

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

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K/A

Amendment No. 1

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934  
For the fiscal period ending December 31, 2011

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, MN 56002-3248  
(Address of principal executive offices)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Exchange on Which Registered
Common Stock, no par value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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, a non-accelerated filer or smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  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

The number of shares of the registrant's common stock, no par value, outstanding as of March 1, 2012 was 13,409,941. The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2011 was \$145,264,767 based on the closing sale price of \$11.88 per share on The NASDAQ Global Select Market.

#### DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on May 8, 2012 ("Proxy Statement") are incorporated by reference in Part III of this Form 10-K.

## EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends our Annual Report on Form 10-K for the year ended December 31, 2011, which was filed on March 7, 2012 with the Securities and Exchange Commission. This Amendment No. 1 should be read in conjunction with our 2011 Annual Report.

The amendment is a result of the restatement of our consolidated financial statements for the years ended December 31, 2011, 2010, and 2009. The impacts of the restatement on our Statement of Operations and Balance Sheets are detailed in Note 2 to the Notes to the Consolidated Financial Statements. The amendment is also being made to revise unaudited quarterly financial information for the quarters ended in 2011 and 2010. The impact of the restatement on the quarterly financial information is detailed in Note 15 to the Notes to the Consolidated Financial Statements.

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 also will be filing amended Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2012 and June 30, 2012 to reflect the restatements, which include comparative quarterly information for comparable periods in 2011.

We have amended each item of our Annual Report on Form 10-K for the year ended December 31, 2011 that has been affected by the restatement. This includes restatement of comparative unaudited financial information for the years ending December 31, 2008 and 2007, which can be found in Item 6. This Amendment No. 1 does not reflect events occurring after the March 7, 2012 filing of our Form 10-K 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 swaps. 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 a waiver 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 9A related to the material weakness in our internal control over financial reporting with respect to accounting for derivative instruments.

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SIGNATURES

## Item 6. Selected Financial Data

Five-year historical data as reported in our Annual Report on Form 10-K for the year ended December 31, 2011 is restated as shown below:

(Dollars in thousands except share and per share amounts)	Audited				Unaudited					
	2011	(F)	2010	(F)	2009	(F)	2008	2007		
Statement of Operations Data:	(Restated)		(Restated)		(Restated)		(Restated)	(Restated)		
Operating revenue										
Fiber and Data	\$ 45,149		\$ 44,685		\$ 31,247		\$ 24,075	\$ 20,464		
Equipment and Support Services	48,932		47,544		37,436		55,901	59,338		
Telecom	69,457		70,018		70,419		73,199	76,847		
Total revenue	\$ 163,538		\$ 162,247		\$ 139,102		\$ 153,175	\$ 156,649		
Net Income from continuing operations	\$ 8,401		\$ 12,592		\$ 12,102		\$ 6,925	\$ 7,760		
EBITDA per our credit agreement from continuing operations (A)	\$ 43,284		\$ 43,063		\$ 39,867		\$ 40,925	\$ 42,471		
Per Share Data:										
Basic EPS	\$ 0.63		\$ 0.95		\$ 0.93		\$ 0.52	\$ 0.59		
Diluted EPS	\$ 0.63		\$ 0.95		\$ 0.93		\$ 0.52	\$ 0.59		
Dividends per share	\$ 0.545		\$ 0.525		\$ 0.52		\$ 0.49	\$ 0.48		
Balance Sheet Data:										
Total assets	\$ 243,986		\$ 230,188		\$ 222,483		\$ 225,508	\$ 227,495		
Shareholders' equity	\$ 43,197		\$ 41,304		\$ 34,546		\$ 29,749	\$ 31,932		
Current maturities of long-term obligations	\$ 1,407		\$ 4,892		\$ 620		\$ 1,621	\$ 731		
Long-term debt	118,828		114,067		119,871		125,384	128,475		
Total debt, long-term and current	\$ 120,235		\$ 118,959		\$ 120,491		\$ 127,005	\$ 129,206		
Debt ratio (B)	74	%	74	%	78	%	81	%	80	%
Telecom Customer Data:										
Business access lines	23,316		24,043		25,133		25,274	27,403		
Residential access lines	24,386		27,199		30,197		33,757	37,428		
Total access lines	47,702		51,242		55,330		59,031	64,831		
Long distance subscribers	32,280		33,854		36,107		38,458	40,956		
DSL customers	19,531		19,667		19,346		18,696	17,427		

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Digital TV customers	10,374	10,562	9,663	8,368	6,487
Other Data:					
Employees (C)	500	463	448	433	400
Capital expenditures	\$ 21,440	\$ 22,888	\$ 17,893	\$ 17,691	\$ 17,500
Shares outstanding (year end)	13,396,176	13,298,626	13,100,568	12,992,376	13,284,903
Share price (D) (year end)	\$ 11.08	\$ 9.56	\$ 8.83	\$ 5.44	\$ 9.32
Shareholders					
Registered	1,269	1,330	1,345	1,394	1,430
Beneficial owners (E)	2,093	2,172	1,925	1,834	1,778
Total shareholders	3,362	3,502	3,270	3,228	3,208

Footnotes for this table are on the following page.

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- (A) Management believes that Earnings before Interest, Taxes, Depreciation and Amortization as defined in our credit agreement (“EBITDA”), a non-GAAP financial measure, is an important financial metric as it represents our ability to generate cash flow and is helpful when evaluating our performance. A reconciliation of net income to EBITDA from continuing operations can be found in the non-GAAP measures section on page 19.
- (B) Debt Ratio = Total Debt / (Total Debt + Shareholders’ Equity as of December 31).
- (C) Employee counts reflect current employees as of March 7, 2012. Our CP Telecom acquisition in 2009 added 35 employees. The acquisition of IdeaOne which closed on March 1, 2012, added 38 employees.
- (D) Share price is the last day closing price.
- (E) The number of beneficial shareholders is the approximate number of registrations in street company accounts.
- (F) The restatement impacts on the Company’s Statement of Operations and Balance Sheets are detailed in Note 2 to the Notes to the Consolidated Financial Statements.

Amendment No. 1 on Form 10-K/A amends our Annual Report on Form 10-K for the year ended December 31, 2011 which was filed on March 7, 2012 with the Securities and Exchange Commission. The amendment is a result of the restatement of our consolidated financial statements for the years ended December 31, 2011, 2010 and 2009. The amendment also revises comparable information for the years ended December 31, 2008 and 2007 as well as unaudited quarterly financial information for the quarters ended in 2011 and 2010. We are restating our previously reported financial information for these periods to change our accounting for interest rate swap agreements. 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 swaps. 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.



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The following table details the impact of the restatement on the Company's Statement of Operations of the unaudited financial information for the years ended December 31, 2008 and 2007 and the Balance Sheets for December 31, 2008 and 2007.

(Dollars in thousands, except share data)	2008			2007		
	As Reported	Restatement	Restated	As Reported	Restatement	Restated
<b>Statement of Operations Data:</b>						
Operating income	\$ 20,226	\$ -	\$ 20,226	\$ 23,180	\$ -	\$ 23,180
<b>Other income and expense:</b>						
Interest and other income	93	-	93	287	-	287
Interest expense	(6,870 )	(1,835 )	(8,705 )	(8,121 )	(1,451 )	(9,572 )
Total other (expense)	(6,777 )	(1,835 )	(8,612 )	(7,834 )	(1,451 )	(9,285 )
Income before income taxes	13,449	(1,835 )	11,614	15,346	(1,451 )	13,895
Income tax provision	5,420	(731 )	4,689	6,711	(576 )	6,135
Income from continuing operations	\$ 8,029	\$ (1,104 )	\$ 6,925	\$ 8,635	\$ (875 )	\$ 7,760
Loss on discontinued operations	\$ -	\$ -	\$ -	\$ (24 )	\$ -	\$ (24 )
Net Income	\$ 8,029	\$ (1,104 )	\$ 6,925	\$ 8,611	\$ (875 )	\$ 7,736
Other comprehensive income, net of taxes	\$ (2,186 )	\$ 1,104	\$ (1,082 )	\$ (1,517 )	\$ 875	\$ (642 )
Total comprehensive income	\$ 5,843	\$ -	\$ 5,843	\$ 7,094	\$ -	\$ 7,094
EPS	\$ 0.61	\$ (0.09 )	\$ 0.52	\$ 0.65	\$ (0.06 )	\$ 0.59
Diluted EPS	\$ 0.61	\$ (0.09 )	\$ 0.52	\$ 0.65	\$ (0.06 )	\$ 0.59
<b>Balance Sheet Data:</b>						
<b>Shareholders' equity:</b>						
Common stock	\$ 1,299	\$ -	\$ 1,299	\$ 1,329	\$ -	\$ 1,329
Additional paid-in capital	11,504	-	11,504	11,031	-	11,031
Retained earnings	20,199	(1,979 )	18,220	20,639	(875 )	19,764
Accumulated other comprehensive income (loss)	(3,253 )	1,979	(1,274 )	(1,067 )	875	(192 )
Total shareholders' equity	\$ 29,749	\$ -	\$ 29,749	\$ 31,932	\$ -	\$ 31,932

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our historical financial statements and the related notes contained elsewhere in this report.

## Overview

We are a leading integrated communications provider servicing business and residential customers primarily in the Midwest. We have an expanded, regional fiber network spanning more than 3,250 route miles serving Minnesota, Iowa, North Dakota, South Dakota and Wisconsin. Across this region we provide business customers with transport, IP-based voice, data and network solutions, managed services, network integration and support services. We also specialize in unified communication solutions for businesses of all sizes by providing Cisco equipment solutions and

support. We offer a wide range of communications services to our residential customers, including local and long distance service, high-speed broadband internet access, digital and IP based TV services.

We classify our operations into two general sectors. The Business Sector includes two reportable segments: (1) Fiber and Data and (2) Equipment. Our second sector and reportable segment is the Telecom Sector. A complete overview of the operations of each segment is included in Item 1. Business beginning on page 3.

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### Executive Summary

#### Highlights in 2011:

- Net Income in 2011, totaled \$8,401,000, a 33% decline compared to 2010. We incurred income tax reserve reversals of \$406,000 in 2011 and \$2,726,000 in 2010. We also benefitted from a unique fiber construction project in 2010 adding \$1,378,000. Excluding the income tax reserve releases and the fiber construction project net income would have decreased 6% year-over-year.
- Consolidated revenue for 2011 totaled \$163,538,000, a 1% increase over 2010. A unique fiber construction project in 2010 added \$4,980,000 of revenue. Excluding the 2010 fiber construction project revenue for 2011 grew 4%.
- Fiber and Data Segment revenue for 2011 totaled \$45,149,000, a 1% increase compared to 2010. Excluding the 2010 fiber construction project, Fiber and Data Segment revenue grew 14%. This segment has realized double-digit percentage growth each year for the past five years.
- Our Equipment Segment experienced 3% overall growth in revenue in 2011 compared to 2010. Support Services revenue, which includes maintenance contracts, support and professional services, accounted for 70% of the increase while sales of Cisco equipment and hardware remained stable year-over-year.
- EBITDA in our Telecom Segment increased \$297,000 or 1% in 2011 compared to 2010. Broadband revenue growth and the impact of cost-reduction initiatives helped offset our continued and expected decline in local service and access revenue providing stable cash flows for our company. See the Non-GAAP Measures section for additional information and reconciliation to the most directly comparable GAAP measure.
- In the third quarter of 2011 we refinanced our senior credit facility. This agreement, which runs through fiscal 2016, totals \$150,000,000 and offers the company access to additional financing for growth initiatives. As of December 31, 2011, \$119,700,000 of term loan debt is outstanding.
- In December 2011 we announced a definitive agreement to acquire IdeaOne Telecom Group, LLC, a metro fiber network provider in Fargo, North Dakota, in a transaction valued at \$28,000,000. This acquisition was completed on March 1, 2012 utilizing an additional \$22,000,000 of term-loan debt.

### Business Trends

Included below is a synopsis of trends management believes will continue to affect our business in 2012.

Wholesale and business to business transport services – Recurring sales of high capacity Ethernet, MPLS and fiber services continue to be strong due to the demand for advanced data and integrated solution services, a trend we believe will continue in 2012. Our business customers are facing increased bandwidth requirements to support broadband usage for all communication services including the wider availability of 3G and 4G wireless services. During the last two years we have made significant investments in our core network and have expanded our fiber network to Sioux Falls, South Dakota, Fargo, North Dakota and increased capacity to our Des Moines, Iowa facilities. In the third quarter of 2011, we broke ground on our Greater Minnesota Broadband Collaborative project, which when complete will add an additional 430 route miles to our fiber network. The total cost of this project is \$24,000,000 of which \$16,800,000 is funded by a grant as part of the NTIA Broadband Technology Opportunities Program and we will fund the remaining 30% or \$7,200,000 over a three-year period. At the end of 2011 we have completed the majority of the first route expending \$12,791,000 of which \$7,021,000 has been requested and reimbursed to us as of December 31, 2011. All of the wholesale and business transport services revenue are recorded in the Fiber and Data operating revenue of our Business Sector.

Small/Medium Business services – In 2011, we marked the tenth year of providing Singlelink® Unified Communications, a centrally managed hosted VoIP communications service to business customers. We anticipate that business customers will continue shifting from traditional communication services to VoIP protocol, realizing cost advantages and significant new feature availability. We continue to enhance our small to medium business service offerings such as providing customers with the opportunity to bundle hosted VoIP services with additional services

including internet and data service, local and long distance voice, unified messaging and 24X7 support. All of the Small/Medium Business and VoIP services revenue are recorded in the Fiber and Data operating revenue of our Business Sector.

Legacy consumer services and network access – We expect voice and switched access revenues to continue to be adversely impacted by future declines in access lines due to competition in the communications industry from cable television, wireless and other providers utilizing emerging technologies along with a shift in residential and personal telephone use from wired services to wireless. Our access line subscriber base declined from 55,330 on December 31, 2009 to 51,242 on December 31, 2010 and to 47,702 on December 31, 2011, representing a 7% decline in each year. Our efforts to retain access lines center around providing service bundles creating a compelling overall value for customers. As of December 31, 2011 over 49% of our customers subscribe to our Select bundle packages. Our bundle packages are customizable and offer competitive discounts as more services, such as features, high-speed DSL and digital or IP TV services are added to the bundle.

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In November 2011, the Federal Communications Commission released proposed rulemaking which comprehensively reforms and begins a new era in universal service and intercarrier compensation. This reform order impacts numerous support mechanisms and network access revenue streams that we have received in the past. While these rules may be altered based on ongoing petitions for reconsideration and are being challenged through appeals, we are evaluating them. We cannot predict the entire impact these regulatory changes will have on our revenue and costs, but do believe it will increase the historical decline in revenue and profitability of the Telecom Sector.

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## Results of Operations

## Business Sector

Our Business Sector is composed of two Segments: (1) Fiber and Data and (2) Equipment. The following table provides a breakdown of the Business Sector operating results and is followed by tables showing the results of the individual segments.

(Dollars in thousands)	Business				
	2011	For Year Ended December 31		2009	
		%	2010	%	
		Change		Change	
Operating revenue before intersegment eliminations:					
Equipment	\$ 39,816	1 %	\$ 39,406	41 %	\$ 27,857
Support Services	9,116	12 %	8,138	-15 %	9,579
Equipment	48,932	3 %	47,544	27 %	37,436
Fiber and Data	45,149	1 %	44,685	43 %	31,247
Intersegment	773	43 %	542	8 %	500
Total operating revenue	\$ 94,854	2 %	\$ 92,771	34 %	\$ 69,183
Total Business revenue before intersegment eliminations:					
Unaffiliated customers	\$ 94,081		\$ 92,229		\$ 68,683
Intersegment	773		542		500
	94,854		92,771		69,183
Cost of sales (excluding depreciation and amortization)	34,163	3 %	33,300	34 %	24,869
Cost of services (excluding depreciation and amortization)	30,179	-2 %	30,683	33 %	23,050
Selling, general and administrative expenses	13,724	9 %	12,612	23 %	10,224
Depreciation and amortization	6,696	9 %	6,170	14 %	5,413
Total Business expenses and costs	84,762	2 %	82,765	30 %	63,556
Operating income	\$ 10,092	1 %	\$ 10,006	78 %	\$ 5,627
Net income	\$ 6,074	2 %	\$ 5,951	77 %	\$ 3,362
Capital expenditures	\$ 11,981	-17 %	\$ 14,464	66 %	\$ 8,738

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## Fiber and Data Segment

(Dollars in thousands)	2011	For Year Ended December 31			
		% Change	2010	% Change	2009
Operating revenue before intersegment eliminations:					
Services	\$ 45,149	1 %	\$ 44,685	43 %	\$ 31,247
Intersegment	773	43 %	542	8 %	500
Total operating revenue	\$ 45,922	2 %	\$ 45,227	42 %	\$ 31,747
Cost of sales (excluding depreciation and amortization)	-	N/A	-	N/A	(54 )
Cost of services (excluding depreciation and amortization)	23,420	-1 %	23,726	49 %	15,968
Selling, general and administrative expenses	8,762	10 %	7,952	48 %	5,376
Depreciation and amortization	6,394	11 %	5,778	16 %	4,999
Total costs and expenses	38,576	3 %	37,456	42 %	26,289
Operating income	\$ 7,346	-5 %	\$ 7,771	42 %	\$ 5,458
Net income	\$ 4,423	-4 %	\$ 4,603	42 %	\$ 3,240
Capital expenditures	\$ 11,553	-19 %	\$ 14,247	74 %	\$ 8,210

## Equipment Segment

(Dollars in thousands)	2011	For Year Ended December 31			
		% Change	2010	% Change	2009
Operating revenue before intersegment eliminations:					
Equipment	\$ 39,816	1 %	\$ 39,406	41 %	\$ 27,857
Services	9,116	12 %	8,138	-15 %	9,579
Total operating revenue	\$ 48,932	3 %	\$ 47,544	27 %	\$ 37,436
Cost of sales (excluding depreciation and amortization)	34,163	3 %	33,300	34 %	24,923
Cost of services (excluding depreciation and amortization)	6,759	-3 %	6,957	-2 %	7,082
Selling, general and administrative expenses	4,962	6 %	4,660	-4 %	4,848
Depreciation and amortization	302	-23 %	392	-5 %	414
Total costs and expenses	46,186	2 %	45,309	22 %	37,267
Operating income	\$ 2,746	23 %	\$ 2,235	1222 %	\$ 169

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Net income	\$	1,651	22 %	\$ 1,348	1005 %	\$ 122
Capital expenditures	\$	428	97 %	\$ 217	-59 %	\$ 528

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Revenue

Fiber and Data. We serve wholesale, enterprise and small-to-medium business customers with high-speed communications products supported by our extensive statewide fiber network and community access rings supported by a 24x7x365 network operations center. This revenue stream is generally based on multi-year contracts with retail businesses, regional and national service providers and wireless carriers building a solid monthly recurring revenue base.

