HICKORY TECH CORP
Form 10-Q
May 03, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

x	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 31, 2007**
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to .**

Commission file number 0-13721

HICKORY TECH CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer x Non-accelerated filer o.

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

The total number of shares of the registrant s common stock outstanding as of April 30, 2007: 13,243,454.

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HICKORY TECH CORPORATION

Consolidated Statements of Operations
(Unaudited)

(In Thousands Except Per Share Amounts)	**Three Months Ended March 31 2007**	**2006**
Operating revenues:		
Telecom sector	**$ 19,037**	$ 18,656
Enventis sector	**17,890**	14,084
Total operating revenues	**36,927**	32,740
Costs and expenses:		
Cost of sales, Enventis	**10,314**	7,683
Cost of services (excluding depreciation and amortization)	**10,917**	10,416
Selling, general and administrative expenses (excluding depreciation and amortization)	**5,836**	6,124
Depreciation	**4,504**	4,045
Amortization of intangibles	**289**	293
Total costs and expenses	**31,860**	28,561
Operating income	**5,067**	4,179
Other income/(expense):		
Interest and other income	**84**	30
Interest expense	**(2,182)**	(1,649)
Total other income/(expense)	**(2,098)**	(1,619)
Income before income taxes	**2,969**	2,560
Income taxes	**1,201**	1,027
Income from continuing operations	**1,768**	1,533
Discontinued operations:		
Loss from operations of discontinued component	**(2)**	(240)
Income tax provision benefit	**(1)**	(96)
Loss from discontinued operations	**(1)**	(144)
Net income	**$ 1,767**	$ 1,389
Basic earnings per share - continuing operations	**$ 0.13**	$ 0.12
Basic loss per share - discontinued operations		(0.01)
	$ 0.13	$ 0.11
Dividends per share	**$ 0.12**	$ 0.12
Basic weighted average common shares outstanding	**13,240**	13,134
Diluted earnings per share - continuing operations	**$ 0.13**	$ 0.12
Diluted loss per share - discontinued operations		(0.01)
	$ 0.13	**$ 0.11**
Diluted weighted average common and equivalent common shares outstanding	**13,241**	13,134

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

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HICKORY TECH CORPORATION

Consolidated Balance Sheets

(Unaudited)

(In Thousands Except Per Share Amounts)	**March 31, 2007**	**December 31, 2006**
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,791**	$ 84
Receivables, net of allowance for doubtful accounts of $829 and $851	**22,861**	20,780
Inventories	**8,446**	11,294
Income tax receivable	**998**	
Deferred income taxes	**815**	815
Prepaid expenses	**2,007**	1,903
Other	**818**	1,662
Total current assets	**37,736**	36,538
Investments	**3,830**	3,554
Property, plant and equipment	**308,630**	309,264
Less accumulated depreciation	**157,055**	156,429
Property, plant and equipment, net	**151,575**	152,835
Other assets:		
Goodwill	**25,239**	25,239
Intangible assets, net	**2,851**	3,140
Financial derivative instruments		2,489
Deferred costs and other	**2,979**	3,105
Total other assets	**31,069**	33,973
Total assets	**$ 224,210**	$ 226,900
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Checks written in excess of available cash balances	**$**	$ 1,475
Short-term financing	**9,743**	7,719
Accounts payable	**3,601**	4,211
Accrued expenses	**5,073**	5,167
Accrued interest	**415**	447
Accrued income taxes		4,528
Advanced billings and deposits	**3,413**	3,488
Current portion - post retirement benefits	**264**	212
Current maturities of long-term obligations	**1,635**	1,560
Total current liabilities:	**24,144**	28,807
Long-term liabilities:		
Debt obligations, net of current maturities	**137,474**	141,529
Accrued income taxes	**6,666**	
Deferred income taxes	**14,294**	15,332
Deferred revenue	**2,368**	2,596
Accrued employee benefits and deferred compensation	**8,566**	8,550
Financial derivative instruments	**66**	
Total long-term liabilities:	**169,434**	168,007
Total liabilities	**193,578**	196,814
Commitments and contingencies (Note 8)		

