HICKORY TECH CORP
Form 10-Q
May 05, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

ý	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **FOR THE QUARTERLY PERIOD ENDED March 31, 2005** **OR**
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **FOR THE TRANSITION PERIOD FROM TO**

Commission file number 0-13721

HICKORY TECH CORPORATION

(Exact name of registrant as specified in its charter)

Minnesota (State or other jurisdiction of incorporation or organization)	**41-1524393** (I.R.S. Employer Identification No.)

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

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

(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 ý No o

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

The total number of shares of the registrant s common stock outstanding as of March 31, 2005: 13,065,315.

HICKORY TECH CORPORATION

March 31, 2005

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(In Thousands Except Per Share Amounts)	**For Three Months Ended**			
		3/31/2005		**3/31/2004**
OPERATING REVENUES:				
Telecom Sector	$	19,345	$	19,426
Information Solutions Sector		488		966
Enterprise Solutions Sector		3,275		2,295
TOTAL OPERATING REVENUES		23,108		22,687
COSTS AND EXPENSES:				
Cost of Sales, Enterprise Solutions		2,268		1,509
Cost of Services, excluding Depreciation and Amortization		8,053		8,608
Selling, General and Administrative Expenses, excluding Depreciation and Amortization		4,027		3,656
Depreciation		4,001		3,876
Amortization of Intangibles		237		236
TOTAL COSTS AND EXPENSES		18,586		17,885
OPERATING INCOME		4,522		4,802
OTHER INCOME/(EXPENSE):				
Interest and Other Income		8		15
Interest Expense		(977)		(1,189)
TOTAL OTHER INCOME/(EXPENSE)		(969)		(1,174)
INCOME BEFORE INCOME TAXES		3,553		3,628
INCOME TAX PROVISION		1,437		1,467
INCOME FROM CONTINUING OPERATIONS		2,116		2,161
DISCONTINUED OPERATIONS (Note 4)				
Loss from Operations of Discontinued Component				(99)
Income Tax Benefit				(40)
LOSS FROM DISCONTINUED OPERATIONS				(59)
NET INCOME	$	2,116	$	2,102
Basic Earnings Per Share - Continuing Operations:	$	0.16	$	0.17
Basic Loss Per Share - Discontinued Operations:				(0.01)
	$	0.16	$	0.16
Dividends Per Share	$	0.12	$	0.11
Weighted Average Common Shares Outstanding		13,059		12,970
Diluted Earnings Per Share - Continuing Operations:	$	0.16	$	0.17
Diluted Loss Per Share - Discontinued Operations:				(0.01)
	$	0.16	$	0.16
Weighted Average Common and Equivalent Shares Outstanding		13,091		13,020

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

HICKORY TECH CORPORATION

March 31, 2005

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In Thousands Except Share and Per Share Amounts)		**3/31/2005**		**12/31/2004**
ASSETS				
CURRENT ASSETS:				
Cash and Cash Equivalents	**$**	**1,258**	$	257
Receivables, Net of Allowance for Doubtful Accounts of $1,294 and $1,283		**9,336**		9,892
Income Taxes Receivable				204
Costs in Excess of Billings on Contracts		**217**		927
Inventories		**3,163**		3,182
Deferred Income Taxes		**1,430**		1,430
Prepaid Expenses		**1,414**		1,185
Other		**837**		1,214
TOTAL CURRENT ASSETS		**17,655**		18,291
INVESTMENTS		**2,507**		4,371
PROPERTY, PLANT AND EQUIPMENT		**247,888**		246,341
Less ACCUMULATED DEPRECIATION		**135,432**		131,649
PROPERTY, PLANT AND EQUIPMENT, NET		**112,456**		114,692
OTHER ASSETS:				
Goodwill		**25,086**		25,086
Intangible Assets, Net		**361**		387
Financial Derivative Instruments		**3,522**		2,501
Deferred Costs and Other		**2,852**		3,209
TOTAL OTHER ASSETS		**31,821**		31,183
TOTAL ASSETS	**$**	**164,439**	$	168,537
LIABILITIES & SHAREHOLDERS EQUITY				
CURRENT LIABILITIES:				
Cash Overdraft	**$**		$	1,680
Accounts Payable		**2,357**		4,065
Accrued Expenses		**3,462**		3,202
Accrued Interest		**75**		76
Accrued Income Taxes		**923**		
Billings in Excess of Costs on Contracts		**202**		260
Advanced Billings and Deposits		**2,806**		2,898
Current Maturities of Long-Term Obligations		**8,171**		5,323
TOTAL CURRENT LIABILITIES		**17,996**		17,504
LONG-TERM OBLIGATIONS, Net of Current Maturities		**91,256**		97,661
DEFERRED INCOME TAXES		**15,677**		15,270
DEFERRED REVENUE AND EMPLOYEE BENEFITS		**6,606**		6,557
TOTAL LIABILITIES		**131,535**		136,992
COMMITMENTS AND CONTINGENCIES (Note 9)				
SHAREHOLDERS EQUITY:				
Common Stock, no par value, $.10 stated value				
Shares authorized: 100,000,000				
Shares outstanding: 13,065,315 in 2005 and 13,057,106 in 2004		**1,307**		1,306
Additional Paid-In Capital		**8,810**		8,615

Retained Earnings		**20,667**		20,119
Accumulated Other Comprehensive Income		**2,120**		1,505
TOTAL SHAREHOLDERS EQUITY		**32,904**		31,545
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	**$**	**164,439**	$	168,537

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

HICKORY TECH CORPORATION

March 31, 2005

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollars In Thousands)	For Three Months Ended 3/31/2005	3/31/2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 2,116	$ 2,102
Adjustments to Reconcile Net Income to Net		
Cash Provided by Operating Activities:		
Depreciation and Amortization	4,238	4,112
Gain on Sale of Assets	(4)	
Stock-Based Compensation	22	35
Employee Retirement Benefits and Deferred Compensation	83	166
Accrued Patronage Refunds	(136)	(107)
Provision for Losses on Accounts Receivable	224	144
Changes in Operating Assets and Liabilities:		
Receivables	1,459	3,208
Inventories	20	53
Billings and Costs on Contracts	651	729
Accounts Payable and Accrued Expenses	(1,450)	(764)
Advance Billings and Deposits	(92)	36
Deferred Revenue and Employee Benefits	(34)	(38)
Other	195	443
Net Cash Provided By Operating Activities	7,292	10,119
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property, Plant and Equipment	(1,456)	(2,122)
Redemption of Investments	2,100	2,600
Proceeds from Sale of Assets	11	12
Net Cash Provided By Investing Activities	655	490
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in Cash Overdraft	(1,680)	(973)
Payments of Capital Lease Obligations	(123)	(213)
Repayments on Credit Facility	(4,750)	(9,250)
Borrowings on Credit Facility	1,000	1,000
Proceeds from Issuance of Common Stock	174	118
Dividends Paid	(1,567)	(1,426)
Net Cash Used In Financing Activities	(6,946)	(10,744)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,001	(135)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	257	278
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 1,258	$ 143
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	$ 1,055	$ 1,236
Net Cash Paid (Refunded) for Income Taxes	$ 310	$ (1,745)
NON-CASH INVESTING ACTIVITIES:		
Property, Plant and Equipment Acquired with Capital Leases	$ 317	$

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

HICKORY TECH CORPORATION

MARCH 31, 2005

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, 2004.

