continuing operations for the three and nine months ended September 30, 2003

was largely due to increased network access revenues, increased CLEC revenues, decreased bad debts in the Telecom Sector and the incentive compensation reversal, which were partially offset by the increase in operating expenses in the Telecom Sector and the decrease in the Information Solutions and Enterprise Solutions Sectors' revenues, all of which are described above.

INTEREST EXPENSE FROM CONTINUING OPERATIONS - Interest expense from continuing operations decreased \$173,000 or 9.9% to \$1,579,000 in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Interest expense from continuing operations decreased \$942,000 or 16.9% to \$4,624,000 in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The decrease in interest expense from continuing operations for the period was primarily due to a decrease in total debt outstanding. The outstanding balance of the revolving credit facility was \$140,750,000 at September 30, 2003 and \$161,250,000 at September 30, 2002.

INCOME TAXES The effective income tax rate of approximately 41% in all periods presented exceeds the federal statutory rate primarily due to state income taxes.

INCOME FROM CONTINUING OPERATIONS - Consolidated income from continuing operations was \$2,017,000, which is \$483,000 or 31.5% higher in the three months ended September 30, 2003 compared to the three months ended September 30, 2002. Consolidated income from continuing operations was \$6,056,000, which is \$1,626,000 or 36.7% higher in the nine months ended September 30, 2003 compared to the nine months ended September 30, 2002. The increase in operating income from continuing operations was largely due to increased network access revenues, increased CLEC revenues, and decreased bad debts in the Telecom Sector, which were partially offset by the increase in operating expenses in the Telecom Sector and the decrease in the Information Solutions and Enterprise Solutions Sectors' revenues, as described above.

SECTOR RESULTS OF OPERATIONS FROM CONTINUING OPERATIONS

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

(Dollars in Thousands)	For Three Months Ended		For Nine Months Ended
	9/30/2003	9/30/2002	9/30/2003