Shareholders' equity:		
Common stock, no par value, $.10 stated value shares authorized: 100,000		
Shares issued and outstanding: 13,248 in 2007 and 13,208 in 2006	**1,325**	1,321
Additional paid-in capital	**10,148**	9,992
Retained earnings	**18,568**	18,323
Accumulated other comprehensive income(loss)	**591**	450
Total shareholders equity	**30,632**	30,086
Total liabilities and shareholders equity	**$ 224,210**	$ 226,900

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

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HICKORY TECH CORPORATION

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars In Thousands)	**Three Months Ended March 31 2007**	**2006**
Cash flows from operating activities:		
Net income	**$ 1,767**	$ 1,389
Adjustments to reconcile net income to net		
Cash provided by operating activities:		
Loss from discontinued operations	**1**	144
Depreciation and amortization	**4,793**	4,338
Amortization of gain on sale of financial derivative instrument	**(277)**	
Accrued patronage refunds	**221**	(290)
Deferred income tax provision (benefit)	**(20)**	63
Other	**263**	356
Changes in operating assets and liabilities:		
Receivables	**(2,260)**	(702)
Inventories	**2,848**	(1,339)
Accounts payable and accrued expenses	**(735)**	(784)
Deferred revenue, billings and deposits	**(303)**	(439)
Prepaid assets	**(103)**	2,818
Income taxes	**1,203**	939
Other	**470**	384
Net cash provided by operating activities	**7,868**	6,877
Cash flows from investing activities:		
Additions to property, plant and equipment	**(2,730)**	(3,830)
Other	**44**	151
Net cash used in investing activities	**(2,686)**	(3,679)
Cash flows from financing activities:		
Short-term financing	**2,024**	4,456
Checks written in excess of available cash balances	**(1,475)**	(514)
Payments of capital lease obligations	**(110)**	(119)
Repayments on credit facility	**(6,325)**	(8,860)
Borrowings on credit facility	**2,000**	3,000
Proceeds from the sale of financial derivative instrument	**1,936**	
Proceeds from issuance of common stock	**60**	64
Dividends paid	**(1,585)**	(1,576)
Net cash used in financing activities	**(3,475)**	(3,549)
Cash flows from discontinued operations		
Net cash provided by operating activities		17
Net cash used in investing activities		(2)
Net cash provided by discontinued operations		15
Net increase in cash and cash equivalents	**1,707**	(336)
Cash and cash equivalents at beginning of period	**84**	601
Cash and cash equivalents at end of period	**$ 1,791**	$ 265
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 2,177**	$ 1,641
Net cash paid for income taxes	**$ 6**	$ 40

Non-cash investing activities:		
Property, plant and equipment acquired with capital leases	**$ 455**	$ 132

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

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HICKORY TECH CORPORATION

MARCH 31, 2007

PART 1. FINANCIAL INFORMATION

ITEM 1. CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

NOTE 1 BASIS OF PRESENTATION AND CONSOLIDATION

The accompanying unaudited condensed consolidated financial statements of Hickory Tech Corporation (HickoryTech or the Company) have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal and recurring accruals) considered necessary for the fair presentation of the Company s financial statements and present fairly the results of operations, financial position and cash flows of the Company for the interim periods presented. These unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto, together with management s discussion and analysis of financial condition and results of operations contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

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

The condensed consolidated financial statements of HickoryTech include Hickory Tech Corporation and its subsidiaries in the following two business segments: the Telecom Sector and the Enventis Sector. All inter-company transactions have been eliminated from the consolidated financial statements.

Cost of Sales

Cost of sales for the Enventis Sector includes the material and labor costs associated with the installation of products for customers.