The condensed 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. All inter-company transactions have been eliminated from the consolidated financial statements.

Cost of services include all costs related to delivery of HickoryTech s communications services and products. These costs include all costs of performing services and providing related products. It does not include costs associated with selling, general and administrative, depreciation and amortization of property, plant and equipment and intangible assets, and cost of sales for the Enterprise Solutions Sector.

On December 15, 2003, HickoryTech sold 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 period increased by potentially dilutive common shares. Potentially dilutive common shares include stock options and stock subscribed under the employee stock purchase plan (ESPP).

	For Three Months Ended	
	3/31/2005	**3/31/2004**
Weighted Average Shares Outstanding	13,059,024	12,969,590
Stock Options (dilutive only)	17,691	37,350
Stock Subscribed (ESPP)	14,190	12,958
Total Dilutive Shares Outstanding	13,090,905	13,019,898

Options to purchase 476,000 and 406,433 shares for the three months ended March 31, 2005 and 2004, 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 is the number of shares outstanding as of the record date for the first quarter of 2005 and 2004.

Shares Outstanding on Record Date	**2005**	**2004**
First Quarter (Feb. 15)	13,057,106	12,967,886

Dividends per share are based on the quarterly dividend per share as declared by the HickoryTech Board of Directors. HickoryTech paid dividends of $.12 per share for the first quarter of 2005 and $.11 per share for the first quarter of 2004.

During the first three months of 2005 and 2004, shareholders have elected to reinvest $66,000 and $67,000, 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, HickoryTech s comprehensive income includes changes in unrealized gains and losses on derivative instruments qualifying and designated as cash flow hedges. Comprehensive income for the three months ended March 31, 2005 and 2004 was $2,731,000 and $1,236,000, respectively.

NOTE 4. DISCONTINUED OPERATIONS

On December 15, 2003, HickoryTech sold 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.

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

	For Three Months Ended			
(Dollars in Thousands)	**3/31/2005**		**3/31/2004**	
Revenues	$		$	
Loss Before Income Taxes	$		$	(99)

NOTE 5. INVENTORIES

Inventories, which consist of equipment for resale, materials and supplies, are stated at the lower of average cost or market. Cost is determined on a first-in first-out (FIFO) basis. Reserves offset the cost of inventory to arrive at the net carrying value of inventory, which is intended to approximate net realizable value.

NOTE 6. INTANGIBLE ASSETS

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

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.

The carrying value of HickoryTech s goodwill is $25,086,000 as of March 31, 2005 and December 31, 2004.

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

	As of March 31, 2005		As of December 31, 2004	
(Dollars in Thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Definite-Lived Intangible Assets				
Customers	$ 821	$ 467	$ 821	$ 442
Other Intangibles	109	102	109	101
Total	$ 930	$ 569	$ 930	$ 543

Amortization expense related to the definite-lived intangible assets for the three months ended March 31, 2005 and 2004 was $26,000 and $25,000, respectively. Total estimated amortization expense for the remaining nine months of 2005 and the five years subsequent to 2005 is as follows: 2005 (April 1 through December 31) - $78,000; 2006 - $104,000; 2007 - $104,000; 2008 - $74,000; 2009 - $1,000 and 2010 - $0.

NOTE 7. RECENT ACCOUNTING DEVELOPMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Companies must recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. Originally, SFAS No. 123(R) was effective for all stock-based awards granted beginning with the first interim period after June 15, 2005. On April 14, 2005, The Securities and Exchange Commission (SEC) approved a new rule that changed the effective date of SFAS No. 123(R) for public companies to annual, rather than interim, periods that begin after June 15, 2005. HickoryTech is currently assessing the impact of adopting SFAS 123(R), which may be material in future periods, to its consolidated results of operations and plans to comply with the regulations. For the historical impact of share-based payments to employees under APB No. 25, refer to the disclosures in Note 10 of the Notes to Consolidated Financial Statements.

NOTE 8. QUARTERLY SECTOR FINANCIAL SUMMARY

(Dollars In Thousands)	Telecom	Information Solutions	Enterprise Solutions	Corporate and Eliminations	HickoryTech Consolidated
Three Months Ended 3/31/05					
Operating Revenue from Unaffiliated Customers	$ 19,345	$ 488	$ 3,275	$	$ 23,108
Intersegment Revenues	51	1,096		(1,147)	
Total	19,396	1,584	3,275	(1,147)	23,108
Depreciation and Amortization	3,536	656	32	14	4,238
Operating Income (Loss)	5,764	(752)	(198)	(292)	4,522
Interest Expense	1	13		963	977
Income Taxes (Benefit)	2,333	(310)	(80)	(506)	1,437
Income (Loss) from Continuing Operations	3,432	(455)	(118)	(743)	2,116
Loss from Discontinued Operations Including Intersegment Revenues					
Net Income (Loss)	3,432	(455)	(118)	(743)	2,116
Identifiable Assets	143,818	4,742	7,159	8,720	164,439
Property, Plant and Equip., Net	107,960	4,113	282	101	112,456
Capital Expenditures	1,372	84			1,456
Three Months Ended 3/31/04					
Operating Revenue from Unaffiliated Customers	$ 19,426	$ 966	$ 2,295	$	$ 22,687
Intersegment Revenues	69	1,047		(1,116)	
Total	19,495	2,013	2,295	(1,116)	22,687
Depreciation and Amortization	3,407	639	51	15	4,112
Operating Income (Loss)	6,079	(706)	(376)	(195)	4,802
Interest Expense	3	13		1,173	1,189
Income Taxes (Benefit)	2,460	(290)	(152)	(551)	1,467
Income (Loss) from Continuing Operations	3,619	(426)	(224)	(808)	2,161
Income from Discontinued Operations Including Intersegment Revenues	(59)				(59)
Net Income (Loss)	3,560	(426)	(224)	(808)	2,102
Identifiable Assets	143,933	7,483	7,714	6,358	165,488
Property, Plant and Equip., Net	106,782	4,865	409	180	112,236
Capital Expenditures	2,121	1			2,122

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 March 31, 2005, HickoryTech had 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, 2004. 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.