Fiber and Data services revenue increased \$464,000 or 1% in 2011 compared to 2010. Included in 2010 is revenue of \$4,980,000 relating to a joint fiber construction project with another carrier, one of several initiatives taken to expand our network. Without this non-recurring construction project revenue, Fiber and Data revenue would have grown \$5,444,000 or 14% in 2011 compared to 2010. Fiber and Data growth is driven by strong Ethernet and wholesale carrier services as well as our focus on growing our SMB customer base. We believe escalating consumer and business demand for higher bandwidth solutions along with opportunities for wireless backhaul will continue allowing us to leverage our expanded fiber footprint.

We have made significant investments in our network during the last two years expanding our fiber footprint and increasing capacity in strategic locations. Our \$24,000,000 Greater Minnesota Broadband Collaborative Project, backed in part by the receipt of a \$16,800,000 broadband stimulus grant will add approximately 430 total fiber route miles to our network when completed in 2013. In 2010 we increased bandwidth capacity on our core network and expanded our fiber network to Sioux Falls, South Dakota and Fargo, North Dakota. A fiber network was also constructed in Des Moines, Iowa and network capacity between Minnesota and Iowa was increased. The acquisition of IdeaOne is another investment which expanded our network creating additional growth opportunities.

Equipment. We are a Master Unified Communications and Gold Certified Cisco partner providing Cisco equipment solutions and support for a broad spectrum of business clients. Our equipment solutions team plans, designs and implements networks utilizing emerging technological advancements including TelePresence Video, Unified Communications and data center solutions. Equipment sales are non-recurring in nature making this revenue dependent upon new sales from existing and new customers.

Equipment revenue remained relatively consistent in 2011 increasing by 1% or \$410,000 compared to 2010, a year in which we experienced a significant increase of 41% in sales.

Equipment Services. Services include network assessments, planning, design, implementation and training. Maintenance contracts (“Smartnet” contracts) are offered in collaboration with Cisco systems. 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.

Services revenue increased \$978,000 or 12% in 2011 compared to 2010 boosted by a \$1,327,000 or 51% increase in maintenance contract revenue driven by large business renewals coupled with our ability to receive incentive rebates from Cisco. We earn rebates by successfully selling maintenance contracts related to a targeted percentage of equipment sales, or renewing a targeted percentage of existing maintenance contracts. Partly offsetting this increase was a 12% decline in revenue from professional services primarily due to the mix of customers and size of installation projects realized between 2011 and 2010.

Cost of Sales

Cost of sales associated with equipment revenue increased \$863,000 or 3% in 2011 compared to 2010. The gross profit margin between Equipment revenue and cost of sales declined slightly year-over-year due to the volume of larger transactions, which are usually sold at a lower margin, in 2011 compared to 2010. Cost of sales is composed primarily of equipment material costs. Labor associated with installation work is not included in this category, but is included in cost of services (excluding depreciation and amortization) described below.

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Cost of Services (excluding Depreciation and Amortization)

Fiber and Data Segment cost of services declined by \$306,000 or 1% in 2011 compared to 2010. Included in 2010 expense is \$2,660,000 related to an initiative to expand our fiber network through a joint fiber construction project. Without this non-recurring expense, expenses would have increased by \$2,354,000 or 11% in 2011 compared to 2010, consistent with the increase in revenue. The primary drivers of the increase in expense are a \$1,475,000 increase in volume-driven circuit costs and fiber capacity expense supporting increased revenue and a \$322,000 increase in wages and benefits primarily due to increased staffing levels to support our strategic growth in Fiber and Data services.

Equipment Segment cost of services declined by \$198,000 or 3% in 2011 compared to 2010 due to a \$537,000 reduction in contract labor resources offset by an increase of \$266,000 in wages and benefit costs.

Selling, General and Administrative Expenses

Fiber and Data Segment selling, general and administrative expenses increased \$810,000 or 10% in 2011 compared to 2010 primarily due to a \$282,000 increase in commission expense due to sales growth, a \$227,000 increase in corporate expense and a \$130,000 increase in advertising related expenses.

Equipment Segment selling, general and administrative expenses increased \$302,000 or 6% in 2011 compared to 2010 primarily due to an increase in commission expense.

Depreciation and Amortization

Fiber and Data Segment depreciation and amortization increased by \$616,000 or 11% in 2011 compared to 2010. This increase was primarily due to investments made in our fiber and broadband network during the past several years, including increased bandwidth capacity on our core network, expansion of our fiber network to Sioux Falls, South Dakota and Fargo, North Dakota along with the construction of our fiber network in Des Moines, Iowa.

Fiber and Data Segment amortization remained constant in 2011 and 2010, respectively, and is attributable to intangible assets acquired in the CP Telecom acquisition, completed in August 2009.

Equipment Segment depreciation and amortization declined by \$90,000 or 23% in 2011 compared to 2010 due to assets becoming fully depreciated.

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## Telecom Sector

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

(Dollars in thousands)	Telecom				
	2011	% Change	2010	% Change	2009
Operating revenue before intersegment eliminations:					
Local Service	\$ 14,363	-6 %	\$ 15,288	-5 %	\$ 16,163
Network Access	22,489	-3 %	23,150	-4 %	24,157
Long Distance	2,892	-9 %	3,185	-16 %	3,791
Broadband	20,371	8 %	18,832	11 %	17,028
Directory	3,346	-8 %	3,627	-9 %	4,000
Bill Processing	4,314	13 %	3,808	14 %	3,351
Intersegment	1,632	-17 %	1,976	62 %	1,217
Other	1,682	-21 %	2,128	10 %	1,929
<b>Total Telecom operating revenue</b>	<b>\$ 71,089</b>	<b>-1 %</b>	<b>\$ 71,994</b>	<b>0 %</b>	<b>\$ 71,636</b>
Total Telecom revenue before intersegment eliminations:					
Unaffiliated customers	\$ 69,457		\$ 70,018		\$ 70,419
Intersegment	1,632		1,976		1,217
	71,089		71,994		71,636
Cost of services (excluding depreciation and amortization)					
Selling, general and administrative expenses	31,509	-3 %	32,578	6 %	30,730
Depreciation and amortization	12,027	-1 %	12,154	4 %	11,639
Total Telecom costs and expenses	16,270	3 %	15,737	0 %	15,680
	59,806	-1 %	60,469	4 %	58,049
<b>Operating income</b>	<b>\$ 11,283</b>	<b>-2 %</b>	<b>\$ 11,525</b>	<b>-15 %</b>	<b>\$ 13,587</b>
<b>Net income</b>	<b>\$ 6,776</b>	<b>2 %</b>	<b>\$ 6,652</b>	<b>-18 %</b>	<b>\$ 8,068</b>
<b>Capital expenditures</b>	<b>\$ 9,392</b>	<b>11 %</b>	<b>\$ 8,424</b>	<b>-7 %</b>	<b>\$ 9,068</b>
Key metrics					
Business access lines	23,316	-3 %	24,043	-4 %	25,133
Residential access lines	24,386	-10 %	27,199	-10 %	30,197
Total access lines	47,702	-7 %	51,242	-7 %	55,330
Long distance customers	32,280	-5 %	33,854	-6 %	36,107
Digital Subscriber Line customers	19,531	-1 %	19,667	2 %	19,346
Digital TV customers	10,374	-2 %	10,562	9 %	9,663

Certain revenue amounts in our 2009 Telecom Sector financial statement have been reclassified to conform to the presentation in our 2010 and 2011 financial statements.

Local Service. We receive monthly recurring revenue from end-user customers primarily for providing local telephone services, enhanced calling features, miscellaneous local services and reciprocal compensation from wireless carriers.

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Local Service revenue decreased \$925,000 in 2011 compared to 2010. Access line loss was 7% in 2011 as compared to 2010 consistent with the prior year's decline and similar in composition with residential line losses of 10% in each year and business line losses of 3% in 2011 and 4% in 2010. Revenue streams continue to be impacted by our customer's migration toward alternative communication services and fierce competition in our marketplace. Our efforts to retain access lines center around marketing a competitive broadband service bundle, increasing customer loyalty and providing exceptional local customer service. Over 49% of our customers subscribe to our Select bundles, which include local phone service and long distance as well as a variety of features and broadband options including: DSL, high-speed internet, and digital TV.

**Network Access.** We receive a variety of fees and settlements to compensate us for the origination, transport, and termination of calls and traffic on our network. These include the fees assessed to interexchange carriers, subscriber line charges imposed on end-users, and settlements from nationally administered and jointly funded revenue pools.

Network access revenue declined by \$661,000 or 3% in 2011 compared to 2010 primarily due to a decline in switched access, lowering minutes of use combined with decreases in subscriber end-user fee revenue due to access line loss. Partly offsetting these declines was an increase in support received from NECA during 2011 as compared to 2010. We anticipate the trend of declining network access to continue as access lines diminish and minutes of use on our network decline.

On November 18, 2011, the FCC released order 11-161, which contains comprehensive rules reforming all forms of intercarrier compensation and implements a new support mechanism for the deployment of broadband. Generally, the intercarrier compensation reform sets forth a path toward a "Bill & Keep" regime where there is no compensation for termination of traffic received from another carrier. The timeline for this transition has numerous steps depending on the type of traffic exchanged and the regulated status of the affected local exchange carrier. We anticipate that these changes will increase the rate of decline in access revenue that we have experienced in prior years.

In January of 2012 we modified a contract with an external communications provider due to traffic stimulation provisions in the order noted above. This action is anticipated to increase the business line loss percentage experienced in 2012 as compared to 2011. We cannot predict the impact this potential business line loss may have on our 2012 results.

**Long Distance.** We charge our end-user customers for toll or long distance service on either a per-call or flat-rate basis. Services include the provision of directory assistance, operator service, and long distance private lines.

Long distance revenue declined by \$293,000 or 9% in 2011 compared to 2010. The customer loss rate in our long distance base was 5% in 2011 slightly lower than the loss rate experienced in 2010. Our declining customer base, a growing number of residential customers selecting unlimited long distance calling plans and our decision to reduce rates-per-minute charged to customers due to aggressive competition are the factors for the decline.

**Broadband.** We receive monthly recurring revenue for a variety of broadband data network services to our customers. Broadband services include: the DSL access portion of DSL service, Internet service, digital TV services, and business Ethernet and other data services.

Broadband revenue increased by \$1,539,000 or 8% in 2011 compared to 2010, led by growth in business data service offerings such as Ethernet and on-going growth in our digital TV and DSL product lines. Revenue from our Ethernet product, which offers a flexible option to support the diverse network needs and dedicated connectivity for video, voice and data applications, increased 18% in 2011. This increase was partly due to a contract to provide broadband services to a consortium of schools in south central Minnesota beginning July 1, 2010.

Revenue from digital TV services increased by \$738,000 or 14% in 2011 compared to 2010. We upgraded four additional communities to our IPTV platform in 2011, promoting growth in enhanced services. Overall we increased our penetration rate in the markets we serve by 13% for enhanced services of Digital Video Recorder (DVR) and High Definition (HD). We raised rates across our customer base in March 2011 to help offset increasing programming costs.

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In 2011 broadband revenue growth for our digital TV and DSL product lines has been driven by promoting enhanced services and customer migration to higher DSL speeds. During 2011, we experienced slight erosion in our DSL and digital TV customer base driven by competition in the markets we serve. Competition for broadband services will remain intense in the future potentially driving revenue growth rates in broadband to decline from rates realized in 2011 and 2010 of 8% and 11%, respectively. We are focused on retaining and growing our customer base by enhancing our customers experience with more features, price incentives tied to longevity and distinguishing ourselves from our competition by providing excellent customer service.

**Directory.** We receive monthly recurring revenue from end-user subscribers for yellow page advertising in our telephone directories.

Directory revenue declined by \$281,000 or 8% in 2011 compared to 2010 due to decreased demand for advertising caused by reductions in published advertising by local and national businesses and increased competition from other directories. We expect the trend of declining directory revenue to continue.

**Bill Processing.** We provide data processing and billing services to other communication service providers. We collect a combination of monthly recurring revenue, software license fees and integration services revenue from companies with whom we have established long-term data processing relationships.

Bill processing revenue increased \$506,000 or 13% in 2011 compared to 2010. We continue to have success selling our billing and customer management software system SuiteSolution® to competitive communications providers. SuiteSolution® provides communications billing, customer management and operations support systems coupled with the latest in database and screen presentation technology. Growth in our external customer base utilizing SuiteSolution® has increased demand for contract and support services strengthening revenue streams from this business.

**Other Revenue.** Other revenue consists primarily of sales of wholesale contract services, late fees applied to subscriber billings, and add, move, and change revenue on customer premise equipment.

Other revenue declined \$446,000 or 21% in 2011 compared to 2010 primarily due to a collection of one-time fees in 2010 totaling \$275,000 associated with discontinued services combined with lower late fee revenue in 2011.

### Cost of Services (excluding Depreciation and Amortization)

Cost of services declined by \$1,069,000 or 3% in 2011 compared to 2010 due to: 1) a \$501,000 decrease in bad debt expense which is attributable to expense accrued in 2010 related to uncertainty of collectability from a large customer, 2) a \$595,000 decrease in wages and benefits resulting from an overall reduction in our workforce and 3) a \$447,000 year-to-date decrease in long distance access expenses. The expense declines noted above were partially offset by an increase in programming costs of \$269,000 along with an increase in expense of \$182,000 to support hosted VoIP services provided by our Fiber and Data Segment.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses declined by \$127,000 or 1% in 2011 compared to 2010. This is primarily due to a decrease in legal fees of \$426,000 partly offset by an increase in Corporate costs.

### Depreciation and Amortization



Telecom depreciation and amortization increased \$533,000 or 3% in 2011 compared to 2010. These increases are primarily due to our continued investment to support broadband and infrastructure enhancements.

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## Corporate and Consolidated Results

## Corporate Operating Income

Our Corporate operations incurred an operating income loss of \$1,720,000 in 2011, an increase of \$1,157,000 compared to 2010. Increased expenses were realized in 2011 due to two main factors. The first was an increase in consulting fees relating to the acquisition of IdeaOne. The second factor driving the increase was a higher level of incentive and stock-based compensation due to company results and the year-over-year change in HickoryTech's stock price.

## Interest Expense

Consolidated interest expense increased \$2,191,000 or 54% and decreased \$1,456,000 or 26% in 2011 and 2010, respectively compared to prior years. The change in the fair market value of our interest rate swap agreements increased interest expense by \$1,390,000 in 2011, decreased interest expense by \$830,000 in 2010 and decreased interest expense by \$1,378,000 in 2009. In the third quarter of 2011, an adjustment of \$310,000 to record amortization expense of debt fees relating to the expiration of our previous debt agreement increased interest expense. Excluding the adjustment, interest expense would have increased 46% over 2010.

The outstanding balance of our debt obligations (long-term and current portion) has increased after a decline in each of the prior three years. Our 2011 year-end debt balance is \$120,235,000 an increase of \$1,276,000 from 2010 which followed a \$1,532,000 reduction from 2009. Effective interest rates were 4.1%, 4.1% and 5.5% in 2011, 2010 and 2009, respectively.

Interest expense in 2011 totaled \$6,275,000 including \$1,390,000 relating to the change in fair market value of our interest rate swap agreements.

## Income Taxes

Income tax expense was \$5,042,000, an increase of \$677,000 compared to 2010. The effective tax rate was 37.5%, 25.8% and 7.9% for 2011, 2010 and 2009, respectively. The effective tax rate in 2011, 2010 and 2009 was impacted by the release of income tax reserves and associated interest of \$406,000, \$2,726,000 and \$4,454,000, respectively. The effective tax rate would have been 40.5% in 2011, 41.6% in 2010 and 42.0% in 2009 without the release of the income tax reserves and associated interest.