Cost of Services (excluding depreciation and amortization)

Cost of services includes all costs related to the delivery of communication services for all HickoryTech Sectors. Those operating costs include engineering, customer service, billing and collections, network monitoring and transport costs.

Selling, General and Administrative Expenses (excluding depreciation and amortization)

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.

Reclassifications

Certain reclassifications of prior period data have been made to conform to the current period s presentation. The most significant of these reclassifications was to reclassify approximately $1,600,000 of transport costs from cost of sales to cost of services for the first quarter of 2006. This reclassification resulted in reporting these costs for the Enventis Sector in a manner consistent with the rest of the organization. These reclassifications did not affect the Company s cash flows, financial position, or net income.

On December 30, 2005, HickoryTech purchased Enventis Telecom, Inc. (Enventis) from ALLETE, Inc. The purchase price totaled $38,602,000, after adjustments. Enventis is a transport and enterprise Internet Protocol (IP) telephony sales business, which specializes in providing telecommunications and network solutions. In addition to its statewide SONET-based network, Enventis provides innovative IP services that combine voice and data onto a single platform. Since 1997, Enventis has provided network solutions for a broad spectrum of large corporate, non-profit, government and small business clients. Enventis has offices located in Duluth, Plymouth and Rochester, Minnesota and Sioux Falls, South Dakota.

Effective December 31, 2006, HickoryTech sold Collins Communications Systems Co. (Collins) to Skyview Capital, LLC (Skyview). The selling price was comprised of a $100,000 note and up to $1,650,000 of earn-out payments in exchange for all of Collins outstanding capital stock. Skyview paid HickoryTech $100,000 in February 2007. The remaining selling price is due in contingent payments payable over the next four years if financial targets are reached by Skyview. The $100,000 mentioned above has been included in the calculation of the net loss mentioned below, while the contingent payments have not been included in the net loss. The agreement contains covenants against competition by the new owner in south-central Minnesota. HickoryTech recorded a pre-tax loss on the sale of $3,385,000 ($2,040,000 net of income taxes). The Collins results of operations were formerly reported in the Enterprise Solutions Sector. The consolidated statements of operations for all periods presented have been restated to reflect the Collins operations as discontinued operations.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements. SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 will apply whenever another standard requires (or permits) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value to any new circumstances. SFAS No. 157 is effective for the calendar year 2008. The Company is currently assessing the impact of SFAS No. 157 on its results of operations, cash flows, and financial condition.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. SFAS No. 159 is effective for the calendar year 2008. The Company is currently assessing the impact of SFAS No. 159 on its results of operations, cash flows, and financial condition.

NOTE 2 EARNINGS AND CASH DIVIDENDS PER COMMON SHARE

Basic earnings per share (EPS) are computed by dividing net income by the weighted average number of shares of common stock outstanding during the applicable period. Shares used in the EPS assuming dilution calculation, are based on the weighted average number of shares of common stock outstanding during the period increased by potentially dilutive common shares. Potentially dilutive common shares include stock options and stock subscribed under the Hickory Tech Corporation Amended and Restated Employee Stock Purchase Plan (ESPP). Dilution is determined using the treasury stock method. The dilutive effect shown below for 2006 has been revised from that previously reported to reflect the treasury stock method, consistent with the method currently applied. There was no impact to EPS due to this revision.

	Three Months Ended March 31, 2007	**2006**
Income from continuing operations	$ 1,768	$ 1,533
Income from discontinued operatons	(1)	(144)
Net Income	$ 1,767	$ 1,389
Weighted average shares outstanding	13,240,434	13,133,817
Stock options (dilutive only)		650
Stock subscribed (ESPP)	576	
Total dilutive shares outstanding	13,241,010	13,134,467
Earnings Per Share:		
Basic - continuing operations	$ 0.13	$ 0.12
Basic - discontinued operations	$	$ (0.01)
Diluted - continuing operations	$ 0.13	$ 0.12
Diluted - discontinued operations	$	(0.01)

Options to purchase 490,550 shares and 538,850 shares for the three months ended March 31, 2007 and 2006, respectively, were not included in the computation of diluted EPS, because their effect on diluted EPS would have been antidilutive.

