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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q/A
Amendment No. 1

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

OR

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

Commission file number 0-13721

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þNo ¨

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

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

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

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

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

EXPLANATORY NOTE

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

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

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

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

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

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

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

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

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Part I Financial Information

Item 1. Financial Statements

HICKORY TECH CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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

Weighted average common and equivalent shares outstanding				
Dividends per share	$	0.14	$	0.135

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

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HICKORY TECH CORPORATION
STATEMENT OF COMPREHENSIVE INCOME
(Unaudited)

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

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

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HICKORY TECH CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

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

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

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

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HICKORY TECH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

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

Cash and cash equivalents at beginning of the period					
Cash and cash equivalents at the end of the period	$	20,724	$	9,859	
Supplemental disclosure of cash flow information:					
Cash paid for interest	$	1,358	$	1,078	
Net cash paid (received) for income taxes	$	11	$	(2,961	)
Non-cash investing and financing activities:					
Property, plant and equipment acquired with capital leases	$	14	$	-	
Change in other comprehensive income from post-retirement benefits	$	79	$	65	

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

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HICKORY TECH CORPORATION

March 31, 2012

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

Note 1. Basis of Presentation and Consolidation

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

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

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

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

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

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

Recent Accounting Developments

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

Note 2. Restatement

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

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

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

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

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

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

Note 3. Earnings and Cash Dividends per Common Share

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

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

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

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

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

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

Note 4. Acquisition

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

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

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

Allocation of purchase consideration	$ 28,180

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

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

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

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

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

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

Note 5. Goodwill and Other Intangible Assets

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

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

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

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

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

The components of intangible assets are as follows:

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

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

Note 6. Fair Value of Financial Instruments

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

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

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

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

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

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

Note 7. Debt and Other Obligations

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

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

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

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

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

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

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

Note 8. Financial Derivative Instruments

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

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

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

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

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

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

Note 9. Extended Term Payable

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

Note 10. Employee Post-Retirement Benefits

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

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(Dollars in thousands)	Three Months Ended March 31 2012	Three Months Ended March 31 2011
Components of net periodic benefit cost		
Service cost	$ 150	$ 127
Interest cost	188	200
Expected return on plan assets	-	-
Amortization of transition obligation	15	15
Amortization of prior service cost	(19)	(14)
Recognized net actuarial loss	135	107
Net periodic benefit cost	$ 469	$ 435

Employer's contributions for current premiums:	March 31, 2012
Contributions made for the three months ended March 31, 2012	$ 83
Expected contributions for remainder of 2012	258
Total estimated employer contributions for fiscal year 2012	$ 341

Note 11. Inventories

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

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

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

Note 12. Accumulated Other Comprehensive Income (Loss)

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

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

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

Note 13. Income Taxes

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

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

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

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

Note 14. Stock Compensation

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

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

The fair value of each option award is estimated on the date of the grant using a Black-Scholes option valuation model. We use a seven-year period to calculate the historical volatility of our stock price for use in the valuation model. The dividend yield rate is based on our current dividend payout pattern and current market price. The risk-free rate for options is based on a U.S. Treasury rate commensurate with the expected terms. The expected term of options granted is derived from historical experience and represents the period of time that options granted are expected to be outstanding. Historical data is used to estimate pre-vesting forfeitures and are estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from the estimate.

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

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

A summary of stock option activity is as follows:

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

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

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

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

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

	201,150	$ 10.74	1.57
Aggregate intrinsic value:		$ 129,000	

Note 15. Quarterly Segment Financial Summary

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

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

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

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

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

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

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

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

Note 16. Commitments and Contingencies