## Inflation

It is the opinion of management that the effects of inflation on operating revenue and expenses over the past three years have been immaterial. Management anticipates that this trend will continue in the near future.

## Liquidity and Capital Resources

The following table sets forth selected information concerning our financial condition.

(Dollars in thousands)	As of December 31		
	2011	2010	2009
Cash and cash equivalents	\$ 13,057	\$ 73	\$ 2,420
Working capital (A)	\$ 23,079	\$ 8,306	\$ 7,373

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Current ratio (B)	1.78	1.28	1.30
Total debt (C)	\$ 120,235	\$ 118,959	\$ 120,491

(A) Working capital=current assets minus current liabilities which measures our short-term financial health.

(B) Current ratio=current assets/current liabilities which measures our ability to pay short-term obligations.

(C) Includes our long-term and current maturities of long-term debt obligations for our senior debt agreement.

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### Capital Structure

The total capital structure (long-term and current maturities of long-term debt obligations plus shareholders' equity) of HickoryTech was \$163,432,000 at December 31, 2011, reflecting 26% equity and 74% debt. This compares to a capital structure of \$160,263,000 at December 31, 2010, reflecting 26% equity and 74% debt. In the communications industry, debt financing is most often based on multiples of operating cash flows. Specifically, our current use of the senior credit facility is in a leverage ratio of approximately 2.8 times debt to EBITDA as defined in our credit agreement; well within acceptable limits for our agreement and our industry.

We employ an extended term payable financing arrangement for the equipment provisioning portion of our Equipment Segment and view this arrangement as a structured accounts payable that is paid within 60 days with no separate interest charge. As such, the extended term payable financing amount of \$6,920,000 and \$8,254,000 as of December 31, 2011 and 2010, respectively, is not considered to be part of our capital structure and has been excluded from the above amounts (see Note 9 to the Notes to the Consolidated Financial Statements).

In 2011, our primary source of liquidity was from operations. We did not change our equity capitalization in 2011 and equity was not a new source of liquidity during this period. Our debt re-financing in the third quarter of 2011 provided approximately \$1,500,000 of new capital to the Company. Cash and cash equivalents increased approximately \$13,000,000 as compared to 2010. The increase reflects an improvement in cash provided by operations and the timing of income tax payments and deposits.

### Cash Flows

Management believes we will have the ability to meet our current and long-term liquidity and capital requirements. We use our cash inflow to manage the temporary increases in cash demand and utilize our balance sheet cash position to manage more significant fluctuations in liquidity caused by internal growth initiatives. Our primary uses of cash include ongoing operating requirements, capital expenditures, scheduled principal and interest payments on our credit facility, temporary financing of trade accounts receivable and the payment of dividends as they are declared. We also have a \$30,000,000 revolving credit facility from our senior credit facility for any other business opportunities. The revolving credit facility is unused as of December 31, 2011.

While it is often difficult for us to predict the impact of general economic conditions on our business, we believe that we will be able to meet our current and long-term cash requirements primarily through our operating cash flows. We are in full compliance with our debt covenants as of December 31, 2011 and anticipate that we will be able to plan for and match future liquidity needs with future internal and available external resources.

While we periodically seek to add growth initiatives by either expanding our network or our markets through organic/internal investments or through strategic acquisitions, we feel we can adjust the timing or the number of our initiatives according to any limitation which may be imposed by our capital structure or sources of financing. Our acquisition of IdeaOne was partially funded by cash on hand. We do not anticipate our capital structure will limit future growth initiatives over the next 12 months.

Our primary source of funds continues to be cash generated from operations. Cash from operations represents the amount of cash generated by our day-to-day operations after the payment of operating obligations. Cash generated from operations was \$41,707,000 up \$15,519,000 from 2010. The primary contributor to the increase in operating cash flows is the 2011 receipt of routine tax refunds related to the allowed bonus depreciation. Improvement on our collection practices kept our accounts receivable balances relatively similar to 2010 levels. In 2010, accounts receivable balances rose due to high business volume towards the end of the year attributable to our Equipment Segment.



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Our primary investing activity continues to be the funding of capital expenditures. The use of cash for capital expenditures decreased 6% when comparing 2011 to 2010, investing a net \$21,440,000 (total capital expenditures minus the amount reimbursed by the NTIA Broadband Technology Opportunities Program). In 2010, we expanded our network to Sioux Falls, South Dakota and Fargo, North Dakota and expanded our fiber and network capacity in Des Moines, Iowa driving higher capital expenditures. Cash is invested into success-based and network expansion projects along with required maintenance spend. Capital investment in business services will continue to support growth and demand in backhaul transport services and optimize long-term revenue opportunities.

In the third quarter we began construction of our Greater Minnesota Broadband Collaborative project which is being funded by the NTIA Broadband Technology Opportunities Program. The project will extend our fiber-optic network across greater Minnesota to provide governmental, educational and healthcare organizations with a high-capacity broadband network. The project is anticipated to be complete by August 2013. The total estimated project cost is \$24,000,000 of which we will invest 30% or \$7,200,000 and receive \$16,800,000 in government grants. At the end of 2011, the majority of the first route was complete. As of December 31, 2011 we have incurred \$12,664,000 of capital expenditures relating to the project of which our portion of the investment was \$3,799,000. We expect our 2012 levels of capital spending to range between \$22,000,000-\$26,000,000 (net of government grant).

Financing activities consists primarily of payments on our credit facility and the payment of dividends to our stockholders. On August 11, 2011 we entered into a \$150,000,000 credit agreement with a syndicate of banks which replaced our previous credit facility. The proceeds were used to repay the outstanding obligations under the previous credit facility, and pay fees and expenses associated with the new credit facility. In conjunction with the closing of our IdeaOne, on March 1, 2012, we entered into an Incremental Term credit facility for \$22,000,000. This facility is an integral part of the senior credit facility we entered into in August of 2011 and it shares the same terms and conditions as the senior credit facility.

Our long-term obligations, including current maturities of debt and capital leases as of December 31, 2011 and 2010 were \$120,235,000 and \$118,959,000, respectively. Our credit facility requires us to comply with specified financial ratios and tests. The financial ratios required by our credit facility are not calculated in accordance with accounting principles generally accepted in the United States (“non-GAAP financial measures”). The non-GAAP financial measures are presented below for the purpose of demonstrating compliance with our debt covenants:

(Dollars in thousands)

	December 31, 2011
Leverage Ratio:	
(A) Total debt	\$ 120,235
(B) EBITDA per our credit agreement	
Three Months Ended 3-31-11	10,355
Three Months Ended 6-30-11	10,698
Three Months Ended 9-30-11	12,162
Three Months Ended 12-31-11	10,069
Total EBITDA per our credit agreement	\$ 43,284
Total Leverage Ratio (A)/(B)	2.8
Maximum leverage ratio allowed	3.5



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Debt Service Coverage Ratio:		December 31, 2011 (Restated)
(A)	EBITDA per our credit agreement, minus Income Taxes	\$ 43,284 (5,042 ) \$ 38,241
(B)	the sum of (i) all scheduled principal payments to be made on debt and (ii) interest expense	6,920
Debt Service Coverage Ratio (A)/(B)		5.5
Minimum debt service ratio allowed		2.5

Additional disclosure relating to our long-term debt and revolving credit facilities can be found in Note 10 to the Notes to the Consolidated Financial Statements.

## Obligations and Commitments

The following table sets forth our contractual obligations, along with the cash payments due each period.

(Dollars in thousands)

Contractual Obligations	Total	2012	2013 to 2014	2015 to 2016	2017 and after
Long-term debt	\$ 119,700	\$ 1,200	\$ 2,400	\$ 116,100	\$ -
Interest on long-term debt (A)	23,487	4,782	9,420	9,285	-
Capital lease obligations	535	207	328	-	-
Interest on capital leases	59	34	25	-	-
Purchase obligations (B)	8,790	8,790	-	-	-
Pension benefit obligations (C)	6,618	429	1,131	1,285	3,773
Operating leases	8,256	1,680	2,683	1,848	2,045
Total contractual cash obligations	\$ 167,445	\$ 17,122	\$ 15,987	\$ 128,518	\$ 5,818

(A) Interest on long-term debt is estimated using rates in effect as of December 31, 2011. We use interest rate swap agreements to manage our exposure to interest rate movements on a portion of our variable rate debt obligations (see Note 13 to the Notes to the Consolidated Financial Statements).

(B) Purchase obligations consist primarily of commitments incurred for equipment purchases.

(C) Pension benefit obligations consist of the expected net premium payment for healthcare and life insurance benefits to be paid relative to our post-retirement benefit plan.

In addition, we have change of control agreements with key employees. These potential commitments are not included in the above schedule.

As of December 31, 2011, we recognized a liability for uncertain tax positions of approximately \$154,000. The liability has not been assigned to any particular year in the table above due to the inherent uncertainty regarding the timing and necessity of future cash outflows.

## Reconciliation of non-GAAP financial measures



In addition to the results reported in accordance with US GAAP, we also use certain non-GAAP measures including EBITDA (as defined in our credit agreement) to evaluate operating performance and to facilitate the comparison of our historical results and trends. These non-GAAP measures are also used to manage and evaluate the operating performance of our reportable segments. These financial measures should not be considered in isolation or as a substitute for net income (loss) as a measure of performance and net cash provided by operating activities as a measure of liquidity. Reconciliations to the most directly comparable GAAP measure are provided below.

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(Dollars in thousands)	2011 (Restated)	2010 (Restated)	2009 (Restated)	2008 (Restated)	2007 (Restated)
Net Income	\$ 8,401	\$ 12,592	\$ 12,102	\$ 6,925	\$ 7,736
Add:					
Income taxes	5,042	4,365	1,048	4,689	6,135
Interest expense	6,275	4,084	5,540	8,705	9,572
Depreciation	22,702	21,665	20,176	19,479	17,847
Amortization	354	357	1,001	1,127	1,157
Acquisition related expenses	510	-	-	-	-
Discontinued operations (A)	-	-	-	-	24
EBITDA per our credit agreement from continuing operations	\$ 43,284	\$ 43,063	\$ 39,867	\$ 40,925	\$ 42,471

(A) We sold Collins Communications, Inc. on December 31, 2006. Operating results which had previously been reported in the Enterprise Solutions Sector and the effect of the sale transaction are reflected as “discontinued operations.”

(Dollars in thousands)	Dec-11 (Restated)	Three months ended Sep-11 (Restated)	Jun-11 (Restated)	Mar-11 (Restated)
Reconciliation of net income to EBITDA1:				
Net income	\$ 1,574	\$ 2,133	\$ 2,348	\$ 2,346
Add:				
Depreciation	5,812	5,706	5,593	5,591
Amortization	89	88	89	88
Interest expense	1,076	2,880	1,590	729
Income taxes	1,008	1,355	1,078	1,601
Acquisition related expenses	510	-	-	-
EBITDA	\$ 10,069	\$ 12,162	\$ 10,698	\$ 10,355

(Dollars in thousands)	2011	2010
Reconciliation of Business Sector net income to EBITDA1:		
Net income	\$ 6,074	\$ 5,951
Add:		
Depreciation	6,342	5,816
Amortization	354	354
Interest expense	2	-
Income taxes	4,016	4,082
EBITDA	\$ 16,788	\$ 16,203

(Dollars in thousands)	2011	2010
Reconciliation of Telecom net income to EBITDA1:		
Net income	\$ 6,776	\$ 6,652
Add:		
Depreciation	16,270	15,734
Amortization	-	3
Interest expense	58	58

Income taxes		4,472	4,832
EBITDA	\$	27,576	\$ 27,279

1 EBITDA, a non-GAAP financial measure, is as defined in our credit agreement

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### Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations stated in this 2011 Annual Report on Form 10-K are based upon HickoryTech's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States and, where applicable, conform to the accounting principles as prescribed by federal and state telephone utility regulatory authorities. We presently give accounting recognition to the actions of regulators where appropriate. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Senior management has discussed the development and selection of accounting estimates and the related Management Discussion and Analysis disclosure with the Audit Committee. For a summary of significant accounting policies, see Note 1 to the Notes to the Consolidated Financial Statements.

### Revenue Recognition

See Note 1 Summary of Significant Accounting Policies to the Notes to the Consolidated Financial Statements for a complete discussion of our revenue recognition policies. We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred or a service has been provided, (iii) the price is fixed or determinable and (iv) collectability is reasonably assured.

In January 2011, we adopted new guidance, on a prospective basis, which addresses the accounting for multiple-deliverable arrangements. The guidance enables vendors to account for products or services separately rather than as a combined unit and modifies the manner in which the transaction consideration is allocated across separately identified deliverables. The adoption of this guidance did not have a significant impact on our consolidated financial statements.

### Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. Uncollectible accounts are charged against the allowance for doubtful accounts and removed from the accounts receivable balances when internal collection efforts have been unsuccessful in collecting the amount due. This allowance is based on the likelihood of recoverability of accounts receivables based on past experience and management's best estimates of current bad debt exposures. If our customers' creditworthiness deteriorates, actual defaults are higher than our historical experience, or if other circumstances arise, our estimates of the recoverability of amounts due to us could be overstated, and additional allowances could be required, which would have an impact on our financial results.

### Inventories

We value our inventory using the lower of cost (perpetual weighted average-cost or specific identification) or market method through the establishment of inventory loss reserves. Our inventory loss reserve contains uncertainties because the estimate requires management to make assumptions and to apply judgment based upon assumptions about future demand and technological obsolescence. As market and other conditions change, we may establish additional inventory reserves when the facts that give rise to the lower value are warranted. See Note 1 to the Notes to the Consolidated Financial Statements for more information regarding inventory.

### Financial Derivative Instruments

We enter into fixed interest rate swap agreements (financial derivative instruments) to manage 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 our variable rate debt.

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We account for our financial derivative instruments in accordance with 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. 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 financial derivative instruments are not designated as hedges and therefore are not accounted for using hedge accounting. The difference between interest paid and interest received, which may change as market interest rates change, is accrued and recognized as a component of interest expense. See Note 1 to the Notes to the Consolidated Financial Statements for more information regarding financial derivative instruments.

## Goodwill and Intangible Assets

We have goodwill in three of our reporting units. We evaluate goodwill and identifiable intangible assets for impairment on an annual basis and whenever events or changes in circumstances indicate the carrying value of the goodwill or other intangible assets may not be recoverable. In years prior to 2011 we used commonly recognized financial analysis techniques such as discounted cash flow analysis as well as industry and peer-specific valuation methods common to our industry. In 2011, we implemented new Financial Accounting Standards Board (“FASB”) guidance which permitted us, after meeting specific criteria, to carry forward our detailed determination of fair value from prior years. After assessing qualitative factors it was determined that it is more likely than not that the fair value of our reporting units exceeded their carrying amounts. See Note 3 to the Notes to the Consolidated Financial Statements for more information regarding Goodwill and Intangible Assets.

## Income Taxes

In accounting for income taxes, deferred income taxes are based on the estimated future tax effects of differences between the financial statement and tax basis of assets and liabilities given the provisions of enacted tax laws. Deferred income tax provisions and benefits are based on changes to the assets or liabilities from year to year. In providing for deferred taxes, we consider tax regulations of the jurisdictions in which we operate, estimates of future taxable income, and available tax planning strategies. If tax regulations, operating results, or the ability to implement tax-planning strategies vary from our assumptions, we may be required to adjust the carrying value of deferred tax assets and liabilities. Valuation allowances are recorded related to deferred tax assets based on the “more likely than not” criteria. We recognize interest and penalties related to income tax matters as income tax expense.

We are required to recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. See additional disclosures in Note 12 to the Notes to the Consolidated Financial Statements.

As part of the process of preparing our consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating the current tax exposure together with assessing temporary differences resulting from the differing treatments of items, such as deferred revenue for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We assess the likelihood that deferred tax assets will be recovered from future taxable income and to the extent recovery is not likely, the carrying value of the deferred tax asset is reduced by a valuation allowance. To the extent that we establish a valuation allowance or increase an allowance in a period, it must be included as an expense within the tax provision in the statement of operations. We had valuation allowances of \$1,733,000 and \$1,724,000 at December 31, 2011 and 2010, respectively, due to uncertainty about the realization of certain benefits associated with net operating losses generated in the states of Iowa and Minnesota. In addition, we

carry reserves for income tax contingencies. These reserves relate to various tax years subject to audit by tax authorities. We believe our current income tax reserves are adequate. However, the ultimate outcome may differ from estimates, and assumptions could impact the provision for income taxes reflected in the consolidated statements of operations.

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### Post-Retirement Benefits

We provide retirement savings benefits and post-retirement health care and life insurance benefits for eligible employees. The post-retirement benefit expense and liability are calculated utilizing various actuarial assumptions and methodologies. These assumptions include, but are not limited to, the discount rate and the expected health care cost trend rate. Changes in these assumptions and estimates could significantly impact our post-retirement benefit costs and obligations. See Note 1 Summary of Significant Accounting Policies along with Note 11 Employee Retirement Benefits to the Notes to the Consolidated Financial Statements for additional information.