Cash dividends are based on the number of common shares outstanding at the respective record dates. Listed below is the number of shares outstanding as of the record date for the first quarter of 2007 and 2006, respectively.

Shares outstanding on record date	**2007**	**2006**
First quarter (Feb. 15)	13,207,970	13,133,928

Dividends per share are based on the quarterly dividend per share as declared by the HickoryTech Board of Directors. HickoryTech paid dividends of $0.12 per share for the first quarter of 2007 and 2006, respectively.

During the first three months of 2007 and 2006, shareholders have elected to reinvest $60,000 and $64,000, respectively, of dividends into HickoryTech common stock pursuant to the Hickory Tech Corporation Dividend Reinvestment Plan.

NOTE 3 ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)

HickoryTech follows the provisions of SFAS No. 130, Reporting Comprehensive Income. This statement established rules for the reporting of comprehensive income and its components. In addition to net income, HickoryTech s comprehensive income includes changes in unrealized gains and losses on derivative instruments qualifying and designated as cash flow hedges and recognized Net Periodic Benefit Cost related to the Company s Post-Retirement Benefit Plans. Comprehensive income for the three months ended March 31, 2007 and 2006 was $1,909,000 and $1,564,000, respectively.

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In March 2007, the Company terminated its two outstanding interest-rate swap agreements, with original maturities in June, 2008 in exchange for $1,936,000 in proceeds. Immediately following the termination of these two agreements, HickoryTech executed a new interest-rate swap agreement, effectively locking in the interest rate on $60,000,000 of variable-interest rate debt through March, 2010.

The market value of the cumulative gain or (loss) on financial derivative instruments is reported as a component of accumulated other comprehensive income (loss) in shareholders equity and will be recognized in earnings over the term of the swap agreement.

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

	Unrecognized Net Actuarial Loss (1)	**Unrecognized Prior Service Credit (1)**	**Unrecognized Transition Asset (1)**	**Unrealized Gain/(Loss) on Derivatives**	**Accumulated Other Comprehensive Income/(Loss)**
December 31, 2006	$ 867	$ (37)	$ 217	$ (1,497)	$ (450)
2007 Activity				(123)	(123)
Recognized as Net Periodic Benefit Cost	(11)	2	(9)		(18)
March 31, 2007	$ 856	$ (35)	$ 208	$ (1,620)	$ (591)

(1) Amounts pertain to our postretirement benefit plans.

NOTE 4 ACQUISITION, DISPOSITION and DISCONTINUED OPERATIONS

Acquisition of Enventis

On December 30, 2005 HickoryTech purchased Enventis from ALLETE, Inc. The purchase price was cash of $35,500,000 in exchange for the common stock of Enventis, with further purchase price adjustments and transaction costs. After purchase price adjustments, the total purchase consideration was $38,602,000. Enventis had no debt at the time of the acquisition. The purchase agreement outlined certain purchase price adjustments, which resulted in cash payments between ALLETE and HickoryTech in the first quarter of 2006. These purchase price adjustments were for working capital, capital expenditures and employee benefits. There are no contingent payments or earn-out payments.

The financing for the estimated $38,602,000 total purchase consideration for Enventis, plus an additional $8,500,000 for Enventis working capital, was entirely from HickoryTech s credit agreement, as established on December 30, 2005. The credit facility is comprised of a $30,000,000 revolving credit component, which expires on December 30, 2011 and a $130,000,000 term loan component, which has partial maturities during its term, with a final maturity on June 30, 2013.