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:

	For Three Months Ended			
(Dollars in Thousands)		**3/31/2005**		**3/31/2004**
Reported Net Income	**$**	**2,116**	$	2,102
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects		**13**		21
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects		**(64)**		(88)
Pro Forma Net Income	**$**	**2,065**	$	2,035
Earnings per share:				
Basic - as reported	**$**	**0.16**	$	0.16
Basic - pro forma	**$**	**0.16**	$	0.16
Diluted - as reported	**$**	**0.16**	$	0.16
Diluted - pro forma	**$**	**0.16**	$	0.16

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.

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(Dollars in Thousands)		Interest Rate Swap Agreement
Accumulated other comprehensive income balance at December 31, 2004	$	1,505
Market value increase on interest rate swap agreement		615
Accumulated other comprehensive income balance at March 31, 2005	$	2,120

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 three months to thirty-nine 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 will be recognized in earnings when the term of the swap agreement is concluded.

The fair value of HickoryTech s derivatives at March 31, 2005 and December 31, 2004 is a net asset of $3,522,000 and $2,501,000, respectively, which is included in other assets in the accompanying consolidated balance sheet.

NOTE 12. EMPLOYEE POST-RETIREMENT BENEFITS

HickoryTech provides post-retirement health care and life insurance benefits for certain employees. HickoryTech is not currently funding these post-retirement benefits, but has accrued these liabilities during the first quarter of 2005 and 2004.

	For Three Months Ended			
(Dollars in Thousands)		3/31/2005		3/31/2004
Components of Net Periodic Benefit Cost				
Service Cost	$	92	$	93
Interest Cost		115		131
Expected Return on Plan Assets				
Amortization of Transition Obligation		15		15
Amortization of Prior Service Cost		(3)		(3)
Recognized Net Actuarial Loss		44		59
Net Periodic Benefit Cost	$	263	$	295

		3/31/2005
Employer s Contributions		
Contributions Made for the Three Months Ended 03/31/05	$	48
Expected Contributions for Remainder of 2005		150
Total Estimated Employer Contributions for Fiscal Year 2005	$	198

NOTE 13. REGULATORY ASSET AND LIABILITY

Effective January 1, 2002, the Federal Communications Commission (FCC), in its MAG (Multi Association Group) Order on Access Charge Reform, directed all rate-of-return carriers to file revisions to their tariffs to eliminate the transport interconnection charge (TIC) as a separate

rate element. In effect, the costs previously recovered through the TIC were reallocated over all other access categories, including carrier common line, transport, local switching, information surcharge and special access. The FCC made it clear that this tariff filing should be a revenue neutral tariff filing.

The total revenues reallocated from the TIC to the remaining access elements were limited to the total revenues recovered from the TIC for the twelve-month period ended June 30, 2001. These revenues were calculated using the carrier s traffic volumes and the TIC rate for the twelve-month period ended June 30, 2001. These calculations were prepared by an independent third-party and approved by the National Exchange Carrier Association (NECA). TIC was eliminated by reallocating the costs to the other access billing categories.

The FCC conducted an investigation of all tariff filings, including NECA s CCL (Carrier Common Line) tariff and Heartland s Traffic Sensitive (TS) tariff, to determine if the filing parties had properly reallocated the TIC costs among the other access charge categories.

The FCC terminated its investigation of several tariff filings, concluding that the carriers have substantially complied with the Rate-of-Return Access Charge Reform Order and their tariffs no longer warrant investigation. Despite this ruling by the FCC during the fourth quarter of 2003, NECA informed HickoryTech s Heartland subsidiary that it would not allow it to recover a portion of the TIC costs allocated to the CCL, because an incorrect TIC rate was used in the calculation.

As a result of this billing error, the Company recovered $611,000 of excess revenues from the NECA CCL pool. NECA required Heartland to repay the $611,000 in 2004.

The FCC approved a mid-course correction to Heartland s TS tariff as a supportable method of recouping NECA s CCL reduction. The revision corrects the TIC rate originally used, and factors recovery of the $611,000, into the TS rate elements. HickoryTech is recouping this revenue over the remaining eighteen months of the TS tariff, which began January 1, 2004. As of March 31, 2005 HickoryTech has recognized a recovery of $509,000 of the revenue.

In accordance with SFAS No. 71, HickoryTech recorded a regulatory asset for the revenue it would recoup with a balance of $102,000 at March 31, 2005 and $204,000 at December 31, 2004.

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 the Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995 on pages 28-29 of HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2004, 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, dial-up and broadband Internet access, data, digital TV and long distance calling business in incumbent LEC (local exchange carrier) territories owned by others. 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 operates as a telecommunications, data and Internet Protocol 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. HickoryTech sold the wireless operations on December 15, 2003. 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.

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 Operations

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 recurring, and, as a result, backlog orders and seasonality are not significant factors. Working capital requirements primarily involve financing the construction of networks involving switches and cable, and maintaining a high amount of fixed assets. Other working capital requirements include the payroll costs of highly skilled labor, the inventory to service its capital projects and maintenance of the network and telephone equipment customers, and the carrying value of trade accounts receivable, which may take several months to collect in the normal course of business.

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. 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. The Company also is a distributor of Cisco data equipment in its Enterprise Solutions Sector.

INDUSTRY SEGMENTS

HickoryTech reports the business operations of Telephone, Communications Services, and Wireless Services as a single segment referred to as the Telecom Sector. The results of operations of the wireless business are reported as discontinued operations for all periods presented. The other two business segments are the Information Solutions and Enterprise Solutions Sectors.

TELECOM SECTOR

HickoryTech s Telecom Sector provides local exchange wireline telephone service, long distance, dial-up and broadband Internet access, and owns and operates fiber optic cable facilities. This sector includes three 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. In total there are twenty-three ILEC exchanges, within the Telecom Sector.

The Telecom Sector also includes Crystal, a CLEC. Crystal provides local telephone service, long distance, dial-up and broadband Internet access and digital television on a competitive basis. Crystal also connects communication networks of interexchange and wireless carriers with the equipment and facilities of end users. Crystal has customers in ten rural communities, encompassing eight exchanges, in Minnesota and three communities, encompassing two exchanges, in Iowa that are not in HickoryTech s ILEC service areas. In addition to the digital television service provided to customers in St. Peter, Minnesota, HickoryTech began providing digital television service to customers in Waseca, Minnesota in July 2004.