### Property, Plant and Equipment

Depreciation for financial statement purposes is determined using the straight-line method based on the lives of the various classes of depreciable assets. The composite depreciation rates on the ILEC telephone plant were 4.1%, 4.1% and 4.5% for 2011, 2010 and 2009, respectively. All other property, plant and equipment are depreciated over estimated useful lives of 3 to 25 years. Maintenance and repairs are charged to expense as incurred.

Data on utilization of equipment and asset retirements is reviewed on a consistent basis to determine if adjustments to our depreciation rates are needed. Significant judgment is required in selecting the appropriate estimated economic life of communications and business property and equipment due to the rapid changes in technology along with the current intensifying competitive environment. See Note 1 to the Notes to the Consolidated Financial Statements for more information regarding our property, plant and equipment.

### Incentive and Stock-Based Compensation

Our employee incentive compensation plans provide for distributions based on achievement of specific organizational operating results or individual employee objectives. We apply a fair value based measurement method in accounting for share-based payment transactions with employees and record compensation cost for all stock awards. Compensation charges are realized when management concludes it is probable that the participant will earn the award and recognized during the service period specified by the stock award plan.

Performance and stock-based awards require management to make assumptions regarding the likelihood of achieving company or personal performance goals. If actual results are not consistent with our estimates or assumptions, we may be exposed to changes in compensation expense. See Note 8 to the Notes to the Consolidated Financial Statements for more information regarding stock-based compensation.

### Off-Balance Sheet Arrangement/Contingent Commitments

We are not engaged in any transactions, arrangements or other relationships with unconsolidated entities or other third parties that are reasonably likely to have a material effect on our liquidity, or on our access to, or requirements for capital resources. In addition, we have not established any special purpose entities.

### Other

We have not conducted any public equity offering in our recent history and operate with original equity capital, retained earnings and financing in the form of bank term debt with revolving lines of credit. By utilizing cash flow from operations and current asset balances, we believe that we have adequate resources to meet the anticipated operating, capital expenditures and debt service requirements of our current business plan.



Recent Accounting Developments

See Note 1 Accounting Policies – Recent Accounting Developments to the Notes to the Consolidated Financial Statements for a discussion of recent accounting developments.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We do not have operations subject to risks of foreign currency fluctuations. We do, however, use financial derivative instruments to manage exposure to interest rate fluctuations. Our objective for holding derivatives is 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. For any portion of our debt not covered with interest rate swap agreements, our 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 our long-term debt based on variable rates had averaged 10% more for the year ended December 31, 2011 and December 31, 2010, our interest expense would have increased \$169,000 and \$134,000, respectively. Disclosure relating to our financial derivative instruments can be found in Note 13 to the Notes of the Consolidated Financial Statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Hickory Tech Corporation

We have audited the accompanying consolidated balance sheets of Hickory Tech Corporation (a Minnesota Corporation) and subsidiaries (the “Company”) as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders’ equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. Our audits of the basic consolidated financial statements included the financial statement schedule listed in the index appearing under Item 15(a)(2). These financial statements and financial statement schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hickory Tech Corporation and subsidiaries as of December 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 the consolidated financial statements as of and for the years ended December 31, 2011, 2010 and 2009 were restated for the correction of an error.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Hickory Tech Corporation and subsidiaries’ internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated November 9, 2012, expressed an adverse opinion.

/s/ Grant Thornton LLP

Minneapolis, Minnesota  
November 9, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders  
Hickory Tech Corporation

We have audited Hickory Tech Corporation (a Minnesota Corporation) and subsidiaries' (the "Company") internal control over financial reporting as of December 31, 2011, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of control deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. The audit identified a material weakness in internal control related to their process and procedures used in applying appropriate accounting for interest rate swap agreements. This material weakness resulted in the restatement of the annual consolidated financial statements as of and for the years ended December 31, 2011, 2010 and 2009.

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In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, Hickory Tech Corporation and subsidiaries have not maintained effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control – Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Hickory Tech Corporation and subsidiaries as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 2011. The material weakness identified above was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2011 financial statements, and this report does not affect our report dated November 9, 2012, which expressed an unqualified opinion on those financial statements.

/s/ Grant Thornton LLP

Minneapolis, Minnesota  
November 9, 2012

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## Item 8. Financial Statements and Supplementary Data

HICKORY TECH CORPORATION  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Years Ended December 31

(Dollars in thousands, except share and per share amounts)

	2011 (Restated)	2010 (Restated)	2009 (Restated)
<b>Operating revenue:</b>			
Equipment	\$ 39,816	\$ 39,406	\$ 27,857
Services	123,722	122,841	111,245
Total operating revenue	163,538	162,247	139,102
<b>Costs and expenses:</b>			
Cost of sales, excluding depreciation and amortization	34,163	33,300	24,869
Cost of services, excluding depreciation and amortization	59,480	60,897	52,211
Selling, general and administrative expenses	27,184	25,060	22,260
Depreciation	22,702	21,665	20,176
Amortization of intangibles	354	357	1,001
Total costs and expenses	143,883	141,279	120,517
Operating income	19,655	20,968	18,585
<b>Other income and expense:</b>			
Interest and other income	63	73	105
Interest expense	(6,275 )	(4,084 )	(5,540 )
Total other (expense)	(6,212 )	(4,011 )	(5,435 )
Income before income taxes	13,443	16,957	13,150
Income tax provision	5,042	4,365	1,048
Net income	\$ 8,401	\$ 12,592	\$ 12,102
Basic earnings per share	\$ 0.63	\$ 0.95	\$ 0.93
Weighted average common shares outstanding	13,369,991	13,233,874	13,061,266
Diluted earnings per share	\$ 0.63	\$ 0.95	\$ 0.93
Weighted average common and equivalent shares outstanding	13,382,522	13,237,195	13,061,861

Dividends per share	\$ 0.545	\$ 0.525	\$ 0.52
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The accompanying notes are an integral part of the consolidated financial statements.

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HICKORY TECH CORPORATION  
CONSOLIDATED BALANCE SHEETS  
As of December 31

(Dollars in thousands except share and per share amounts)

	2011 (Restated)	2010 (Restated)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 13,057	\$ 73
Receivables, net of allowance for doubtful accounts of \$436 and \$570	25,317	24,642
Inventories	9,297	5,205
Income taxes receivable	498	3,814
Deferred income taxes, net	1,559	2,008
Prepaid expenses	1,801	1,601
Other	964	1,030
Total current assets	52,493	38,373
Investments	4,277	4,512
Property, plant and equipment	396,816	379,433
Accumulated depreciation and amortization	(242,886 )	(224,356 )
Property, plant and equipment, net	153,930	155,077
Other assets:		
Goodwill	27,303	27,303
Intangible assets, net	2,314	2,668
Deferred costs and other	3,669	2,255
Total other assets	33,286	32,226
Total assets	\$ 243,986	\$ 230,188
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Extended term payable	\$ 6,920	\$ 8,254
Accounts payable	4,661	2,840
Accrued expenses and other	10,175	7,929
Financial derivative instruments	-	1,079
Deferred revenue	6,251	5,073
Current maturities of long-term obligations	1,407	4,892
Total current liabilities	29,414	30,067
Long-term liabilities:		
Debt obligations, net of current maturities	118,828	114,067
Financial derivative instruments	2,469	-
Accrued income taxes	154	562
Deferred income taxes	30,627	26,868



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Deferred revenue	1,131	1,397
Accrued employee benefits and deferred compensation	18,166	15,923
Total long-term liabilities	171,375	158,817
Total liabilities	200,789	188,884
Commitments and contingencies		
Shareholders' equity:		
Common stock, no par value, \$.10 stated value		
Shares authorized: 100,000,000		
Shares issued and outstanding: 13,396,176 in 2011 and 13,298,626 in 2010		
	1,340	1,330
Additional paid-in capital	15,683	14,328
Retained earnings	30,309	29,189
Accumulated other comprehensive (loss)	(4,135 )	(3,543 )
Total shareholders' equity	43,197	41,304
Total liabilities and shareholders' equity	\$ 243,986	\$ 230,188

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

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**HICKORY TECH CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years Ended December 31

(Dollars in thousands)	2011 (Restated)	2010 (Restated)	2009 (Restated)
<b>OPERATING ACTIVITIES:</b>			
Net income	\$ 8,401	\$ 12,592	\$ 12,102
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	23,056	22,022	21,177
Deferred income tax provision	4,598	5,567	2,517
Employee retirement benefits and deferred compensation	1,289	1,248	744
Provision for losses on accounts receivable	299	1,010	128
Stock-based compensation	1,119	951	1,021
(Gain) on sale of assets, retirements and disposals	(162 )	(977 )	(5 )
(Gain) loss on financial derivative instruments	1,390	(830 )	(1,378 )
Accrued patronage refunds	(529 )	(525 )	(512 )
Changes in operating assets and liabilities, net of effect from acquired net assets			
Receivables	(976 )	(5,922 )	6,779
Prepaid expenses	(200 )	(275 )	(125 )
Inventories	(4,092 )	(453 )	3,922
Accounts payable and accrued expenses	4,276	(126 )	(1,696 )
Deferred revenue, billings and deposits	911	(1,640 )	195
Income taxes	2,911	(7,110 )	(3,091 )
Other	(584 )	656	476
Net cash provided by operating activities	41,707	26,188	42,254
<b>INVESTING ACTIVITIES:</b>			
Additions to property, plant and equipment	(28,385 )	(22,888 )	(17,893 )
Broadband stimulus grant received	6,945	-	-
Proceeds from sale of assets	120	1,261	-
Acquisition, net of cash acquired	-	120	(6,625 )
Other	-	(20 )	-
Net cash (used in) investing activities	(21,320 )	(21,527 )	(24,518 )
<b>FINANCING ACTIVITIES:</b>			
	57,587	54,507	40,446

Borrowings on extended term payable arrangement			
Payments on extended term payable arrangement	(58,921 )	(53,041 )	(44,133 )
Borrowings on credit facility	147,700	24,400	-
Payments on credit facility and capital lease obligations	(146,496 )	(26,593 )	(6,930 )
Proceeds from issuance of common stock	571	421	460
Change in cash overdraft	(238 )	238	-
Stock repurchase	(325 )	-	-
Dividends paid	(7,281 )	(6,940 )	(6,785 )
Net cash (used in) financing activities	(7,403 )	(7,008 )	(16,942 )
Net increase (decrease) in cash and cash equivalents	12,984	(2,347 )	794
Cash and cash equivalents at beginning of the year	73	2,420	1,626
Cash and cash equivalents at the end of the year	\$ 13,057	\$ 73	\$ 2,420
Supplemental disclosure of cash flow information:			
Cash paid for interest	\$ 4,611	\$ 5,224	\$ 7,094
Net cash paid (received) for income taxes	\$ (2,467 )	\$ 5,908	\$ 1,622
Non-cash investing activities:			
Property, plant and equipment acquired with capital leases	\$ 73	\$ 660	\$ 417
Change in other comprehensive income from post-retirement benefits	\$ (592 )	\$ (267 )	\$ (2,002 )

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

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HICKORY TECH CORPORATION  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME  
 Years Ended December 31  
 (Dollars in thousands)

	Common Stock Shares	Common Stock Amount	Additional Paid - In Capital	Retained Earnings (Restated)	Accumulated Other Comprehensive Income (Loss) (Restated)	Total Shareholders' Equity	Total Comprehensive Income
Balance, December 31, 2008	12,992,376	\$ 1,299	\$ 11,504	\$ 18,220	\$ (1,274 )	\$ 29,749	
Employee Stock Plans	36,864	4	1,101			1,105	
Directors' Stock Plans	33,121	3	101			104	
Dividend Reinvestment Plan	38,207	4	269			273	
Net Income				12,102		12,102	\$ 12,102
Dividends Paid				(6,785 )		(6,785 )	
Other Comprehensive Loss, Net of Income Taxes					(2,002 )	(2,002 )	\$ (2,002 )
Total Comprehensive Income							\$ 10,100
Balance, December 31, 2009	13,100,568	1,310	12,975	23,537	(3,276 )	34,546	
Employee Stock Plans	136,249	14	851			865	
Directors' Stock Plans	31,855	3	259			262	
Dividend Reinvestment Plan	29,954	3	243			246	
Net Income				12,592		12,592	\$ 12,592
Dividends Paid				(6,940 )		(6,940 )	
Other Comprehensive Income, Net of Income Taxes					(267 )	(267 )	\$ (267 )
Total Comprehensive Income							\$ 12,325
	13,298,626	1,330	14,328	29,189	(3,543 )	41,304	

Balance, December 31, 2010							
Employee Stock Plans	80,775	8	1,154			1,162	
Directors' Stock Plans	24,834	2	250			252	
Dividend Reinvestment Plan	28,189	3	273			276	
Stock Repurchase	(36,248 )	(3 )	(322 )			(325 )	
Net Income				8,401		8,401	\$ 8,401
Dividends Paid				(7,281 )		(7,281 )	
Other Comprehensive Loss, Net of Income Taxes					(592 )	(592 )	\$ (592 )
Total Comprehensive Income							\$ 7,809
Balance, December 31, 2011	13,396,176	\$ 1,340	\$ 15,683	\$ 30,309	\$ (4,135 )	\$ 43,197	

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

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HICKORYTECH CORPORATION, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Fiscal Years Ended December 31, 2011, 2010 and 2009

Note 1. Summary of Significant Accounting Policies

The accounting policies of HickoryTech conform with generally accepted accounting principles and, where applicable, to the accounting principles as prescribed by federal and state telephone utility regulatory authorities. We presently give accounting recognition to the actions of regulators where appropriate in preparing general purpose financial statements for most public utilities. In general, the type of regulation covered permits rates (prices) for some services to be set at levels intended to recover the estimated costs of providing regulated services or products, including the cost of capital (interest costs and a provision for earnings on shareholders' investments).

Principles of Consolidation

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. The Fiber and Data Segment and Equipment Segment are combined to reflect our Business Sector operations. Inter-company transactions have been eliminated from the consolidated financial statements.

Classification of Costs and Expenses

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

Use of Estimates

Preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from these estimates and assumptions.

Government Grants

In August of 2010, we were awarded a \$16,800,000 grant administered by the NTIA Broadband Technology Opportunity Program to extend our middle mile fiber-optic network across greater Minnesota. We will invest \$7,200,000 or 30% of the estimated total project cost of \$24,000,000 over a three year period.

We receive grant money from the NTIA Broadband Technology Opportunity Program. Government grants are accrued as a receivable when we determine we have complied with the conditions attached to the grant arrangement. The grant money received for reimbursement of capital expenditures is accounted for as a deduction from the cost of the asset. The resulting balance sheet presentation reflects our 30% investment in the assets in property, plant and equipment. Depreciation is calculated and recorded based on our investment. As depreciation is calculated and recognized based on our 30% investment and not on the total cost of the asset, the impact of the grant is reflected in earnings as a reduction in depreciation. Grant funds received are shown as inflows in the investing activities section of the statement of cash flows.

At December 31, 2011 we have incurred \$12,664,000 of capital expenditures of which \$3,799,000 is recorded as an asset in property, plant and equipment. We have received \$6,945,000 in grant money from the NTIA and have accrued \$1,920,000 at year-end for pending reimbursements.

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### Revenue Recognition

We recognize revenue when (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred or service has been provided, (iii) the price is fixed or determinable and (iv) collectability is reasonably assured. Revenue is reported net of all applicable sales tax.

Fiber and Data Revenue Recognition: Revenue is generated from the following primary sources: i) the sale of fiber and data services over the Company-owned and leased fiber optic network, and ii) the sale of managed voice and data services, including long distance services.

- Fiber and data services are sold primarily through a contractual flat monthly fee. Monthly billings for our SMB customer base also include charges for voice and long distance services. The revenue generated by these services is typically billed at the beginning of the month for the coming month's services.
- We manage customer voice and/or data services. Under these arrangements, we bill either a flat monthly fee or a fee that is variable based on the number of "seats" that the customer has. This revenue is recognized on a monthly basis as the services are provided.

Equipment Revenue Recognition: Revenue is generated from the following primary sources: i) the sale of voice and data communications equipment provided primarily through Cisco, ii) providing design, configuration and installation services related to voice and data equipment, iii) the provision of Cisco maintenance support contracts, and iv) the sale of professional support services related to customer voice and data systems. Our revenue recognition policy for each of these types of products and services along with an overview of multiple-deliverable arrangements is as follows:

- In instances where we sell Cisco voice and data communications equipment with no installation obligations (equipment only sales), all warranty obligations reside with Cisco. Therefore, revenue is recognized when the equipment is delivered to the customer site. In instances where we sell Cisco voice and data communications equipment with installation obligations, terms of the agreements typically provide for installation services without customer-specific acceptance provisions, but sometimes may provide customer-specific acceptance provisions. For arrangements with no customer-specific acceptance arrangements, we recognize revenue when title passes to the customer. For contracts with customer specific acceptance provisions, we defer revenue recognition until the receipt of formal customer acceptance, assuming that all other revenue recognition criteria have been met. When a sale involves multiple elements, revenue is allocated to each respective element. In the event that we enter into a multiple element arrangement and there are undeliverable elements as of the balance sheet date, we assess whether the elements are separable and have determinable fair values in assessing the amount of revenue to record. Allocation of revenue to elements of the arrangement is based on fair value of the element being sold on a stand-alone basis.
  - When we sell equipment to customers, we also typically sell Cisco support contracts ("SmartNet" contracts). These support contracts state that Cisco will provide all support services, product warranty and updates directly to the customer. Because we have no service obligations under these types of contracts, the earnings process has culminated for us upon the sale of the contract and therefore revenue is recognized immediately. Further, we are serving in an agency relationship to the customer for the sale of the contract and therefore the revenue is recorded net of the cost that we pay Cisco for the contract. Support services also include "24x7" support of a customer's voice and data systems. Most of these contracts are billed on a time and materials basis and revenue is recognized either as services are provided or over the term of the contract. Support services also include professional support services, which are typically sold on a time and materials basis, but may be sold as a pre-paid block of time. This revenue is recognized as the services are provided (deferred and recognized as utilized if pre-paid).