The table below sets forth the final Enventis purchase price allocation as of December 31, 2006:

(Dollars in Thousands)

Identifiable intangible assets:	
Customer relationship and contracts	$ 3,400
Cisco gold supplier relationship	600
Net working capital	4,226
Property and equipment	23,649
Indefeasible rights to use	5,496
Other assets and liabilities	(959)
Goodwill	2,190
Allocation of purchase price consideration	$ 38,602

Of the identifiable intangible assets identified above, customer relationships and contracts have useful lives of four years, and the Cisco Gold supplier relationship has a useful life of three years. Useful lives for identifiable intangible assets were estimated at the time of the acquisition based on the periods of time from which the Company expects 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.

Disposition of Collins

Effective December 31, 2006, HickoryTech sold Collins to Skyview. The selling price was comprised of a $100,000 note and up to $1,650,000 of earn-out payments in exchange for all of the Collins outstanding capital stock. Skyview paid HickoryTech $100,000 in February 2007. The remaining selling price is due in contingent payments payable over the next four years if financial targets are reached by Skyview. The $100,000 mentioned above has been included in the calculation of the net loss mentioned below, while the contingent payments have not been included in the net loss. The agreement contains covenants against competition by the new owner in south-central Minnesota. HickoryTech recorded a pre-tax loss on the sale of $3,385,000 ($2,040,000 net of income taxes). The Collins results of operations were formerly reported in the Enterprise Solutions Sector. The consolidated statements of operations for all periods presented have been restated to reflect the Collins operations as discontinued operations.

NOTE 5 INVENTORIES

Inventories are valued using the lower of cost (perpetual weighted average-cost or specific identification) or market method. Similar to its allowance for doubtful accounts, HickoryTech makes estimates related to the valuation of inventory. HickoryTech adjusts its 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, additional inventory reserves may be established at the time that the facts that give rise to the lower value become known.

NOTE 6 INTANGIBLE ASSETS

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

The carrying value of HickoryTech s goodwill is $25,239,000 as of March 31, 2007 and December 31, 2006.

The components of HickoryTech s other intangible assets are as follows:

(Dollars in Thousands)	**Useful Lives**	**March 31, 2007 Gross Carrying Amount**	**Accumulated Amortization**	**December 31, 2006 Gross Carrying Amount**	**Accumulated Amortization**
Definite-lived intangible assets					
Customers	1 - 8 years	$ 4,229	$ 1,742	$ 4,229	$ 1,504
Other intangibles	1 - 5 years	730	366	730	315
Total		$ 4,959	$ 2,108	$ 4,959	$ 1,819

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As required by SFAS No. 142, we periodically reassess the carrying value, useful lives and classifications of identifiable assets. Amortization expense related to the definite-lived intangible assets for the three months ended March 31, 2007 and 2006 was $289,000 and $293,000, respectively. Total estimated amortization expense for the remaining nine months of 2007 and the five years subsequent to 2007 is as follows: 2007 (April 1 through December 31) - $868,000; 2008 - $1,127,000; 2009 - $853,000; 2010 - $3,000; none in 2011 and 2012.

NOTE 7 QUARTERLY SECTOR FINANCIAL SUMMARY

(Dollars In Thousands)	**Telecom**	**Enventis**	**Corporate and Eliminations**	**HickoryTech Consolidated**
Three Months Ended March 31, 2007				
Revenue from Unaffiliated Customers	$ 19,037	$ 17,890	$	$ 36,927
Intersegment revenues	107	62	(169)	
Total	19,144	17,952	(169)	36,927
Depreciation and amortization	3,913	875	5	4,793
Operating income/(loss)	4,103	1,380	(416)	5,067
Interest expense	(17)		(2,165)	(2,182)
Income taxes/(benefit)	1,657	558	(1,014)	1,201
Income/(loss) from Continuing operations	2,439	822	(1,493)	1,768
Identifiable assets	153,978	61,042	9,190	224,210
Property, plant and equipment, net	118,530	32,950	95	151,575
Capital expenditures	1,646	1,084		2,730