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

The Telecom Sector included the operations of MSWC, which was sold December 15, 2003. None of the remaining companies in the Telecom Sector experienced major changes in operations during 2005 or 2004.

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 workforce. 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 ILEC 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 incumbent LECs. HickoryTech and its subsidiaries will change rates 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 interexchange access for all of the individual customers who select an alternative long distance carrier. This interexchange access business is separate and distinct from HickoryTech s own long distance retail business, which is operated in its Crystal subsidiary. 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 lines in lieu of switched voice services and data services in or adjacent to the territories served by HickoryTech, which permits the bypassing of local telephone switching facilities. Additionally, services provided by other companies utilizing various Internet, wireline or wireless technologies 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 utilities overbuilt the city s telephone service infrastructure in 1999 and is providing an alternative to HickoryTech s telephone service. HickoryTech estimates the Hawarden CLEC has approximately 1,400 access lines, or approximately 70 percent of that exchange s telephone business.

Competition also exists for some of the HickoryTech 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, in that carriers may decide that the services provided by HickoryTech may be redirected or handled on their own network or on other networks. The provision of these services is primarily month-to-month service out of a general tariff, which is a schedule of terms, rates and conditions that is approved by the appropriate state or federal agency. The use of these services is primarily controlled by the interexchange carriers. As interexchange carriers make these service decisions, they have the potential to reduce the Company s revenue in the Telecom Sector. Other services, such as the provision of broadband, long distance service, directory advertising and end user equipment, are open to competition.

HickoryTech companies are sometimes engaged in negotiation or renegotiation of arrangements for network interconnection with other carriers and contracts with various wireless service providers. Heartland and MCTC are presently involved in interconnection negotiations with another service provider. Although such negotiations may result in reduced revenue, HickoryTech cannot, at this time, estimate the potential revenue impact related to these negotiations.

Future decisions regarding the regulation of VoIP may result in a change in the business relationship between HickoryTech companies and interexchange carriers. These relationships and regulation concerning them are discussed further in the regulated industry section of this Form 10-Q.

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 CLEC. Crystal offers local service, long distance, dial-up and broadband Internet access services, and digital television on a competitive basis to customers in southern Minnesota and Iowa, which were not previously served by HickoryTech s Telecom Sector service area. These service offerings provide customers alternatives to the incumbent communication providers in various communities and are offered under the brand name HickoryTech service. These services are currently being offered to customers in ten rural communities, encompassing eight exchanges, in Minnesota, as well as three communities, encompassing two exchanges, in Iowa. Crystal also provides the long distance service, dial-up and broadband Internet access services to HickoryTech s ILEC subscribers.

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 incumbent LECs in the areas in which it 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.

There is currently a multi-state incumbent LEC industry dispute with a large RBOC (Regional Bell Operating Company) regarding certain access charges. The incumbent LEC industry in Minnesota has jointly filed a formal complaint with the Minnesota Public Utilities Commission regarding this dispute. As requested in the complaint, this matter was referred to the Office of Administrative Hearings for a contested case proceeding, which is currently in process. The parties have negotiated an interim arrangement which will place the complaint process in a continuance while a trial of a proposed resolution is conducted.

On December 15, 2003, HickoryTech sold 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.

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 Public Utilities Commission (PUC) has been considering intrastate access reform and universal service for several years. In June 2004, the Minnesota PUC issued an order to refer the carrier common line (CCL) component of the access reform issue to a contested case hearing. In September 2004, the Minnesota PUC also referred the local switching and transport (LST) component of the access reform issue for a separate contested case hearing. Such hearings in Minnesota usually involve full development of a public record and recommendation of an administrative law judge prior to final PUC discussion. The process on both of these dockets was suspended in December 2004 subsequent to concerns expressed by state agencies regarding increases in local rates that might be instigated by mandated access reductions. The outcome of any access reform process will not likely be known until the second quarter of 2005 or later. HickoryTech cannot estimate the impact, if any, of future potential state access revenue changes.

In December, 2004, the Federal Court of Appeals, 8th Circuit upheld an October 2003 ruling by the United States District Court, District of Minnesota, in issuing an injunction providing relief from regulation of any service provider of Voice over Internet Protocol (VoIP) based services in Minnesota. The issue of regulation of VoIP is also under consideration at the FCC. In March, 2005 a Petition of Forbearance from requirements for payment of access charges by a VoIP provider was withdrawn by the initiator. Future decisions regarding the regulation of VoIP may result in a change in the business relationship between HickoryTech companies and the interexchange carriers, as interconnections with certain VoIP providers may not be governed by tariffed access charges. HickoryTech cannot, at this time, estimate the revenue impact, if any, related to these events.

ILEC Iowa In 2005, deregulation was granted to all Iowa companies for all services other than single line services with respect to rates. Previously, only companies with fewer than 15,000 access lines were unregulated. HickoryTech s Iowa ILEC subsidiary has maintained less than 15,000 access lines so it has been and will remain unregulated.

Wireline Interstate The HickoryTech ILEC companies do not participate in the NECA traffic sensitive pool and set access rates according to either a nationwide average cost of providing access, or in the case of Heartland, according to its own interstate costs. This biannual rate process was completed in June 2003, 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 October 2001 FCC order (a/k/a MAG Plan). End User Common Line (EUCL) funds collected are pooled, and some of HickoryTech revenues are based on settlements distributed from the pool. Pool settlements are adjusted periodically. The rates will be adjusted in July, 2005 for the period of July 1, 2005 through June 30, 2006.

CLEC HickoryTech s CLEC Company provides local exchange services in Minnesota and Iowa with less regulatory oversight than the HickoryTech ILEC companies. Additionally, Crystal offers digital television service in the St. Peter, Minnesota market under a franchise negotiated with the local municipality. Beginning in the third quarter 2004, Crystal began offering digital television in the Waseca, Minnesota market under a similar franchise agreement. Crystal also offers long distance services. In-state services in Minnesota are regulated by the PUC with respect to uniform pricing statewide. In-state long distance service in Iowa is unregulated. Long distance services are also deregulated at the federal level (for interstate services), but are subject to annual certification of geographical rate averaging and rate integration. Dial-up and broadband Internet access are unregulated at both the state and federal levels.

Other HickoryTech s CLEC interstate access rates are established in accordance with an April 2001 FCC order. Under the final phase of this order, interstate switched access rates for HickoryTech s CLEC were reduced to levels comparable to those of the incumbent LECs in June 2004.