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Multiple-deliverable arrangements primarily include the sale of Cisco communications equipment and associated support contracts, along with professional services providing design, configuration, and installation consulting. When an equipment sale involves multiple elements, revenue is allocated to each respective element. In the event that we enter into a multiple element arrangement and there are undelivered elements as of the balance sheet date, we assess whether the elements are separable and have determinable fair values in assessing the amount of revenue to record. Allocation of revenue to elements of the arrangement is based on fair value of the element being sold on a stand-alone basis. Cisco equipment, maintenance contracts and professional services all meet the criteria to qualify as separate units of accounting. We utilize Cisco list prices as third party evidence for stand-alone value for our equipment and support contracts. We analyze professional services billings quarterly to determine vendor-specific objective evidence of selling price. We calculate the median of all services performed on a stand-alone basis and consider fair value of professional services performed as part of a multiple element arrangement to be any rate that is within 15% of the median.

**Telecom Revenue Recognition:** Revenue is earned from monthly billings to customers for telephone services, long distance, digital TV, DSL, Internet services, hardware and other services. Revenue is also derived from charges for network access to our local exchange telephone network from subscriber line charges and from contractual arrangements for services such as billing and collection and directory advertising. Some revenue is realized under pooling arrangements with other telephone companies and is divided among the companies based on respective costs and investments to provide the services. The companies that take part in pooling arrangements may adjust their costs and investments for a period of two years, which causes the dollars distributed by the pool to be adjusted retroactively. We believe that recorded amounts represent reasonable estimates of the final distribution from these pools. However, to the extent that the companies participating in these pools make adjustments, there will be corresponding adjustments to our recorded revenue in future periods. Revenue is recognized in the period in which service is provided to the customer. With multiple billing cycles and cut-off dates, we accrue for revenue earned but not yet billed at the end of a quarter. We also defer services billed in advance and recognize them as income when earned.

Our Telecom Sector markets competitive service bundles which may contain several deliverables. Our base bundles consist of voice services including a business or residential phone line, features and long distance. Customers may choose to add additional services including internet, DSL and digital/IP TV services to the base bundle packages. Separate units of accounting within the bundled packages include voice services, internet, DSL and digital or IP TV services. Revenue for services included in our bundles are recognized over the same service period which is the time period in which service is provided to the customer, creating no overall impact on the Telecom Sector operating revenue. Service bundle discounts are recognized concurrently with the associated revenue and are allocated to the various services in the bundled offering based on the relative selling price of the services included in each bundled combination.

### Shipping and Handling

Amounts billed to a customer in a sales transaction related to shipping and handling are classified as revenue. Shipping and handling costs are included in cost of services.

### Cash and Cash Equivalents

At December 31, 2011 and 2010, cash equivalents totaled \$13,057,000 and \$73,000, respectively including short-term investments with original maturities of three months or less when purchased. The carrying value of cash and cash equivalents approximates its fair value due to the short maturity of the instruments. As of December 31, 2011 our cash deposits, which are held primarily with one institution, exceeded federally insured limits. Our commercial paper is valued using level 2 inputs which are observable inputs other than quoted prices in active markets for identical assets and liabilities.



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### Receivables

As of December 31, 2011 and 2010, consolidated receivables totaled \$25,317,000 and \$24,642,000, respectively, net of the allowance for doubtful accounts. As of December 31, 2011 and 2010, we believe our receivables are recorded at their fair value. As there may be exposure or risk with accounts receivable, we routinely monitor our accounts receivable and adjust the allowance for doubtful accounts when certain events occur that may potentially impact the collection of accounts receivable.

### Allowance for Doubtful Accounts

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. To estimate the appropriate allowance for doubtful accounts, we consider specific accounts, historical write-offs, changes in customer financial condition and credit worthiness and concentrations of credit risk. Specific accounts receivable are written off once we determine that the account is uncollectible. Amounts charged to bad debt expense were \$299,000, \$1,010,000 and \$128,000 in 2011, 2010 and 2009, respectively. The increase in 2010 was largely attributable to dispute resolutions with several parties.

### Inventories

Inventory includes parts, materials and supplies stored in our warehouses to support basic levels of service and maintenance and 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, comprised of raw materials, was \$950,000 and \$729,000 as of December 31, 2011 and 2010, respectively. The inventory value in the Equipment Segment comprised primarily of finished goods in transit to customers or at customers' locations on which title has not yet transferred was \$6,631,000 and \$2,731,000 as of December 31, 2011 and December 31, 2010, respectively. The inventory value in the Telecom Sector, comprised of raw materials, as of December 31, 2011 and December 31, 2010 was \$1,716,000 and \$1,745,000, respectively.

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.

### Investments

Investments include \$2,252,000 and \$2,639,000 of non-interest bearing Subordinated Capital Certificates from RTFC, \$2,005,000 and \$1,853,000 from CoBank as of December 31, 2011 and December 31, 2010, respectively. A minority share of a liability company totaling \$20,000 was also held as of December 31, 2011 and 2010. Investments are accounted for under the cost method of accounting. This method requires us to periodically evaluate whether a non-temporary decrease in the value of the investment has occurred, and if so, to write this investment down to its net realizable value.

### Financial Derivative Instruments

We utilize interest rate swap agreements (financial derivative instruments) 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 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. The difference between interest paid and interest received, which may change as market interest rates change, is accrued and recognized as a component of interest expense. See Note 13 to the Notes to the Consolidated Financial Statements for more information regarding financial derivative instruments.

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## Property, Plant and Equipment

Property, plant and equipment are recorded at original cost of acquisition or construction. Included in the Fiber and Data property, plant and equipment is fiber optic cable and indefeasible rights of use of fiber installed by others accompanied by ownership rights. Our Equipment Segment property and equipment primarily consists of equipment and software supporting our in-house networking lab and system monitoring services.

Telecom property and equipment primarily consists of fiber optic cable, central office equipment, outside communications plant, customer premise equipment, furniture, fixtures, vehicles, machinery and other equipment. When regulated ILEC telephone assets are sold or retired, the assets and related accumulated depreciation are removed from the accounts and any gains or losses on disposition are amortized with the remaining net investment in telephone plant. When other plant and equipment is sold or retired, the cost and related accumulated depreciation or amortization are removed from the respective accounts and any resulting gain or loss is included in operating income. Maintenance and repairs are charged to expense as incurred.

The components of property, plant and equipment as of December 31, 2011 and 2010, respectively are summarized as follows:

(Dollars in thousands)	2011	2010
Fiber and Data property and equipment	\$ 75,623	\$ 64,654
Fiber and Data indefeasible rights of use	6,552	6,552
Equipment property and equipment	3,152	2,607
Telecom property and equipment	310,845	304,856
Other property and equipment	644	764
Total	396,816	379,433
Accumulated depreciation and amortization	(242,886)	(224,356)
Property, plant, and equipment, net	\$ 153,930	\$ 155,077

Depreciation for financial statement purposes is determined using the straight-line method based on the lives of the various classes of depreciable assets. The composite depreciation rates on ILEC telephone plant were 4.1%, 4.1% and 4.5% for 2011, 2010 and 2009, respectively. All other property, plant and equipment are depreciated over estimated useful lives of three to 25 years.

The Telecom Sector leases certain computer equipment under capital lease arrangements. We have recorded the present value or fair value of the future minimum lease payments as a capitalized asset and related lease obligation. Assets under this capital lease are included in property, plant and equipment and amounted to \$506,000 and \$777,000 (\$2,272,000 and \$2,400,000 asset, net of accumulated depreciation of \$1,766,000 and \$1,623,000) as of December 31, 2011 and 2010, respectively.

## Capitalized Software Costs

We capitalize costs (including right to use fees) associated with acquired software for internal use. Costs associated with internally developed software are segregated into three project stages: preliminary project stage, application development stage and post-implementation stage. Costs associated with both the preliminary project stage and post-implementation stage are expensed as incurred. Costs associated with the application development stage are capitalized. Software maintenance and training costs are expensed as incurred. Amortization of software costs commences when the software is ready for its intended use, and is amortized over a period of three to ten years.

During 2011, 2010 and 2009, we capitalized \$611,000, \$45,000, and \$449,000, respectively, of costs associated with software purchased or developed for internal use only. The 2011 costs primarily relate to the purchase of an application platform for web content and document management. The 2010 costs primarily relate to licenses for database software. The 2009 costs primarily relate to redevelopment of our corporate website and software purchased for desktop applications. Capitalized internal software costs, net of accumulated amortization are included in property, plant and equipment at December 31, 2011, 2010 and 2009, respectively. Amortization expense relating to these costs amounted to \$639,000, \$561,000 and \$659,000 in 2011, 2010 and 2009, respectively. The components of capitalized software for internal use are summarized below:

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(Dollars in thousands)	2011	2010	2009
Capitalized software for internal use	\$9,342	\$8,731	\$8,686
Accumulated amortization	7,180	6,541	5,980
Capitalized software for internal use	\$2,162	\$2,190	\$2,706

## Goodwill and Intangible Assets

Goodwill and intangible assets with indefinite useful lives are not amortized, but tested for impairment at least annually. See Note 3 to the Notes to the Consolidated Financial Statements for a more detailed discussion on intangible assets and goodwill.

## Long-Lived Assets

We review long-lived assets for impairment if certain events or changes in circumstances indicate that impairment may be present. Impairment exists if the carrying value of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposal of the asset at the date it is tested. No asset impairment valuation charges were warranted in 2011 or 2010.

## Post-Retirement Benefits

We provide retirement savings benefits and post-retirement health care and life insurance benefits for eligible employees. We are not currently funding these post-retirement benefits, but have accrued these liabilities. The post-retirement benefit expense and liability are calculated utilizing various actuarial assumptions and methodologies. These assumptions include, but are not limited to, the discount rate and the expected health care cost trend rate.

Post-retirement benefits were calculated using the following methods. Any prior service cost or cumulative net gains and losses in excess of 10% of the Topic 715 corridor are amortized on a straight-line basis over the average future service lives of the covered group. There are no substantive commitments for benefits other than as stated in the written plan. The assumed discount rate represents the discounted value of necessary future cash flows required to pay the accumulated benefits when due. The rate was determined based on available market data regarding the spot rate yields in half year increments on high-quality fixed income securities with the effects of puts and calls removed that provide cash flows at the same time and in the same amount as the projected cash flows of the plan. In measuring the accumulated post-retirement benefit obligation as of December 31, 2011, we assumed a weighted average discount rate of 4.4%. The reduction in the discount rate by 25 basis points would increase the accumulated post-retirement benefit obligation by approximately \$760,000 as of December 31, 2011 and would increase the net periodic cost by approximately \$80,000 as of December 31, 2011.

The health care cost trend rate is based upon an evaluation of the historical trends and experience, taking into account current and expected market conditions. The health care cost trend rate represents the expected annual rate of change in the cost of health care benefits currently provided due to factors other than changes in the demographics of plan participants. If the assumptions utilized in determining the post-retirement benefit expense and liability differ from actual events, the results of operations for future periods could be impacted.

When actual events differ from the assumptions or when the assumptions used change, an unrecognized actuarial gain or loss results. As of December 31, 2011, the unrecognized net actuarial loss was \$7,275,000. During each of the last three years, we adjusted the discount rate assumption due to changes in interest rates. In recent years, we adjusted the health care cost trend rate assumption to reflect the current trend of medical costs. The remainder of the net actuarial loss primarily relates to the differences between the assumed medical costs and actual experience and changes in the employee population. The recognized net actuarial loss outside the allowable corridor is expected to be recognized



over the next 10 years. This amount will change in future years as economic and market conditions generate gains and losses.

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## Income Taxes

We account for income taxes using an asset and liability approach to financial accounting and reporting. Accordingly, deferred tax assets and liabilities arise from the difference between the tax basis of an asset or liability and its reported amount in the financial statements. Deferred tax amounts are determined using the tax rates expected to be in effect when the taxes will actually be paid or refunds received, as provided under currently enacted tax law. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense or benefit is the tax payable or refundable, respectively, for the period plus or minus the change in deferred tax assets and liabilities during the period.

We recognize the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the relevant tax authority. See Note 12 to the Notes to the Consolidated Financial Statements for additional information regarding income taxes.

## Advertising Expense

Advertising is expensed as incurred. Advertising expense charged to operations was \$908,000, \$909,000 and \$1,043,000 in 2011, 2010 and 2009, respectively.

## Stock-Based Compensation

We apply a fair value based measurement method in accounting for share-based payment transactions with employees and record compensation cost for all stock awards granted. Compensation charges are realized when management concludes it is probable that the participant will earn the award and recognized during the service period specified by the stock award plan. See Note 8 to the Notes to the Consolidated Financial Statements for more information regarding stock-based compensation.

## Accrued Incentive Compensation

Our employee incentive compensation plans provide for distributions based on achievement of specific organizational operating results or individual employee objectives. Accrued expenses included amounts for employee incentive compensation of \$2,389,000 and \$2,042,000 at December 31, 2011 and December 31, 2010, respectively.

## Earnings and Dividends Per Share

Basic earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Shares used in the earnings per share dilution calculation are based on the weighted average number of shares of common stock outstanding during the year 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.

(Dollars in thousands, except share and earnings per share amounts)

	2011 (Restated)	2010 (Restated)	2009 (Restated)
Net Income	\$ 8,401	\$ 12,592	\$ 12,102

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Weighted average shares outstanding	13,369,991	13,233,874	13,061,266
Stock options (dilutive only)	12,531	3,321	595
Stock subscribed (ESPP)	-	-	-
Total dilutive shares outstanding	13,382,522	13,237,195	13,061,861
Earnings per share:			
Basic and Diluted	\$ 0.63	\$ 0.95	\$ 0.93
Dividends per share	\$ 0.545	\$ 0.525	\$ 0.52

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Options to purchase 169,450 shares as of December 31, 2011, 308,250 shares as of December 31, 2010 and 395,950 shares as of December 31, 2009 were not included in the computation of earnings per share assuming dilution because their effect on earnings per share would have been anti-dilutive.

Dividends per share are based on the quarterly dividend per share as declared by the HickoryTech Board of Directors. In 2011, we acquired and retired 36,248 shares. Details of the transactions can be found in Part II, Item 5.

### Balance Sheet Classification

Certain prepaid expenses in our 2010 Balance Sheet have been reclassified to conform to the current year classification. These reclassifications had no effect on previously reported results of operations.

### Recent Accounting Developments

In September 2011, the FASB issued new guidance related to testing of goodwill for impairment. The amendment allows a company to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount to determine whether it is necessary to perform the two-step goodwill impairment test. This amendment becomes effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We have implemented this new guidance for our 2011 year-end goodwill impairment testing. The adoption of this guidance did not have a material impact on our disclosures or consolidated financial statements.

In June 2011, the FASB issued new guidance related to the presentation of comprehensive income. The guidance requires that all non-owner changes in stockholder's equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements and eliminates the option for companies to present components of other comprehensive income as part of the statement of changes in stockholder's equity. It also requires reclassification adjustments and the effect of those adjustments on net income and other comprehensive income to be presented on the face of the financial statement where the components of net income and other comprehensive income are presented. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The FASB then issued an update to defer the effective date relating only to the presentation of the adjustments out of accumulated other comprehensive income on the components of net income and other comprehensive income. We do not believe adoption will have a material impact on our disclosures or consolidated financial statements.

In May 2011, the FASB issued new guidance related to fair value measurement. The purpose of this guidance is to achieve commonality between US GAAP and IFRS pertaining to fair value measurement and disclosure requirements. It changes certain fair value measurement principles and enhances the disclosure requirements particularly for Level 3 fair value measurements. The amendment becomes effective for annual periods beginning after December 15, 2011. We do not believe adoption will have a material impact on our disclosures or our consolidated financial statements.

In January 2010, the FASB issued new guidance related to disclosures about the transfer in and out of levels 1 and 2 and the activity in level 3 fair value measurements. It also clarifies disclosures about the level of disaggregation, inputs and valuation techniques. Our adoption of this guidance, which was effective in Q1 2010 except for the new requirements relating to a Level 3 activity, did not have a material impact on our disclosures. Our adoption of the Level 3 requirements on January 1, 2011 did not have a material impact on our disclosures.

In the first quarter of 2011, we adopted new guidance for separating consideration in multiple-deliverable arrangements. This guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the consideration should be allocated among the separate units of

accounting. We have multiple-deliverable arrangements with several units of accounting within our Equipment and Telecom segments. A complete overview of our revenue recognition policies can be found in Note 1 Revenue Recognition beginning on page 33. The adoption of this guidance did not have a material impact on our financial statements.