	Telecom	**Enventis**	**Corporate and Eliminations**	**HickoryTech Consolidated**
Three Months Ended March 31, 2006				
Revenue from Unaffiliated Customers	$ 18,656	$ 14,084	$	$ 32,740
Intersegment revenues	32		(32)	
Total	18,688	14,084	(32)	32,740
Depreciation and amortization	3,575	737	26	4,338
Operating income/(loss)	4,264	567	(652)	4,179
Interest (expense)/benefit	122		(1,771)	(1,649)
Income taxes/(benefit)	1,755	229	(957)	1,027
Income/(loss) from Continuing operations	2,633	338	(1,438)	1,533
Identifiable assets	154,809	50,640	9,844	215,293
Property, plant and equipment, net	119,012	29,810	203	149,025
Capital expenditures	3,227	507	96	3,830

NOTE 8 COMMITMENTS AND CONTINGENCIES

HickoryTech is involved in certain contractual disputes in the ordinary course of business. HickoryTech does not believe the ultimate resolution of any of the existing matters will have a material adverse effect on its financial position, results of operations, or cash flows. HickoryTech did not experience any changes to material contractual obligations in the first quarter of 2007. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for the discussion relating to commitments and contingencies.

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NOTE 9 STOCK COMPENSATION

Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for a complete description of its stock-based compensation plans.

On January 1, 2006, the Company adopted SFAS No. 123(R) (revised 2004), Share-Based Payment, (SFAS No. 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors, including employee stock options and employee stock purchases related to the ESPP, based on estimated fair values. SFAS No. 123(R) supersedes the Company s previous accounting under Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB No. 25) for periods beginning in 2006. In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB No. 107) relating to SFAS No. 123(R). The Company has applied the provisions of SAB No. 107 in its adoption of SFAS No. 123(R).

The Company adopted SFAS No. 123(R) using the modified prospective transition method, which requires the application of the accounting standard as of January 1, 2006. Share-based compensation expense recognized under SFAS No. 123(R) for the three months ended March 31, 2007 was approximately $27,000 pre-tax and $19,000 after tax. Approximately $13,000 of this after-tax expense relates to the expensing of stock options and $6,000 to the ESPP. Share-based compensation expense recognized under SFAS No. 123(R) for the three-months ended March 31, 2006 was approximately $45,000 pre-tax and $27,000 after tax and was primarily related to the expensing of stock options. In addition, stock based compensation included approximately $3,000 and $102,000 of equity based stock awards for the three months ended March 31, 2007 and 2006, respectively.

Share-based compensation expense recognized during a period is based on the value of the portion of share-based payment awards that are ultimately expected to have vested during the period. Share-based compensation expense recognized in the Company s Consolidated Statement of Operations for the first three months of 2007 and 2006 included compensation expense for share-based payment awards granted prior to, but not yet vested as of March 31, 2007 and 2006. Compensation expense for awards granted prior to 2006 is based on the grant date fair value estimated in accordance with the fair value provisions of SFAS No. 123. Compensation expense for awards granted in 2006 and subsequent periods is determined in accordance with the provisions of SFAS No. 123(R). Share-based compensation expense is recognized in the Consolidated Statement of Operations for the three months ended March 31, 2007 and 2006 and is based on awards ultimately expected to vest. We use historical data to estimate pre-vesting forfeitures. SFAS No. 123(R) requires forfeitures to be estimated at the time of the grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. The Company accounted for forfeitures as they occurred for the periods prior to 2006. The cumulative adjustment for the change in accounting principle was immaterial.

The fair value of each option award is estimated on the date of the grant using a Black-Scholes option valuation model. The Company uses 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 the Company s 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.

There were no option awards granted during the three months ended March 31, 2007 and 2006, respectively. The Stock Award Plan provides for the issuance of stock options, however, no current compensation programs have options as a component.