The FCC has an open docket on intercarrier compensation as well as several dockets on VoIP. In February 2005, the FCC issued a Further Notice of Public Rule Making (FNPRM) requesting comments on various proposals for intercarrier compensation reform. HickoryTech cannot predict the outcome of such proceedings nor can it estimate the impact, if any, on HickoryTech.

Local Number Portability (LNP) On November 10, 2003, the FCC released a decision providing guidance on porting between wireline and wireless networks (intermodal porting). The FCC stated that intermodal number porting is required upon bona fide request where the coverage area of the wireless carrier (i.e. the area in which the wireless carrier provides service) overlaps the geographic location in which the wireline number was provisioned. The FCC left issues governing the payment of call routing costs to another pending proceeding. The Company s wireline operations were subject to a May 24, 2004 implementation date for intermodal porting, however, Heartland Telecommunications Company of Iowa joined in an industry action by the Iowa Telecommunications Association to suspend the requirements for small rural carriers. After receiving an order from the Iowa Utilities Board allowing Heartland until April 6, 2005, to implement LNP, Heartland has proceeded and this functionality was added as of January 25, 2005.

The effects of intermodal porting on the Company s Minnesota wireline operations have been minimal as of March 31, 2005. Given the short history for which intermodal porting has been available, however, the Company cannot fully quantify the long-term effects of implementing intermodal porting on its wireline operations. It is possible that these requirements could adversely affect the Company s wireline operating costs and customer growth rates. HickoryTech is also unable to quantify the revenue impact of wireline customers that may switch to wireless or other wireline alternatives.

Triennial Review Order In August 2003, the FCC published a review order proposing changes in rules developed under the provisions of the Telecommunications Act of 1996 Section 251(c)(3) which requires incumbent LECs to make elements of their networks available on an unbundled basis to new entrants at model-based rates. This order was immediately challenged by the United States Telecom Association (USTA) and several carriers. In April 2004, the Washington DC district court issued a ruling remanding the issue back to the FCC so that, for specific unbundled network elements (UNEs), incumbent LECs face reduced mandates to make their network available and CLECs face reduced opportunities or increased costs in obtaining network from the incumbent with whom they compete. Accordingly, in August 2004, the FCC released a Notice of Public Rule Making (NPRM) with transitional rules for elimination of UNEs and adopted final rules on December 15, 2004. HickoryTech s CLEC, Crystal Communications, predominately uses its own network and has not made extensive use of the type of network elements addressed in the ruling. While HickoryTech cannot fully quantify the impact of this issue, the FCC orders are not expected to have a material impact on Crystal s business.

INFORMATION SOLUTIONS SECTOR

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 and wireless companies. 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 and carrier access bills.

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.

ENTERPRISE SOLUTIONS SECTOR

Through Collins, HickoryTech s Enterprise Solutions Sector provides telephone, data and Voice over Internet Protocol (VoIP) business systems equipment sales and services 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 in 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 communication platforms such as Nortel, Cisco and Bay Networks (Nortel) equipment. Enterprise Solutions specializes in complex design, installation and maintenance of voice, data or Internet Protocol products.

Revenues are primarily earned by the sales, installation and service of business telephone and IP data systems. Enterprise Solutions continues its commitment to service and support 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.

Enterprise Solutions does business in a competitive market where a large number of companies compete for the sale, installation and servicing of telecommunications equipment and VoIP communications products. Competition is based primarily on price and service. No single company is dominant in this market.

RESULTS OF OPERATIONS

CONSOLIDATED OPERATING RESULTS:

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

OPERATING REVENUES:

Consolidated operating revenues were $23,108,000, which is $421,000 or 1.9% higher in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The increase in revenues in the three months ended March 31, 2005 compared to the three months ended March 31, 2004 can be primarily attributed to a higher volume of business in the Enterprise Solutions Sector, as well as increased data service revenue in the Telecom Sector. These increases were partially offset by the decreased revenue from unaffiliated customers in the Information Solutions Sector and the decreased network access revenues in the Telecom Sector.

COST OF SALES, ENTERPRISE SOLUTIONS:

Cost of sales, which is related to the Enterprise Solutions Sector, was $2,268,000, which is $759,000 or 50.3% higher in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. Gross profit margin was 30.7% in the first quarter of 2005 compared to 34.2% in the first quarter of 2004. The decrease in gross profit margin in the first quarter of 2005 compared to the first quarter of 2004 is largely the result of the increase in installation work. These margins are primarily affected by product mix sold.

COST OF SERVICES, excluding Depreciation and Amortization:

Cost of services, excluding depreciation and amortization decreased $555,000 or 6.4% in first quarter 2005 compared to first quarter 2004. This decrease was primarily due to greater wages and benefits in the first quarter of 2004 in the Information Solutions Sector and decreased Internet expense and long distance wholesale expense in the Telecom Sector. The wages and benefits in the Information Solutions Sector mentioned above were associated with a redeployment of personnel to selling, general and administrative cost centers in connection with management cost reduction actions.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, excluding Depreciation and Amortization:

Selling, general and administrative expenses, excluding depreciation and amortization increased $371,000 or 10.1% in first quarter 2005 compared to first quarter 2004. The primary reasons for the increase in first quarter 2005 compared to first quarter 2004 was the increased wages and benefits resulting from a redeployment of personnel from cost of services cost centers in the Information Solutions Sector, as well as increased property taxes in the Telecom Sector.

DEPRECIATION AND AMORTIZATION:

Depreciation expense was $4,001,000, which is $125,000 or 3.2% higher in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The increase in depreciation for the three months ended March 31, 2005 compared to the three months ended March 31, 2004 was due to an increase in the Telecom Sector s network assets.

OPERATING INCOME:

Operating income was $4,522,000, which is $280,000 or 5.8% lower in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The decrease in income from continuing operations was driven by the $759,000 increase in cost of sales and the $371,000 increase in selling, general and administrative expenses, both of which were described above. These expense increases were partially offset by the $555,000 decrease in cost of services and the $421,000 increase in operating revenues, both of which were also described above.

INTEREST EXPENSE:

Interest expense decreased $212,000 or 17.8% to $977,000 in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The decrease in interest expense for the period was primarily due to a decrease in total debt outstanding. The outstanding balance of the revolving credit facility was $98,750,000 at March 31, 2005 and $110,250,000 at March 31, 2004.

INCOME TAXES:

The effective income tax rate of approximately 40.4% for first quarter 2005 and first quarter 2004 exceeds the federal statutory rate primarily due to state income taxes.