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We reviewed all other 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 as of and for the years ended December 31, 2011, 2010, and 2009 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 required documentation was not in place at the inception of the hedge agreements 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 for the years ended December 31, 2011, 2010 and 2009 and the Balance Sheets for December 31, 2011, 2010 and 2009.

(Dollars in thousands, except share data)

Statement of Operations Data:	2011			2010			2009		
	As Reported	Restatement	Restated	As Reported	Restatement	Restated	As Reported	Restatement	Restated
Operating income	\$ 19,655	\$ -	\$ 19,655	\$ 20,968	\$ -	\$ 20,968	\$ 18,585	\$ -	\$ 18,585
Other income and expense:									
Interest and other income	63	-	63	73	-	73	105	-	105
Interest expense	(4,885)	(1,390)	(6,275)	(4,914)	830	(4,084)	(6,918)	1,378	(5,540)
Total other (expense)	(4,822)	(1,390)	(6,212)	(4,841)	830	(4,011)	(6,813)	1,378	(5,435)
Income before income taxes	14,833	(1,390)	13,443	16,127	830	16,957	11,772	1,378	13,150
Income tax provision	5,596	(554)	5,042	4,033	332	4,365	499	549	1,048
Net income	\$ 9,237	\$ (836)	\$ 8,401	\$ 12,094	\$ 498	\$ 12,592	\$ 11,273	\$ 829	\$ 12,102
Other comprehensive income, net of taxes	\$ (1,428)	\$ 836	\$ (592)	\$ 231	\$ (498)	\$ (267)	\$ (1,173)	\$ (829)	\$ (2,002)
	\$ 7,809	\$ -	\$ 7,809	\$ 12,325	\$ -	\$ 12,325	\$ 10,100	\$ -	\$ 10,100

Total comprehensive income									
Basic earnings per share	\$ 0.69	\$ (0.06 )	\$ 0.63	\$ 0.91	\$ 0.04	\$ 0.95	\$ 0.86	\$ 0.07	\$ 0.93
Diluted earnings per share	\$ 0.69	\$ (0.06 )	\$ 0.63	\$ 0.91	\$ 0.04	\$ 0.95	\$ 0.86	\$ 0.07	\$ 0.93
Balance Sheet									
Data:									
Shareholders' equity:									
Common stock	\$ 1,340	\$ -	\$ 1,340	\$ 1,330	\$ -	\$ 1,330	\$ 1,310	\$ -	\$ 1,310
Additional paid-in capital	15,683	-	15,683	14,328	-	14,328	12,975	-	12,975
Retained earnings	31,797	(1,488 )	30,309	29,841	(652 )	29,189	24,687	(1,150 )	23,537
Accumulated other comprehensive income (loss)	(5,623 )	1,488	(4,135 )	(4,195 )	652	(3,543 )	(4,426 )	1,150	(3,276 )
Total shareholders' equity	\$ 43,197	\$ -	\$ 43,197	\$ 41,304	\$ -	\$ 41,304	\$ 34,546	\$ -	\$ 34,546

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## Note 3. Goodwill and Other Intangible Assets

We have goodwill in three of our reporting units. As of December 31, 2010 total goodwill carrying value of \$4,255,000 was associated with our Business Sector resulting from our acquisition of CP Telecom in 2009 and Enventis Telecom in 2005. Effective December 31, 2011 we have determined it appropriate to report the Business Sector in two discernible reporting units: the Fiber and Data Segment and the Equipment Segment. We used common industry fair value assessment techniques to estimate the fair value of each of these reportable units on a stand-alone basis, then allocated the total goodwill of the Business Sector to each reportable unit based on its proportionate fair value. Goodwill thus allocated to the Fiber and Data and Equipment Segments is \$3,659,000 and \$596,000, respectively. In our Telecom Segment, we have \$23,048,000 of goodwill carrying value as of December 31, 2011, resulting from our acquisition of Heartland Telecommunications in 1997.

There were no net additions or subtractions to goodwill in 2011. In 2010, there was a goodwill adjustment of \$120,000 associated with a change in working capital of CP Telecom at closing. The tax deductible portion of goodwill is \$25,239,000. Our acquisition of CP Telecom in 2009 added \$2,064,000 in goodwill which is not deductible for tax purposes.

Goodwill assets are not amortized, but are subject to an impairment test annually, as well as upon certain events that indicate that impairment may be present. In 2010, we used a fair value approach when reviewing our goodwill for potential impairment testing. We made estimates of the fair value of the assets in our reporting units based on application of a discounted cash flow analysis, using the best available information at the time estimation of fair value is made. We determined that the fair value of assets including goodwill, which are covered by the impairment tests, is in excess of the asset carrying value for all of our reporting units and likewise concluded that no asset impairment valuation charges were warranted.

In 2011, we implemented FASB's recently issued Accounting Standards Update ("ASU") 2011-08, Testing Goodwill for Impairment, which permits a reporting unit level to first complete a qualitative determination whether it is more likely than not that the fair value of a reporting unit exceeds its carrying amount. After assessing primarily qualitative and some quantitative factors it was determined that it is more likely than not that the fair value of our reporting units exceeded their carrying amounts. At December 31, 2011 we have concluded that no asset impairment valuation charges are warranted.

Intangible assets with finite lives are amortized over their respective estimated useful lives to their estimated residual values. Identifiable intangible assets that are subject to amortization are evaluated for impairment. The components of intangible assets are as follows:

(Dollars in thousands)	Useful Lives	As of December 31, 2011		As of December 31, 2010	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets					
Customer relationships	1 - 8 years	\$ 5,299	\$ 4,746	\$ 5,299	\$ 4,532
Other intangibles	1 - 5 years	2,830	1,069	2,830	929
<b>Total</b>		<b>\$ 8,129</b>	<b>\$ 5,815</b>	<b>\$ 8,129</b>	<b>\$ 5,461</b>

We periodically reassess the carrying value, useful lives and classifications of identifiable assets. Amortization expense related to the definite-lived intangible assets for 2011, 2010 and 2009 was \$354,000, \$357,000, and \$1,001,000, respectively. Total estimated amortization expense for the five years subsequent to 2011 is as follows: 2012 - \$354,000; 2013 - \$354,000; 2014 - \$265,000; 2015 - \$140,000; 2016 - \$140,000.





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## Note 4. Acquisition

## Acquisition

On August 1, 2009, we purchased all of the capital stock of CP Telecom for an adjusted purchase price of \$6,625,000 to grow our SMB customer base. This acquisition was funded with cash on hand. In the first quarter of 2010, an adjustment associated with a change in working capital of CP Telecom at closing, reduced the purchase price and associated goodwill by \$120,000, resulting in an adjusted purchase price of \$6,505,000.

The table below sets forth the final CP Telecom purchase price allocation. The purchase price allocation resulted in goodwill of \$2,184,000 which has been reduced by \$120,000 to \$2,064,000 as noted in the table below. The fair value of the property and equipment were determined based on level 1 inputs. The valuation of intangible assets was evaluated using level 2 inputs. The valuation of net working capital and other assets and liabilities were evaluated using level 3 inputs.

(Dollars in thousands)	2010
Property and equipment	\$ 3,986
Identifiable intangible assets:	
Customer relationships and contracts	1,070
Supplier relationship	2,100
Goodwill	2,064
Other assets and liabilities	(653 )
Deferred income tax	(2,062 )
Allocation of purchase consideration	\$ 6,505

Of the identified intangible assets above, customer relationships and contracts have useful lives of five years and the supplier relationship has a useful life of 15 years. Useful lives for identifiable intangible assets were estimated at the time of the acquisition based on the periods 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.

Goodwill from our CP Telecom acquisition is a result of the value of acquired employees along with the expected synergies from the combination of CP Telecom and our operations. Goodwill resulting from the acquisition of CP Telecom is not deductible for tax purposes. CP Telecom operations have been integrated with our Fiber and Data Segment.

## Note 5. Fair Value of Financial Instruments

The fair value of our long-term obligations, after deducting current maturities, is estimated to be \$122,886,000 at December 31, 2011 and \$116,483,000 at December 31, 2010, compared to carrying values of \$118,828,000 and \$114,067,000, respectively. The fair value estimates are based on the overall weighted average interest rates and maturity compared to rates and terms currently available in the long-term financing markets. Our financial instruments also include cash equivalents, trade accounts receivable and accounts payable for which current carrying amounts approximate fair market value.

## Note 6. 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 year ended December 31, 2011 and 2010 was

\$7,809,000 and \$12,325,000, respectively, in relation to net income of \$8,401,000 and \$12,592,000.

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

(Dollars in thousands)	Unrecognized	Unrecognized	Unrecognized	Accumulated
	Net Actuarial Loss (1)	Prior Service Credit (1)	Transition Asset (1)	Other Comprehensive Income/(Loss) (Restated)
December 31, 2008	\$ (1,375 )	\$ 246	\$ (145 )	\$ (1,274 )
2009 Activity	(2,005 )	(33 )	36	(2,002 )
December 31, 2009	(3,380 )	213	(109 )	(3,276 )
2010 Activity	(270 )	(33 )	36	(267 )
December 31, 2010	(3,650 )	180	(73 )	(3,543 )
2011 Activity	(725 )	97	36	(592 )
December 31, 2011	\$ (4,375 )	\$ 277	\$ (37 )	\$ (4,135 )

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

The increase (decrease) in income tax benefits associated with each component of accumulated other comprehensive income (loss) is as follows:

(Dollars in thousands)	2011 (Restated)	2010 (Restated)	2009 (Restated)
Income tax related to OCI components beginning of year	\$ 2,344	\$ 2,168	\$ 843
Income tax (liability) changes related to:			
Unrecognized net actuarial loss	480	178	1,327
Unrecognized prior service credit	(64 )	22	22
Unrecognized transition asset	(24 )	(24 )	(24 )
Income tax related to OCI components end of year	\$ 2,736	\$ 2,344	\$ 2,168

#### Note 7. Segments

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

Our Business Sector, made up of our Fiber and Data and Equipment Segments, serves customers across a five-state region with IP-based voice, transport, data and network solutions, managed services, network integration, equipment and support services. It specializes in providing integrated unified communication solutions for businesses of all sizes - from enterprise multi-office organizations to small and medium-sized businesses, primarily in the Upper Midwest. This Sector also provides fiber and data services to wholesale service providers, such as national and regional carriers and wireless carriers within the communications business.

The Telecom Sector provides telephone services to Mankato and adjacent areas of south central Minnesota and to eleven rural communities in northwest Iowa as an ILEC. The Telecom Sector operates fiber optic cable transport facilities in Minnesota and Iowa. The Telecom Sector 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 Sector resells long distance service to Minnesota and Iowa subscribers in its ILEC and CLEC markets. The Telecom Sector, through NIBI, 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 filings to portray the organization as our chief operating decision-makers base their decisions. In 2011, with 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.

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Segment information for the years ended December 31, 2011, 2010 and 2009 is as follows:

For Year Ended December 31

(Dollars in thousands)

	Fiber and Data	Equipment	Telecom	Corporate and Eliminations (Restated)	Consolidated (Restated)
2011					
Revenue from unaffiliated customers	\$ 45,149	\$ 48,932	\$ 69,457	\$ -	\$ 163,538
Intersegment revenue	773	-	1,632	(2,405 )	-
Total operating revenue	45,922	48,932	71,089	(2,405 )	163,538
Depreciation and amortization	6,394	302	16,270	90	23,056
Operating income (loss)	7,346	2,746	11,283	(1,720 )	19,655
Interest expense	2	-	58	6,215	6,275
Income taxes	2,922	1,094	4,472	(3,446 )	5,042
Net Income (loss)	4,423	1,651	6,776	(4,449 )	8,401
Total assets (A)	73,953	22,455	126,059	21,519	243,986
Property, plant and equipment, net	59,858	1,383	92,564	125	153,930
Additions to property, plant and equipment	11,553	428	9,392	67	21,440

	Fiber and Data	Equipment	Telecom	Corporate and Eliminations (Restated)	Consolidated (Restated)
2010					
Revenue from unaffiliated customers	\$ 44,685	\$ 47,544	\$ 70,018	\$ -	\$ 162,247
Intersegment revenue	542	-	1,976	(2,518 )	-
Total operating revenue	45,227	47,544	71,994	(2,518 )	162,247
Depreciation and amortization	5,778	392	15,737	115	22,022
Operating income (loss)	7,771	2,235	11,525	(563 )	20,968
Interest expense	-	-	58	4,026	4,084
Income taxes	3,169	913	4,832	(4,549 )	4,365
Net Income (loss)	4,603	1,348	6,652	(11 )	12,592
Total assets (A)	67,151	20,717	132,381	9,939	230,188
Property, plant and equipment, net	54,732	1,140	99,037	168	155,077
Additions to property, plant and equipment	14,247	217	8,424	-	22,888

	Fiber and Data	Equipment	Telecom	Corporate and Eliminations (Restated)	Consolidated (Restated)
2009					
Revenue from unaffiliated customers	\$ 31,247	\$ 37,436	\$ 70,419	\$ -	\$ 139,102
Intersegment revenue	500	-	1,217	(1,717 )	-
Total operating revenue	31,747	37,436	71,636	(1,717 )	139,102

Depreciation and amortization	4,999	414	15,680	84	21,177
Operating income (loss)	5,458	169	13,587	(629 )	18,585
Interest expense	2	-	95	5,443	5,540
Income taxes	2,218	81	5,451	(6,702 )	1,048
Net Income	3,240	122	8,068	672	12,102
Total assets (A)	60,781	12,075	140,494	9,133	222,483
Property, plant and equipment, net	45,691	1,176	106,328	283	153,478
Additions to property, plant and equipment	8,210	528	9,068	87	17,893

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(A) Breakout of total assets between the Fiber and Data and Equipment Segments is based on estimates for 2011, 2010 and 2009 as the two segments were not accounted for separately. Estimated total assets for the Equipment Segment in 2010 and 2009 do not include goodwill or other intangible assets.

NOTE 8. STOCK COMPENSATION

Employee Stock Purchase Plan

Under the terms of our employee stock purchase plan, participating employees may acquire shares of common stock through payroll deductions of not more than 10% of their compensation. The price at which shares can be purchased is 85% of the fair market value for shares on one specified date, the end of the plan year. As of December 31, 2011, there were 500,000 common shares reserved for this plan and 400,701 shares still available for issuance. As of December 31, 2011 employees had subscribed to purchase approximately 17,461 shares for the plan year ended August 31, 2012. Employees purchased 18,564 shares for the plan year ended August 31, 2011. We recorded stock compensation expense in the amount of \$27,000 during 2011, 2010 and 2009 respectively, related to this plan.

Retainer Stock Plans for Directors

Under the terms of a corporate retainer stock plan for directors, participating directors may acquire shares of common stock in exchange for their quarterly retainers. The price at which the shares can be purchased is 100% of the fair market value for such shares on the date of purchase. Beginning in January 2010, directors began to receive \$25,000 of their annual retainer solely in shares of HickoryTech stock. As of December 31, 2011, there were 300,000 common shares reserved for this plan and 146,809 shares still available for future issuance.

Non-Employee Directors' Incentive Plan

The Non-Employee Directors' Incentive plan provided for each director to receive common stock contingent upon HickoryTech meeting pre-established objectives. This plan has not been utilized in 2011 or 2010. As of December 31, 2011 there were 200,000 common shares reserved for this plan and 152,000 shares available for future grants.

Stock Award Plan

HickoryTech's Stock Award Plan provides for the granting of non-qualified stock options, stock awards and restricted stock awards to employees. The plan provides for stock awards based on the attainment of certain financial targets and individual achievements. Stock options issued under the stock option component of the stock award plan may be exercised no later than ten years after the date of grant, with one-third of the options vesting each year. As of December 31, 2011, there were 1,750,000 common shares reserved for this plan and 835,247 shares available for future grants.

Stock Awards

We recognize stock compensation charges related to stock award plans when management concludes it is probable that the participant will earn the award. Such compensation charges are recorded based upon the fair value of our stock and are recognized during the service period specified by the stock award plan. Changes in estimated compensation are recorded in the period in which the change occurs. Stock-based compensation expense recognized was \$1,119,000, \$951,000 and \$1,021,000 in 2011, 2010 and 2009, respectively. This includes compensation expense for share-based payment awards granted prior to, but not vested as of December 31, 2011. 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.





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## Stock Options

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 its 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.

We granted 10,000 options in April 2011 to the Chief Operating Officer as a condition of employment. The weighted average grant date fair value of options issued was \$0.80 per share. Other than this stock award, options were last granted under the Company's Stock Award Plan in September 2006. The Stock Award Plan provides for the issuance of stock options, but no current compensation programs have options as a component. As of December 31, 2011, the total unrecognized compensation cost related to non-vested stock options granted under the Company's Stock Award Plan is not significant. This expense is expected to be recognized over a weighted average period of three years.