As of March 31, 2007 there was $71,000 of total unrecognized compensation costs related to non-vested stock options granted under the Company s Stock Award Plan. This expense is expected to be recognized over a weighted average period of 2 years.

A summary of stock option activity is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2007	515,884	$ 12.75
Granted		
Exercised		
Forfeited	(25,334)	11.78
Outstanding at March 31, 2007	490,550	$ 12.80
Exercisable at March 31, 2007	460,221	$ 13.05

The following table provides certain information with respect to stock options outstanding at March 31, 2007:

Range of Exercise Prices	Stock Options Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$6.00 - $8.00	15,000	$ 6.95	9.4 years
$8.00 - $12.00	187,000	10.26	6.1 years
$12.00 - $16.00	230,050	13.87	3.9 years
$16.00 - $21.00	58,500	18.21	4.1 years
	490,550	$ 12.80	4.9 years
Aggregate intrinsic value:		$	

The following table provides certain information with respect to stock options exercisable at March 31, 2007:

Range of Exercise Prices	Stock Options Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
$8.00 - $12.00	171,671	$ 10.20	5.9 years
$12.00 - $16.00	230,050	13.87	3.9 years
$16.00 - $21.00	58,500	18.21	4.1 years
	460,221	$ 13.05	4.7 years
Aggregate intrinsic value:		$	

As of March 31, 2007, the following amount of shares, were available for each stock-based compensation plan:

Plan	Shares Available
Retainer Stock Plans for Directors	235,669
Non-Employee Directors Incentive Plan	190,000
Stock Award Plan	980,729

In addition, a new Employee Stock Purchase Plan, which the HickoryTech Board of Directors has approved and is subject to shareholder approval at the May, 2007 annual meeting, will have 500,000 common shares reserved.

Shares issued under other stock-based compensation plans are as follows:

	For Three Months Ended March 31, 2007
Retainer Stock Plans for Directors	2,339
market price/fair value at time of grant	$6.95/share
Stock Award Plan	34,960

market price/fair value at time of grant	$7.10/share

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NOTE 10 FINANCIAL DERIVATIVE INSTRUMENTS

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

The Company utilizes interest-rate swap agreements that qualify as cash-flow hedges, to manage its exposure to interest rate fluctuations on a portion of the Company s variable-interest rate debt. In March 2007, the Company terminated its two outstanding interest-rate swap agreements, with original maturities of June, 2008 in exchange for $1,936,000 in proceeds. Proceeds of $277,000 were recognized as an offset to interest expense in the first quarter of 2007. The remaining proceeds will be recognized as an offset to interest expense over the remaining original term of the agreements, a period of 15 months, ending in June 2008. The unrecognized portion of the proceeds is recorded as a long-term liability in the Company s financial statements.

Immediately following the termination of the two swap agreements discussed above, HickoryTech executed a new interest-rate swap agreement, effectively locking in the interest rate on $60,000,000 of variable-interest rate debt through March, 2010.

The market value of the cumulative gain or (loss) on financial derivative instruments is reported as a component of accumulated other comprehensive income (loss) in shareholders equity and will be recognized in earnings over the term of the swap agreement.

The fair value of HickoryTech s derivatives at March 31, 2007 and December 31, 2006 is a net liability of $66,000 and a net asset of $2,489,000, respectively.

NOTE 11 EMPLOYEE POST-RETIREMENT BENEFITS

HickoryTech provides post-retirement health care and life insurance benefits for certain employees. HickoryTech accounts for these post-retirement benefits in accordance with SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). New employees hired on or after January 1, 2007 will not be eligible for post-retirement health care and life insurance benefits.