INCOME FROM CONTINUING OPERATIONS:

Consolidated income from continuing operations was $2,116,000, which is $45,000 or 2.1% lower in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The decrease in income from continuing operations was driven by the $759,000 increase in cost of sales, the $371,000 increase in selling, general and administrative expenses and the $125,000 increase in depreciation, all of which were described above. These expense increases were partially offset by the $555,000 decrease in cost of services, $421,000 increase in operating revenues and the $212,000 decrease in interest expense, all of which were also described above.

SECTOR RESULTS OF OPERATIONS FROM CONTINUING OPERATIONS

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

TELECOM SECTOR

(Dollars in Thousands)		**For Three Months Ended 3/31/2005**		**3/31/2004**
Revenues Before Intersegment Eliminations				
ILEC				
Local Service	**$**	**3,736**	$	3,731
Network Access		**8,494**		8,677
Data		**570**		522
Intersegment		**51**		69
Other		**1,666**		1,747
Total ILEC		**14,517**		14,746
CLEC				
Local Service		**889**		929
Network Access		**518**		680
Data		**618**		381
Other		**433**		430
Total CLEC		**2,458**		2,420
Long Distance		**1,142**		1,228
Internet		**1,071**		995
Digital TV		**208**		106
Total Telecom Revenues	**$**	**19,396**	$	19,495
Total Telecom Revenues Before Intersegment Eliminations				
Unaffiliated Customers	**$**	**19,345**	$	19,426
Intersegment		**51**		69
		19,396		19,495
Cost of Services, excluding Depreciation and Amortization		**7,412**		7,480
Selling, General, and Administrative Expenses, excluding Depreciation and Amortization		**2,684**		2,529
Depreciation and Amortization		**3,536**		3,407
Operating Income	**$**	**5,764**	$	6,079
Income from Continuing Operations, Net of Tax	**$**	**3,432**	$	3,619
Loss from Discontinued Operations				(59)
Net Income	**$**	**3,432**	$	3,560
Capital Expenditures	**$**	**1,372**	$	2,121

ILEC Access Lines	**59,612**	62,242
CLEC Access Lines		
Overbuild	**10,466**	10,131
Unbundled Network Element (UNE)	**1,760**	1,694
Total Service Resale (TSR)	**1,797**	2,504
Total	**14,023**	14,329
Long Distance Customers	**44,423**	41,695
Internet Customers	**17,718**	16,453
Total Telecom Customers	**135,776**	134,719
DSL Customers	**11,337**	8,324
Digital TV Customers	**2,048**	1,257

Telecom Sector operating revenues before intersegment eliminations were $19,396,000, which is $99,000 or 0.5% lower in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The decrease in first quarter 2005 compared to first quarter 2004 was primarily due to decreased network access, offset by increased revenue from data and digital TV.

ILEC network access revenue was $8,494,000, which is $183,000 or 2.1% lower in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The decrease in network access revenue in 2005 compared to 2004 was driven by the impact of carriers rerouting traffic, carrier billing interpretations and lower minutes of use. A combination of access reform, changing minutes of use (MOU), carriers rerouting traffic, and lower demand for dedicated lines may negatively impact future access revenues. HickoryTech s ILEC operations establish traffic sensitive access rates bi-annually in accordance with required regulation. The Company expects further declines in network access revenues when these rates are adjusted in mid-2005. The Minnesota Public Utilities Commission (PUC) has been considering intrastate access reform and universal service for several years (see regulatory section).

ILEC data revenue was $48,000 or 9.2% higher in first quarter 2005 compared to first quarter 2004. The increase is the result of 2,270 more Digital Subscriber Line (DSL) customers at March 31, 2005 than at March 31, 2004.

ILEC other revenue was $81,000 or 4.6% lower in first quarter 2005 compared to first quarter 2004. 2005 is lower primarily because of a large paystation settlement received in 2004.

CLEC network access revenue was $162,000 or 23.8% lower in first quarter 2005 compared to first quarter 2004. This decrease was driven by a mandated rate decrease in June, 2004 for interstate traffic. A combination of access reform, changing MOUs, carriers rerouting traffic and lower demand for dedicated lines may negatively impact future access revenues.

CLEC data revenue was $237,000 or 62.2% higher in first quarter 2005 compared to first quarter 2004. The increase was caused primarily by an increase in residential and business DSL penetration in CLEC communities, as well as the rollout of Ethernet services to large business customers in 2004.

Long distance revenue was $86,000 or 7.0% lower in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The lower revenue in 2005 was primarily due to the $125,000 of 2004 wholesale revenue received from a wireless carrier that discontinued their use of our long distance services in the second quarter of 2004. HickoryTech experienced a 2,728 or 6.5% increase in its long distance customer base between March 31, 2004 and March 31, 2005.

Internet revenue was $76,000, or 7.6% higher in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The increase in revenue was caused primarily by an increase in Internet customers of 1,265 or 7.7% between March 31, 2004 and March 31, 2005.

Digital TV was $102,000, or 96% higher in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. The increase was the result of the offering of digital TV in an additional community in the latter half of 2004, as well as an increase in penetration in the existing community.

Cost of Services, excluding Depreciation and Amortization:

Cost of services, excluding depreciation and amortization was $68,000 or 0.9% lower in the first quarter of 2005 compared to the first quarter of 2004. The decrease is primarily due to lower Internet expense of $117,000 due to lower costs associated with customers who have switched from dial-up Internet to broadband Internet. Another cause of the decrease of cost of services in first quarter 2005 compared to the first quarter 2004 was $107,000 of expense incurred in 2004 received from a wireless carrier that discontinued their use of our long distance services in the second quarter of 2004. These reductions were offset by increased long distance and commission expense.

Selling, General and Administrative Expenses, excluding Depreciation and Amortization:

Selling, general and administrative expenses, excluding depreciation and amortization was $155,000 or 6.1% higher in the first quarter of 2005 compared to the first quarter of 2004. This increase is primarily due to higher real estate tax expense as well as higher corporate allocations.

Depreciation and Amortization:

Depreciation and amortization were $3,536,000, which is $129,000 or 3.8% higher in the three months ended March 31, 2005 compared to the same period in 2004. The increase in depreciation expense can be largely attributed to increased network infrastructure.

Operating and Net Income:

Operating income was $5,764,000, which is $315,000 or 5.2% lower in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. Net income was $3,432,000, which is $128,000 or 3.6% lower in the three months ended March 31, 2005 compared to the three months ended March 31, 2004. These decreases were driven by the $155,000 increase in selling, general and administrative expenses, $129,000 increase in depreciation and amortization and $99,000 decrease in revenue mentioned above, offset by the $68,000 decrease in cost of services, also mentioned above.