The following table details the key assumptions used in computing fair value using the Black-Scholes Option valuation model for the year ended December 31, 2011:

	2011	
Volatility	24.7	%
Dividend Yield	7.7	%
Risk-Free Interest Rates	3.0	%
Expected Life in Years	7	

A summary of all stock option activity for the three-year period ended December 31, 2011 is as follows:

	Options			Weighted Average Exercise Price		
	2011	2010	2009	2011	2010	2009
Outstanding at Beginning of Year	343,250	430,950	471,200	\$ 12.45	\$ 12.87	\$ 12.79
Granted	10,000	-	-	9.03	-	-
Exercised	(13,000 )	-	-	8.94	-	-
Forfeited	(5,800 )	-	-	12.51	-	-
Expired	(86,800 )	(87,700 )	(40,250 )	15.94	14.52	11.87
Outstanding at End of Year	247,650	343,250	430,950	\$ 11.28	\$ 12.45	\$ 12.87
Exercisable at End of Year	237,650	343,250	430,950	\$ 11.37	\$ 12.45	\$ 12.87
Fair Value of Options Vesting						
During the Year	\$ -	\$ -	\$ 7,000			
Intrinsic Value of Options						
Exercised During the Year	\$ 36,000	\$ -	\$ -			

In 2011, we received \$116,000 in cash and a \$7,000 tax benefit related to stock options exercised during the year.



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The following tables provide certain information with respect to stock options outstanding and exercisable at December 31, 2011:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
\$6.00 - \$8.00	15,000	\$ 6.95	4.7
\$8.00 - \$12.00	149,650	10.23	2.5
\$12.00 - \$16.00	83,000	13.95	0.3
	247,650	\$ 11.28	1.9

Aggregate Intrinsic Value \$ 217,300

Range of Exercise Prices	Stock Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)
\$6.00 - \$8.00	15,000	\$ 6.95	4.7
\$8.00 - \$12.00	139,650	10.32	2.0
\$12.00 - \$16.00	83,000	13.95	0.3
	237,650	\$ 11.37	1.6

Aggregate Intrinsic Value \$ 196,800

## Note 9. Extended Term Payable

Enventis 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 accounts receivable and inventory of the Business Sector and a guaranty of an amount up to \$18,000,000 by HickoryTech. The agreement requires Enventis 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 Enventis, our subsidiary would require HickoryTech to perform under the guarantee. 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 \$6,920,000 and \$8,254,000 at December 31, 2011 and 2010, respectively. These balances are classified as current liabilities in the accompanying Balance Sheets and are not considered part of our debt financing.

#### Note 10. Debt and Other Obligations

Our long-term obligations as of December 31, 2011 were \$118,828,000, excluding current maturities of \$1,200,000 on debt and \$207,000 on current maturities of capital leases. Long-term obligations as of December 31, 2010 were \$114,067,000 excluding current maturities of \$4,550,000 on debt and \$342,000 of capital leases.

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 December 31, 2011; \$35,000 is reserved for outstanding letters of credit) and a \$120,000,000 term loan component (\$119,700,000 outstanding as of December 31, 2011).

The term loans are structured in a Term Loan B facility. The outstanding principal balance of Term Loan B is \$119,700,000 as of December 31, 2011. Under the terms, we are required to make quarterly principal payments of \$300,000 beginning March 31, 2012. There was no outstanding principal balance under the revolving credit component as of December 31, 2011 and the revolving credit component does not require quarterly principal payments. Any remaining amounts outstanding on the revolving credit component and Term Loan B 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 \$529,000 in 2011, \$525,000 in 2010 and \$512,000 in 2009.

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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 December 31, 2011 was 2.8. 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 December 31, 2011 was 5.5. Tables outlining these calculations can be found in the Liquidity and Capital Resources section found on page 16. 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 Business Sector 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 debt covering 60% of our debt. Additional information on our interest-rate swap agreements can be found under Note 13. "Financial Derivative Instruments."

Our effective interest rate was 4.1%, 4.1% and 5.5% in 2011, 2010 and 2009, respectively. Annual requirements for principal payments for the years subsequent to 2011 are as follows: 2012 – \$1,200,000; 2013 – \$1,200,000; 2014 – \$1,200,000, 2015 – \$1,200,000 and 2016 – \$114,900,000.

Note 11. Employee Retirement Benefits

Employees who meet certain service requirements are covered under a defined contribution retirement savings plan, which includes IRS Section 401(k) provisions. We contribute up to 6% of the employee's eligible compensation, based on the employee's voluntary contribution. Our contributions and costs for the retirement savings plan were \$1,581,000 in 2011, \$1,538,000 in 2010 and \$1,497,000 in 2009. These obligations are fully funded.

In addition to providing retirement savings benefits, we provide post-retirement health care and life insurance benefits for eligible employees. We are not currently funding these post-retirement benefits, but have accrued these liabilities. New employees hired on or after January 1, 2007 are not eligible for post-retirement health care and life insurance benefits. Based on valuation assumptions at December 31, 2011, post-retirement benefits expected to be paid for the next five years and thereafter are as follows: 2012- \$429,000; 2013 - \$509,000; 2014 - \$622,000; 2015 – \$627,000; 2016 – \$658,000 and thereafter – \$3,773,000.

We are required to recognize the funded status of our post-retirement benefit plans on the consolidated balance sheet and recognize as a component of accumulated other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period, but are not recognized as components of net periodic benefit cost.

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The following table summarizes the balance sheet impact, including the benefit obligations and assets associated with our post-retirement benefit plans as of December 31, 2011 and 2010, respectively.

(Dollars in thousands)	2011	2010
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 14,971	\$ 13,270
Service cost	509	452
Interest cost	799	723
Amendments	(216 )	-
Actuarial loss	1,632	844
Benefits paid	(369 )	(318 )
Benefit obligation at end of year	\$ 17,326	\$ 14,971

(Dollars in thousands)	2011	As of December 31	
		2010	2009
Components of net periodic benefit cost			
Service cost	\$ 509	\$ 452	\$ 309
Interest cost	799	723	547
Expected return on plan assets	-	-	-
Amortization of transition obligation	60	60	60
Amortization of prior service cost	(55 )	(55 )	(55 )
Recognized net actuarial loss	429	391	134
Net periodic benefit cost	\$ 1,742	\$ 1,571	\$ 995
Discount rate used to determine benefit obligation			
As of December 31:	4.4 %	5.4 %	5.5 %

In 2012, we expect to recognize approximately \$60,000 of the transition obligation, (\$76,000) of the prior service credit and \$540,000 of the net actuarial loss as a component of total period post-retirement benefit expense.

Health Care Trend Rates for the Year Ending December 31, 2011	Year	Trend Rate
	2012-2013	6.2%
	2013-2014	6.1%
	2014-2015	5.9%
	2015-2016	5.8%
	2016-2017	5.8%
	2017-2018	5.8%
	2018-2019	5.8%
	2019-2020	5.8%
	2020-2080	5.8%-4.7%
	2081	4.7%

(Dollars in thousands)	1% Increase	1% Decrease
Effect of 1% Increase and 1% Decrease in Trend Rate		
Accumulated post-retirement benefit obligation as of December 31, 2011		
Dollar	\$ 2,991	\$ (2,388 )
Percentage change in retiree medical costs	17.3 %	(13.8 %)

Service cost and interest cost for fiscal 2011

Dollar	\$	278		\$	(218	)
Percentage change in retiree medical costs		20.5	%		(16.0	%)



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The fair value of our pension plans were determined based on level 3 inputs. Our methodology for measuring the accumulated post-retirement benefit obligation is based on guidance published by the Society of Actuaries. Health care rates trend downward in the calculations in smaller increments over a longer period of time. The health care cost trend rate used in determining the accumulated post-retirement benefit obligations was 6.2% in 2012 and decreases gradually until it reaches 5.8% in 2015 and ultimately 4.7% in 2081. These initial trend rate assumptions were provided based on a study of the ten-year history of our self-funded medical benefits plan. A one-percentage point increase in the health care inflation rate for each year would increase the accumulated post-retirement benefit obligation by \$2,991,000. A one-percentage point decrease in the health care inflation rate for each year would decrease the accumulated post-retirement benefit obligation by \$2,388,000.

We are required to recognize a current federal subsidy that we may receive for providing prescription drug coverage to retirees. Substantial portions of the prescription drug benefits provided under our post-retirement benefit plan are deemed actuarially equivalent to the benefits provided under Medicare Part D. As of December 31, 2011 and 2010, the reduction in the accumulated post-retirement benefit obligation due to the subsidy was \$2,833,000 and \$1,921,000, respectively.

## Note 12. Income Taxes

The income tax provision (benefit) for operations for the years ended December 31, 2011, 2010 and 2009 include the following components:

(Dollars in thousands)	2011 (Restated)	2010 (Restated)	2009 (Restated)
Current income taxes (benefits):			
Federal	\$ 346	\$ (936 )	\$ (1,144 )
State	98	(266 )	(325 )
Deferred income taxes (benefits):			
Federal	3,132	5,428	2,583
State	1,466	139	(66 )
Total income tax provision	\$ 5,042	\$ 4,365	\$ 1,048

Deferred tax liabilities and assets are comprised of the following at December 31:

(Dollars in thousands)	2011	2010
Tax liabilities:		
Depreciation and fixed assets	\$ 30,142	\$ 25,699
Intangible assets	8,800	8,238
Other	201	-
Gross deferred tax liability	\$ 39,143	\$ 33,937
Tax Assets:		
Deferred compensation and post-retirement benefits	\$ 7,922	\$ 6,939
Receivables and inventories	311	349
Accrued liabilities	814	777
Derivatives	983	430
State net operating loss	1,759	1,764
Other	19	542
Gross deferred tax asset	11,808	10,801
Valuation allowance	(1,733 )	(1,724 )

Net deferred tax liability	29,068	24,860
Current deferred tax asset	1,559	2,008
Net non-current deferred tax liability	\$ 30,627	\$ 26,868

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We have Iowa net operating loss carry-forwards for tax purposes available to offset future income of approximately \$26,700,000 at December 31, 2011. The Iowa net operating loss carry-forwards expire in varying amounts between 2018 and 2029. Due to the historical generation of net operating losses by our subsidiaries operating in Iowa and management's belief that the Iowa operations will not generate significant positive taxable income in the future, the utilization of these net operating loss carry-forwards is doubtful. A valuation allowance has been established to reduce the carrying value of the benefits associated with the Iowa net operating losses incurred by our subsidiaries in the state of Iowa. We also have a net operating loss carry-forward of approximately \$3,500,000 incurred by the parent company in the state of Minnesota. Management believes that it is unlikely that we will realize all of the benefits associated with the Minnesota net operating loss prior to the expiration of the carry forward period. Therefore, a valuation allowance was established to reduce the carrying value of the benefits associated with the net operating losses incurred by the parent company in Minnesota. Future events and changes in circumstances could cause this valuation allowance to change.

The reconciliation of the U.S. income tax rate to the effective income tax rate for continuing operations is as follows:

	For Year Ended December 31					
	2011 (Restated)		2010 (Restated)		2009 (Restated)	
Statutory tax rate	35.0	%	35.0	%	35.0	%
Effect of:						
State income taxes net of federal tax benefit	6.1		6.1		6.1	
Release of income tax reserve and prior year adjustments	(2.6	)	(16.3	)	(33.6	)
Medicare part D subsidy	0.0		1.6		(0.5	)
Uncertain tax positions	0.1		0.4		1.3	
Acquisition costs	-		-		0.7	
Other, net	(1.1	)	(1.0	)	(1.1	)
Effective tax rate	37.5	%	25.8	%	7.9	%

When addressing uncertainty in tax positions, we are required to apply a minimum recognition threshold that income tax positions must achieve before being recognized in the financial statements.

As of December 31, 2011, we had unrecognized tax benefits totaling \$149,000 (net of tax) excluding interest. The amount of unrecognized tax benefits, if recognized, that would affect the effective income tax rate in future periods is \$130,000. During 2011, we recognized approximately \$357,000 of previously unrecognized tax benefits and approximately \$49,000 of associated interest as a result of the expiration of statute of limitations. It is reasonably possible that the total amount of unrecognized tax benefits may decrease by approximately \$11,000 during the next 12 months as a result of expirations of statute of limitations.

We recognize interest and penalties related to income tax matters as income tax expense. As of December 31, 2011, we have accrued \$5,000 (net of tax) for interest related to unrecognized tax benefits.

The following roll-forward of unrecognized tax benefits excludes interest accrued on unrecognized tax benefits and is presented gross of any expected federal tax benefits related to unrecognized state tax benefits.

(Dollars in thousands)	2011	2010
Unrecognized tax benefits opening balance (excluding interest)	\$ 697	\$ 3,215
Increases:		
Tax positions taken in current period	8	17

Settlements	(15 )	-
Lapse of statute limitations	(409 )	(2,535 )
Ending balance (excluding interest)	\$ 281	\$ 697

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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 and examinations by state tax authorities for the years prior to 2008 except to the extent of losses utilized in subsequent years.

In June 2009, the Internal Revenue Service completed an examination of our 2006 federal consolidated income tax return. Also, in January 2011, the Minnesota Department of Revenue completed an examination of our 2006, 2007 and 2008 state unitary income tax returns. The result of these audits was not significant.

### Note 13. 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.

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. Thus the fair value of our interest rate swap agreements represents the estimated receipts or payments that would be made to terminate the agreements. Three levels of inputs may be used to measure fair value:

- 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 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 December 31, 2011 is recorded as financial derivative instruments under the long-term liabilities section of our balance sheet. As our former interest-rate swap agreement expired in September 2011, the fair value of our derivatives at December 31, 2010 was recorded as financial derivative instruments under the short-term liabilities section of our balance sheet as of December 31, 2010.

The fair value of our derivatives at December 31, 2011 and December 31, 2010 is a net liability of \$2,469,000 and \$1,079,000, respectively. The change in the market value of financial derivative instruments during a period is recognized in earnings for that period. The table below illustrates the effect of derivative instruments on consolidated operations for the years ended December 31, 2011, 2010 and 2009.

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(Dollars in thousands)

Derivatives Instruments in Hedging Relationships	Location of Financial Impact of Derivatives into Income	2011	Increase/(Decrease) in Interest Expense	
			2010	2009
Interest Rate Contracts	Interest Expense	\$ 1,390	\$ (830 )	\$ (1,378 )

## Note 14. Commitments, Contingencies, and Concentrations

We are involved in certain contractual disputes in the ordinary course of business, but do not believe the resolution of any of these existing matters will have a material adverse effect on our financial position, results of operations or cash flows.

In August 2010, we were awarded a NTIA Broadband Technology Opportunities Program grant to extend our middle mile fiber-optic network across greater Minnesota connecting health care facilities, schools, libraries, higher education institutions and public offices with an advanced high-capacity broadband network. This project involves approximately \$24,000,000 of capital expenditures of which \$16,800,000 is funded by the NTIA grant. We began capitalizing costs associated with this project in 2010 and began receiving grant funds in June 2011. The table below provides an overview of the capital expenditures incurred on this project along with reimbursements pending or received from the program. We anticipate the completion of this project by August 2013.

(Dollars in thousands)

Capital Expenditures Incurred as of December 31, 2011	Capital Expenditures Pending Reimbursement from NTIA	NTIA Reimbursements Received as of December 31, 2011
\$12,664	\$1,920	\$6,945

We have built our equipment practice around the Cisco brand. We generated sales of approximately \$49,000,000, \$48,000,000, and \$37,000,000 in the years ended 2011, 2010 and 2009, respectively. The loss of Cisco as our principal supplier could significantly impact this revenue stream. We consider our relationship with Cisco to be sound.

We have a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 949, which involves approximately 20% of our employees. The current labor agreement expires in 2013.

## Operating Lease Commitments

We own most of our major facilities, but do lease certain office space, land and equipment under principally non-cancelable operating leases. Rental expense was \$1,853,000 in 2011, \$1,654,000 in 2010 and \$1,683,000 in 2009. At December 31, 2011, future minimum operating lease rental obligations for the next five years and thereafter are as follows: 2012 - \$1,680,000; 2013- \$1,377,000; 2014 - \$1,306,000; 2015 - \$1,261,000; 2016 - \$587,000 and thereafter - \$2,045,000.

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## Note 15. Quarterly Financial Information (Unaudited)

The following table summarizes the unaudited quarterly Statement of Operations for the 2011 and 2010. See Note 2 to the Notes to the Consolidated Financial Statements for a discussion of the nature of the restatement.