Discontinued Operations:

On December 15, 2003, HickoryTech sold 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.

INFORMATION SOLUTIONS The following table provides a breakdown of the Information Solutions Sector operating results.

INFORMATION SOLUTIONS SECTOR

(Dollars in Thousands)	For Three Months Ended 3/31/2005	3/31/2004
Revenues Before Eliminations		
Unaffiliated Customers	**$ 488**	$ 966
Intersegment	**1,096**	1,047
	1,584	2,013
Cost of Services, excluding Depreciation and Amortization	**1,381**	1,886
Selling, General, and Administrative Expenses, excluding Depreciation and Amortization	**299**	194
Depreciation and Amortization	**656**	639
Operating Loss	**$ (752)**	$ (706)
Net Loss	**$ (455)**	$ (426)
Capital Expenditures	**$ 84**	$ 1

Revenues:

Operating revenues from unaffiliated customers decreased $478,000 or 49.5% in the first quarter 2005 compared to the first quarter 2004. $365,000 or 76.4% of this decrease was from a temporary customer that ended in second quarter 2004. The remaining decrease in unaffiliated customer revenues was primarily due to the loss of several customers and a decline in volume for many existing customers.

Cost of Services, excluding Depreciation and Amortization:

Cost of services, excluding depreciation and amortization decreased $505,000 or 26.8% in the first quarter 2005 compared to the first quarter 2004. The decrease is primarily due to greater wages and benefits in the first quarter of 2004 associated with a redeployment of personnel to selling, general and administrative cost centers in connection with management cost reduction actions.

Selling, General and Administrative Expenses, excluding Depreciation and Amortization:

Selling, general and administrative expenses, excluding depreciation and amortization was $105,000 or 54.1% higher in the first quarter of 2005 compared to the first quarter of 2004. The increase was largely due to increased wages and benefits resulting from a redeployment of personnel from cost of services cost centers.

Operating and Net Loss:

Operating loss increased $46,000 or 6.5% in first quarter 2005 compared to first quarter 2004. Net loss increased $29,000 or 6.8% in first quarter 2005 compared to first quarter 2004. The increase in operating loss and net loss in first quarter 2005 compared to first quarter 2004 was primarily attributable to the decrease in revenues from unaffiliated customers and the increase in selling, general, and administrative expenses excluding depreciation and amortization, partially offset by the decrease in cost of services excluding depreciation and amortization.

ENTERPRISE SOLUTIONS The following table provides a breakdown of the Enterprise Solutions Sector operating results.

ENTERPRISE SOLUTIONS SECTOR

(Dollars in Thousands)	**For Three Months Ended 3/31/2005**	**3/31/2004**
Revenues Before Intersegment Eliminations		
Installation	**$ 1,387**	$ 653
Service	**1,888**	1,642
	3,275	2,295
Cost of Sales	**2,268**	1,509
Cost of Services, excluding Depreciation And Amortization	**375**	325
Selling, General and Administrative Expenses, excluding Depreciation and Amortization	**798**	786
Depreciation and Amortization	**32**	51
Operating Loss	**$ (198)**	$ (376)
Net Loss	**$ (118)**	$ (224)
Capital Expenditures	**$**	$

Revenues:

Operating revenues increased $980,000 or 42.7% in the first quarter of 2005 compared to the first quarter of 2004. Installation revenue increased $734,000 or 112.4% in the first quarter of 2005 compared to the first quarter of 2004. The increase in installation revenue in the first quarter of 2005 compared to the first quarter of 2004 was mainly the result of increased sales and installations in the small business system (SBS) and data product lines. SBS revenue increased by $281,000 and data revenue increased by $321,000 in the first quarter of 2005 compared to the first quarter of 2004. Sales in the SBS product line reflect an increased volume of small projects completed throughout the first quarter of 2005. Enterprise Solutions was awarded several large contracts that increased data revenue in the first quarter of 2005. Service revenue was $246,000 or 15.0% higher in the first quarter of 2005 compared to the first quarter of 2004. The increase in service revenue was primarily a result of an increase in sales in the Move/Add/Change Contract product line.

Cost of Sales:

Cost of sales increased $759,000 or 50.3% in the first quarter of 2005 compared to the first quarter of 2004. Gross profit margin was 30.7% in the first quarter of 2005 compared to 34.2% in the first quarter of 2004. The decrease in gross profit margin in the first quarter of 2005 compared to the first quarter of 2004 is largely the result of the increase in installation work. These margins are primarily affected by product mix sold.

Cost of Services, excluding Depreciation and Amortization:

Cost of services excluding depreciation and amortization increased $50,000 or 15.4% in the first quarter 2005 compared to the first quarter 2004. The increase is mainly the result of a $45,000 increase in the inventory valuation reserve in the first quarter of 2005. Due to the surplus of supplier inventory in the market and resultant decline in prices in this line of business over recent quarters, the Company recognizes that the value of its inventory is declining. The Company cannot predict the impact or timing, if any, of future inventory valuation changes.

Operating and Net Loss:

Operating loss decreased $178,000 in the first quarter 2005 compared to the first quarter 2004. Net loss decreased $106,000 in the first quarter 2005 compared to the first quarter 2004. The change between first quarter 2005 loss compared to the first quarter 2004 loss resulted primarily from the increase in operating revenues described above, partially offset by the increase in cost of products sold.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS Cash provided by operations was $7,292,000 in the first three months of 2005 compared to $10,119,000 in the first three months of 2004. Cash flows from operations in the first three months of 2005 were primarily attributable to net income plus non-cash expenses for depreciation and amortization as well as a decrease in receivables offset by a decrease in accounts payable and accrued expenses. Cash flows from operations in the first three months of 2004 were primarily attributable to net income plus non-cash expenses for depreciation and amortization and a decrease in receivables.

Cash flows provided by investing activities were $655,000 in the first three months of 2005 compared to $490,000 for the same period in 2004. Capital expenditures were $1,456,000 during the first three months of 2005 as compared to $2,122,000 for the same period in 2004. First quarter 2005 capital expenditures were incurred primarily to provide additional network facilities in the Telecom Sector. Management expects capital expenditures in the remainder of 2005 to be approximately $22,000,000. Pursuant to conditions of its debt agreement, which allows the Company to reduce its equity investment in one of its lenders by an amount equal to 10% of the annual principal payments of the term loan component of its debt, the Company reduced its equity investment by $2,100,000 in the first three months of 2005 and $2,600,000 in the first three months of 2004.

Cash flows used in financing activities were $6,946,000 for the first three months of 2005 compared to $10,744,000 for the first three months of 2004. Included in cash flows used in financing activities are debt repayments and dividend payments. HickoryTech made payments on its revolving credit facility of $4,750,000 during the first three months of 2005, and $9,250,000 during the first three months of 2004. HickoryTech borrowed $1,000,000 on its revolving credit facility during the first three months of 2005 and 2004. Dividend payments for the first three months of 2005 were $1,567,000 compared to $1,426,000 for the same period in 2004.

WORKING CAPITAL Working capital (i.e. current assets minus current liabilities) was ($341,000) as of March 31, 2005, compared to working capital of $787,000 as of December 31, 2004. The ratio of current assets to current liabilities was 1.0 to 1.0 as of March 31, 2005 and 1.0 to 1.0 as of December 31, 2004.

LONG-TERM OBLIGATIONS- HickoryTech s long-term obligations as of March 31, 2005 were $91,256,000, excluding current maturities of $8,171,000. As of March 31, 2005, HickoryTech had a $113,875,000 credit facility with a syndicate of banks. The credit facility is comprised of a $103,125,000 revolving credit component and a $10,750,000 term loan component. The available line of credit on the $103,125,000 revolving credit component began decreasing in increments in March 2004, and has a final maturity date in September 2008. However, since not all of the available revolving credit has been utilized as of March 31, 2005, the payment schedule is as follows: December, 2005 - $500,000, 2006 - $26,562,000, 2007 - $32,813,000 and 2008 - $28,125,000. The term loan component requires equal quarterly principal payments of $250,000 during the period of March 2001 to December 2008, and $7,000,000 in the first quarter of 2009. The weighted average interest rate associated with this credit facility varies with LIBOR and certain other rates. The weighted average interest rate was 4.1% at March 31, 2005 and 4.0% at March 31, 2004. HickoryTech has implemented fixed interest terms on various portions of the overall debt outstanding for varying terms. The longest fixed interest term, on $60,000,000 of the debt, is fixed until June 2008. Another fixed interest term, on $20,000,000 of the debt, is fixed until June, 2005. As of March 31, 2005, HickoryTech had drawn $98,750,000 on this credit facility and had $15,125,000 of available credit. Management believes the remaining available credit is sufficient to cover future cash requirements.

HickoryTech s Information Solutions Sector leases certain computer equipment under capital lease arrangements. During the three months ended March 31, 2005, this sector recorded additions to property, plant and equipment of $317,000 related to these capital lease arrangements. No additions were recorded for the three months ended March 31, 2004 related to these capital lease arrangements.

CONSTRUCTION PLANS - Beginning in 2004, HickoryTech embarked on a five-year network enhancement program in its core telephone property in Mankato in support of its broadband service strategy. The Company will add approximately $20,000,000 in total to the network over the next four years, in addition to the historical levels of capital spending prior to 2004. Management believes that the enhancement will support the broadband product deployment strategies of the future, as well as serving as defense against competition in its core market. These upgrades to an already state of the art network will give HickoryTech the capability to offer more diversified services to its core customer base. The total capital expenditure program in 2005 is estimated to be $24,000,000.

OTHER - HickoryTech operates with original equity capital, retained earnings and recent additions to indebtedness in the form of bank term and revolving lines of credit. HickoryTech believes its current level of debt to total capital is acceptable for ongoing operations.

CRITICAL ACCOUNTING POLICIES

Management s discussion and analysis of financial condition and results of operations stated in this Form 10-Q are based upon HickoryTech s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America and, where applicable, conform to the accounting principles as prescribed by federal and state telephone utility regulatory authorities. HickoryTech presently gives accounting recognition to the actions of regulators where appropriate, as prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. Management believes that the application of the accounting policies, which are important to HickoryTech s financial position and results of operations, requires significant judgments and estimates on the part of management. A description of the critical accounting policies adhered to by HickoryTech is contained in the Management s Discussion and Analysis of Financial Condition and Results of Operations in HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2004. There were no significant changes to these critical accounting policies during the quarter ended March 31, 2005.

RECENT ACCOUNTING DEVELOPMENTS

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123(R), Share-Based Payment, which is a revision of SFAS No. 123 and supersedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. Companies must recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. Originally, SFAS No. 123(R) was effective for all stock-based awards granted beginning with the first interim period after June 15, 2005. On April 14, 2005, The Securities and Exchange Commission (SEC) approved a new rule that changed the effective date of SFAS No. 123(R) for public companies to annual, rather than interim, periods that begin after June 15, 2005. HickoryTech is currently assessing the impact of adopting SFAS 123(R), which may be material in future periods, to its consolidated results of operations and plans to comply with the regulations. Reference is made to the disclosures under APB No. 25 in Note 10 of the Notes to Consolidated Financial Statements.

ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

HickoryTech does not have operations subject to risks of foreign currency fluctuations. HickoryTech does, however, use derivative financial instruments to manage exposure to interest rate fluctuations. HickoryTech s objectives for holding derivatives are to minimize interest rate risks using the most effective methods to eliminate or reduce the impact of these exposures. Variable rate debt instruments are subject to interest rate risk. HickoryTech has entered into interest rate swap agreements with remaining maturities ranging from three months to thirty-nine months to manage its exposure to interest rate movements on a portion of its variable rate debt obligations. The effective portion of the cumulative gain or loss on these derivative instruments is reported as a component of accumulated other comprehensive income/loss in shareholders equity and is recognized in earnings when the term of the swap agreement is concluded. HickoryTech s earnings are affected by changes in interest rates as a portion of its long-term debt has variable interest rates based on LIBOR. If interest rates for the portion of HickoryTech s long-term debt based on variable rates had averaged 10% more for the quarter ended March 31, 2005, HickoryTech s interest expense would have increased $26,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. An evaluation was performed under the supervision and with the participation of the Company s management, including the respective persons acting as chief executive officer and chief financial officer, regarding the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended (the Exchange Act)) as of March 31, 2005. Based on that evaluation, the respective persons acting as chief executive officer and chief financial officer concluded that the Company s disclosure controls and procedures were effective.

Changes in Internal Controls. During our first fiscal quarter, there have not been any changes in the Company s internal control over financial reporting (as defined in Rule 13(a)-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibit 31(a) Certification pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31(b) Certification pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32(a) Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32(b) Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 5, 2005

HICKORY TECH CORPORATION

By: /s/ John E. Duffy
John E. Duffy, Chief Executive Officer

By: /s/ David A. Christensen
David A. Christensen, Chief Financial Officer