(Dollars in thousands, except share data)	2011							
	1st		2nd		3rd		4th	
	As Reported (2)	Restated (1)	As Reported (2)	Restated (1)	As Reported (2)	Restated (1)	As Reported (2)	Restated (1)
Operating Revenue	\$ 38,622	\$ 38,622	\$ 40,108	\$ 40,108	\$ 45,244	\$ 45,244	\$ 39,564	\$ 39,564
Operating income	\$ 4,666	\$ 4,666	\$ 5,002	\$ 5,002	\$ 6,342	\$ 6,342	\$ 3,645	\$ 3,645
Net income	\$ 2,142	\$ 2,346	\$ 2,694	\$ 2,348	\$ 2,971	\$ 2,133	\$ 1,430	\$ 1,574
Other comprehensive income, net of taxes	\$ 269	\$ 65	\$ (280 )	\$ 66	\$ (774 )	\$ 64	\$ (643 )	\$ (787 )
Total comprehensive income	\$ 2,411	\$ 2,411	\$ 2,414	\$ 2,414	\$ 2,197	\$ 2,197	\$ 787	\$ 787
Basic earnings per share	\$ 0.16	\$ 0.18	\$ 0.20	\$ 0.18	\$ 0.22	\$ 0.16	\$ 0.11	\$ 0.12
Fully diluted earnings per share	\$ 0.16	\$ 0.18	\$ 0.20	\$ 0.18	\$ 0.22	\$ 0.16	\$ 0.11	\$ 0.12
Dividends per share	\$ 0.135	\$ 0.135	\$ 0.135	\$ 0.135	\$ 0.135	\$ 0.135	\$ 0.14	\$ 0.14
	2010							
	1st		2nd		3rd		4th	
	As Reported (2)	Restated (1)	As Reported (2)	Restated (1)	As Reported (2)	Restated (1)	As Reported (2)	Restated (1)
Operating Revenue	\$ 38,720	\$ 38,720	\$ 38,268	\$ 38,268	\$ 43,480	\$ 43,480	\$ 41,779	\$ 41,779
Operating income	\$ 4,460	\$ 4,460	\$ 5,657	\$ 5,657	\$ 6,388	\$ 6,388	\$ 4,463	\$ 4,463
Net income	\$ 1,427	\$ 1,596	\$ 3,510	\$ 3,642	\$ 5,043	\$ 5,035	\$ 2,114	\$ 2,319
Other comprehensive income, net of taxes	\$ 228	\$ 59	\$ 191	\$ 59	\$ 52	\$ 60	\$ (240 )	\$ (445 )
Total comprehensive income	\$ 1,655	\$ 1,655	\$ 3,701	\$ 3,701	\$ 5,095	\$ 5,095	\$ 1,874	\$ 1,874
	\$ 0.11	\$ 0.12	\$ 0.27	\$ 0.28	\$ 0.38	\$ 0.38	\$ 0.16	\$ 0.17



Basic earnings per share								
Fully diluted earnings per share	\$ 0.11	\$ 0.12	\$ 0.27	\$ 0.28	\$ 0.38	\$ 0.38	\$ 0.16	\$ 0.17
Dividends per share	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.13	\$ 0.135	\$ 0.135

(1) See Note 2 related to the restated consolidated financial statements.

(2) Previously reported numbers have been restated due to the change in accounting for interest rate swap agreements.

The summation of quarterly earnings per share computations may not equate to the year-end computation as the quarterly computations are performed on an individual basis.

#### Note 16. Subsequent Events

Our wholesale financing agreement with GE Commercial Distribution Finance Corporation was amended February 28, 2012, to isolate the collateral associated with the wholesale financing agreement to a separate subsidiary, Enterprise Integration Services, Inc. This separate subsidiary exclusively handles our equipment sales and service. The amended agreement reduced the parent company guaranty from \$18,000,000 to \$2,500,000.

On March 1, 2012, we completed our acquisition of IdeaOne Telecom Group, LLC, a metro fiber network provider, serving Fargo, North Dakota, for the purchase price of \$28,000,000 plus routine working capital adjustments. The acquisition was funded with existing liquidity through cash reserves and \$22,000,000 of term loan debt which is integrated with our senior credit facility which was initiated in August 2011. The acquisition advances our strategy to grow our business and broadband services. The acquisition will add 225 fiber route miles to our existing regional fiber network, 38 employees to our workforce and will add an office in Fargo, North Dakota. Its operations will be integrated into our Fiber and Data Segment. During the year-ended December 31, 2011 we have incurred \$510,000 of acquisition related expenses which have been recorded as selling, general and administrative expense. We have not yet completed a Balance Sheet or resulting goodwill allocation as of the acquisition date.

In conjunction with the closing of IdeaOne, on March 1, 2012 we entered into an Incremental Term credit facility for \$22,000,000. The Incremental Term credit facility is an integral part of the senior credit facility we entered into on August 11, 2011, and it shares the same terms and conditions as the senior credit facility.

HickoryTech's Board of Directors has declared a regular quarterly dividend of \$0.14 cents per share, payable March 5, 2012 to shareholders of record on February 15, 2012.

On November 5, 2012 the banks in our credit facility syndicate provided a waiver of our specific breaches in representations provided to them regarding GAAP related to the financial information restatement.

We have evaluated and disclosed subsequent events through the filing date of this Amendment No. 1 on Form 10-K/A.

#### Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

#### Item 9A. Controls and Procedures

### EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES AND CHANGES IN INTERNAL CONTROLS

#### (a) BACKGROUND RELATIVE TO RESTATEMENT

We are restating our previously reported financial information as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, to change our accounting for our interest rate swap agreements under FASB ASC 815, "Derivatives and Hedging."

We account for our financial derivative instruments in accordance with FASB ASC 815. The Standard requires that all derivative instruments 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 accounted for these instruments as a cash flow hedge under FASB ASC 815 allowed us to record changes in the instruments' fair value in other comprehensive income. 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. Eliminating the application of cash flow hedge accounting reverses the fair value adjustments that were made to other comprehensive income and transfers the fair value adjustments into earnings. Following our conclusion to restate our financial statements, we initiated a comprehensive review of all our determinations and documentation related to accounting for our interest rate swaps, as well as related processes and procedures.

(b) DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report on Form 10-K (the Evaluation Date), we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer with the oversight of the Audit Committee, regarding the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended).

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Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded, as of the end of the period covered by this Annual Report, that our disclosure controls and procedures were not effective as a result of the identified material weakness in internal control over financial reporting, the nature of which is summarized below.

### (c) MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, we concluded that our internal control over financial reporting was not effective as of December 31, 2011.

The Company did not have effective controls to provide reasonable assurance as to the appropriate selection and implementation of accounting methods with respect to accounting for its interest rate swap financial derivative instruments. We lacked adequate technical expertise to ensure the proper application, at inception and on an ongoing basis, of the criteria for the cash flow hedge accounting method within the provisions of FASB ASC 815, "Derivatives and Hedging", for our interest rate swaps. This material weakness resulted in our restatement of the consolidated financial statements for the years ended December 31, 2011, 2010, 2009, 2008 and 2007 and for the interim periods in 2011 and 2010.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company's independent auditor, Grant Thornton LLP, a registered public accounting firm, has issued an audit report on our management's revised assessment of our internal control over financial reporting as of December 31, 2011.

### (d) REMEDIATION OF MATERIAL WEAKNESS

To remediate the material weakness described above and enhance our internal control over financial reporting, subsequent to the filing of this Form 10-K/A, management will implement the following changes:

- Conduct all hedge accounting with the consultation of a third party independent expert, for advice and with consideration of the latest interpretation of the FASB rules.
- Improve training and education and understanding of hedge accounting requirements with generally accepted accounting principles for all relevant personnel involved in derivatives transactions.
- Enlist the services of a third party internal control expert to conduct a review of Company financial reporting controls.

- Revise our documentation to qualify for hedge accounting in accordance with generally accepted accounting principles with the assistance of outside experts. This includes ongoing monitoring and review to ensure the continuing qualification of hedge accounting.

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(e) CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Exchange Act Rules 13a-15 or 15d-15 that was conducted during the last fiscal quarter of 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this Amendment No. 1 on Form 10-K/A:

1. Index of Consolidated Financial Statements

The following consolidated financial statements are included at the indicated pages in this Amendment No. 1 on Form 10-K/A and incorporated in this Item 15(a) by reference:

	Page
Reports of Independent Registered Public Accounting Firm	26
Consolidated Statements of Operations	28
Consolidated Balance Sheets	29
Consolidated Statements of Cash Flows	30
Consolidated Statements of Shareholder's Equity and Comprehensive Income	31
Notes to Consolidated Financial Statements	32

2. Financial Statement Schedule

	Page
Schedule II – Valuation and Qualifying Accounts	60

3. Exhibits

The following documents are filed as Exhibits to this Amendment No. 1 on Form 10-K/A or incorporate by reference herein. Any document incorporated by reference is identified by a parenthetical reference to the SEC filing which included such document.

Exhibit Description

- 3(a) Restated Articles of Incorporation (Incorporated by reference to Exhibit 3 to the Registrant's Form 10-Q filed May 7, 1999)
- 3(b) Amended and Restated By-Laws (Incorporated by reference to Exhibit 3.1 to the Registrant's Form 10-Q filed May 3, 2007)
- 3(c) Certificate of Designations of Series A Junior Participating Preferred Stock of HickoryTech Corporation (Incorporated by reference to Exhibit 3(c) to the Registrant's Form 10-K filed March 29, 2000)

4(a)

Amended and Restated Shareholder Rights Agreement (Incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-A filed March 17, 2009)

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Exhibit Description

- 4(b) Credit Agreement dated as of August 11, 2011, by and among Hickory Tech Corporation, as Borrower, the Lenders referred to therein and CoBank, ACB as Administrative Agent (Incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed August 12, 2011)
- 4(c) Collateral Agreement dated as of August 11, 2011, by and among Hickory Tech Corporation and certain of its subsidiaries as Grantors, and CoBank, ACB as Administrative Agent (Incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-K filed August 12, 2011)
- 4(d) Incremental Term Loan Agreement, dated as of March 1, 2012, by and among Hickory Tech Corporation, as Borrower, the Lenders referred to therein and CoBank, ACB, as Administrative Agent and a Lender (Incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-K filed March 5, 2012)
- 10.1+ Supplemental Retirement Agreement dated January 31, 1984, between registrant's subsidiary, Mankato Citizens Telephone Company, and David A. Christensen (Incorporated by reference to Exhibit 10(b) to the Registrant's Form S-8 filed June 22, 1993)
- 10.2+ HickoryTech Corporation Directors' Stock Option Plan Amended and Restated February 5, 2003 (Incorporated by reference to Exhibit 10(g) to the Registrant's Form 10-K filed March 9, 2004)
- 10.3+ HickoryTech Corporation Retainer Stock Plan for Directors Restated and Amended effective September 1, 1996 (Incorporated by reference to Exhibit 10(m) to the Registrant's Form 10-Q filed August 14, 1996)
- 10.4+ HickoryTech Corporation 1993 Stock Award Plan (Amended and Restated effective September 26, 2001) (Incorporated by reference to Exhibit 10(l) to the Registrant's Form 10-K filed March 27, 1997)
- 10.5+ Form of Non-Incentive Stock Option Agreement used in connection with grants under the 1993 Stock Award Plan (Incorporated by reference to Exhibit 10(r) to the Registrant's Form 10-K filed March 4, 2005)
- 10.6+ HickoryTech Corporation 2005 Directors' Incentive Plan (Incorporated by reference to Exhibit 10(s) to the Registrant's Form 8-K filed May 12, 2005)
- 10.7 Stock Purchase Agreement by and between HickoryTech Corporation and Minnesota Power Enterprises, Inc. dated November 9, 2005 (Incorporated by reference from Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on November 10, 2005)
- 10.8 First Amendment to Stock Purchase Agreement by and between HickoryTech Corporation and Minnesota Power Enterprises, Inc., dated December 30, 2005 (Incorporated by reference to Exhibit 2.1A to the Registrant's Current Report on Form 8-K filed on January 5, 2006)
- 10.9+ HickoryTech Corporation Employee Stock Purchase Plan, Amended and Restated August 1, 2006 (Incorporated by reference to Exhibit 10.14 to the Registrants Form 10-K dated February 29, 2008)
- 10.10+ Employment Agreement between HickoryTech and John W. Finke, President and Chief Executive Officer of the Company, dated August 1, 2006, which includes a Supplemental Retirement Agreement (Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed August 16, 2006); Amendment to Employment Agreement dated November 29, 2007 (Incorporated by reference to Exhibit 10.21 to the Registrant's Form 10-K dated February 29, 2008)
- 10.11+



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HickoryTech Corporation Executive Incentive Plan Amended and Restated January 1, 2011 (Incorporated by reference to Exhibit 10.3 to the Registrant's Form 10-Q filed May 3, 2011)

10.12+ HickoryTech Corporation Long-Term Executive Incentive Program Amended and Restated January 1, 2010 (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed April 27, 2010)

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Exhibit Description

- 10.13+ Amended and Restated Change of Control Agreement dated December 10, 2010 between HickoryTech Corporation and Walter A. Prah (Incorporated by reference to Exhibit 10.14 to the Registrant's Form 10-K filed March 1, 2011)
- 10.14+ Amended and Restated Change of Control Agreement dated December 10, 2010 between HickoryTech Corporation and John W. Finke (Incorporated by reference to Exhibit 10.15 to the Registrant's Form 10-K filed March 1, 2011)
- 10.15+ Amended and Restated Change of Control Agreement dated December 10, 2010 between HickoryTech Corporation and David A. Christensen (Incorporated by reference to Exhibit 10.16 to the Registrant's Form 10-K filed March 1, 2011)
- 10.16+ Amended and Restated Change of Control Agreement dated December 10, 2010 between HickoryTech Corporation and Lane C. Nordquist (Incorporated by reference to Exhibit 10.17 to the Registrant's Form 10-K filed March 1, 2011)
- 10.17+ Amended and Restated Change of Control Agreement dated December 10, 2010 between HickoryTech Corporation and Mary T. Jacobs (Incorporated by reference to Exhibit 10.18 to the Registrant's Form 10-K filed March 1, 2011)
- 10.18+ Employment Agreement dated April 4, 2011 between HickoryTech Corporation and Carol Wirsbinski (Incorporated by reference to Exhibit 10.1 to the Registrant's Form 10-Q filed May 3, 2011)
- 10.19+ Change of Control Agreement dated April 4, 2011 between HickoryTech Corporation and Carol Wirsbinski (Incorporated by reference to Exhibit 10.2 to the Registrant's Form 10-Q filed May 3, 2011)
- 10.20+ Membership Interest Purchase Agreement by and among Hickory Tech Corporation, North Dakota Telecom I, LLC, and Southeast Rural Vision Enterprises, Co. for the acquisition of IdeaOne Telecom Group, LLC (Incorporated by reference to Exhibit 2.1 to the Registrant's Form 8-K filed December 6, 2011)
- 10.21 Inventory Financing Agreement, dated February 28, 2012, among Enterprise Integration Services, Inc., a wholly owned subsidiary of Hickory Tech Corporation, and GE Commercial Distribution Finance Corporation, as amended (Incorporated by reference to Exhibits 99.1 and 99.2 to the Registrant's Form 8-K filed February 29, 2012)
- 14 HickoryTech Corporation Code of Ethics (Incorporated by reference to Exhibit 99.1 to the Registrant's Form 8-K filed September 27, 2011)
- 21\* Subsidiaries of HickoryTech Corporation
- 23.1\* Consent of Independent Registered Public Accounting Firm
- 31(a)\* Certification of Chief Executive Officer Under Rule 13a-14(a) Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31(b)\* Certification of Chief Financial Officer Under Rule 13a-14(a) Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32(a)\* Certification of Chief Executive Officer Under 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32(b)\* Certification of Chief Financial Officer Under 18 U.S.C. Section 1350 Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\* Filed herewith.

+ Management compensation plan or arrangement required to be filed as an exhibit.

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SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
HickoryTech Corporation  
(Dollars in thousands)

Description	Balance at Beginning of Period	Additions		Deductions	Balance at End of Period
		Charged to Costs and Expenses	Charged to Other Accounts		
Year ended December 31, 2009					
Allowance for doubtful accounts	\$ 905	\$ 128	\$ -	\$ (390 )	\$ 643
Deferred tax asset valuation allowance	1,687	8	-	-	1,695
<b>Total</b>	<b>\$ 2,592</b>	<b>\$ 136</b>	<b>\$ -</b>	<b>\$ (390 )</b>	<b>\$ 2,338</b>
Year ended December 31, 2010					
Allowance for doubtful accounts	\$ 643	\$ 1,010	\$ -	\$ (1,083 )	\$ 570
Deferred tax asset valuation allowance	1,695	29	-	-	1,724
<b>Total</b>	<b>\$ 2,338</b>	<b>\$ 1,039</b>	<b>\$ -</b>	<b>\$ (1,083 )</b>	<b>\$ 2,294</b>
Year ended December 31, 2011					
Allowance for doubtful accounts	\$ 570	\$ 299	\$ -	\$ (433 )	\$ 436
Deferred tax asset valuation allowance	1,724	9	-	-	1,733
<b>Total</b>	<b>\$ 2,294</b>	<b>\$ 308</b>	<b>\$ -</b>	<b>\$ (433 )</b>	<b>\$ 2,169</b>

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: November 9, 2012

By:

HICKORYTECH CORPORATION  
/s/ David A. Christensen---  
David A. Christensen, Secretary  
Senior Vice President, Chief Financial  
Officer and Treasurer

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the registrant and in the capacities and on the dates indicated have signed this report.

/s/ Dale E. Parker  
Dale E. Parker, Chair  
November 9, 2012

/s/ John W. Finke  
John W. Finke  
President, Chief Executive Officer and Director  
(principal executive officer)  
November 9, 2012

/s/ David A. Christensen  
David A. Christensen, Secretary, Senior Vice President, Chief  
Financial Officer and Treasurer (principal financial officer and  
principal accounting officer)  
November 9, 2012

/s/ R. Wynn Kearney, Jr.  
R. Wynn Kearney, Jr., Director  
November 9, 2012

/s/ Robert D. Alton  
Robert D. Alton, Director  
November 9, 2012

/s/ Lyle T. Bosacker  
Lyle T. Bosacker, Director  
November 9, 2012

/s/ James W. Bracke  
James W. Bracke, Director  
November 9, 2012

(a majority of directors)

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