(Dollars in Thousands)	Three Months Ended March 31, 2007	2006
Components of net periodic benefit cost		
Service cost	$ 71	$ 81
Interest cost	114	107
Amortization of transition obligation	15	15
Amortization of prior service cost	(3)	(3)
Recognized net actuarial loss	18	31
Net periodic benefit cost	$ 215	$ 231

	March 31, 2007
Employer's contributions for current premiums	
Contributions made for the three months ended March 31, 2007	$ 66
Expected contributions for remainder of 2007	198
Total estimated employer contributions for fiscal year 2007	$ 264

NOTE 12 - INCOME TAXES

The effective income tax rate of approximately 40.5% for the first quarter of 2007 and 40.1% for the first quarter of 2006 exceeds the federal statutory rate primarily due to state income taxes.

HickoryTech adopted the provisions of FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109, on January 1, 2007. Among other things, FIN No. 48 provides guidance to address uncertainty in tax positions and clarifies the accounting for income taxes by prescribing a minimum recognition threshold which income tax positions must achieve before being recognized in the financial statements. As of the date of adoption, HickoryTech had approximately $7,414,000 of unrecognized tax benefits. Approximately $748,000 of the unrecognized tax benefits relate to a deferred tax asset that is fully reserved for financial reporting purposes. The unrecognized tax benefits in its entirety, if recognized, would affect the effective income tax rate in any future periods. As a result of adoption, the Company recognized a credit of approximately $62,000 in the January 1, 2007, retained earnings balance. There have been no significant changes to these amounts during the quarter ended March 31, 2007.

The Company recognizes interest and penalties related to income tax matters as income tax expense. As of the date of the adoption, the Company had $172,000 (net of tax) accrued for interest and nothing accrued for penalties related to tax matters. There have been no significant changes to these amounts during the quarter ended March 31, 2007.

The Company files consolidated income tax returns in the United States federal jurisdiction and combined or separate income tax returns in various state jurisdictions. In general, as of the date of the adoption, the Company is no longer subject to United States federal income tax examinations for the years prior to 2003 and is no longer subject to examinations by state tax authorities for the years prior to 2002.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains certain forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Statements in this Quarterly Report on Form 10-Q that are not historical fact, are forward-looking statements that are based on management s current expectations, estimates and projections about the industry in which HickoryTech operates and management s beliefs and assumptions. Forward-looking statements may be identified by the use of terminology such as may, will, believes, seeks, projects, expects, plans, intends, estimates, continues, should, or anticipates and similar expressions, as they relate to HickoryTech or its management. Such forward-looking statements are subject to important risks and uncertainties that could cause HickoryTech s future actual results to differ materially from such statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and probabilities, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that might cause such a difference include, but are not limited to, those contained in Item 1A of Part II, Risk Factors of this quarterly report on Form 10-Q and Item 1A, Risk Factors, of HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2006, which is incorporated herein by reference. The Cautionary Statement in Part 1 of HickoryTech s Annual Report on Form 10-K provides a comprehensive list of sources for risks and uncertainties which may influence forward looking statements and is incorporated herein by reference. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they were made. Except as otherwise required by federal securities law, HickoryTech undertakes no obligation to update any of its forward-looking statements for any reason.

BUSINESSES

HickoryTech is a diversified communications company headquartered in Mankato, Minnesota. HickoryTech has over a 100-year history in the local telephone exchange business. It operates in two business segments: the Telecom Sector and the Enventis Sector. HickoryTech s core business is its Telecom Sector, which consists of two product lines. The first product line of the Telecom Sector is the operation of three incumbent local exchange carriers (ILEC) and the operation of a competitive local exchange carrier (CLEC), which HickoryTech initiated in 1998, and its associated competitive services of long distance and Internet access. The second product line of the Telecom Sector is National Independent Billing, Inc. (NIBI), which provides data processing services to the telecommunications industry.

On December 30, 2005, HickoryTech purchased Enventis Telecom. Enventis is a Minnesota-based regional provider of integrated fiber network, IP telephony and data services, with 1,500 route miles of fiber network serving more than 300 business customers in over 40 communities in the Upper Midwest. Enventis had formerly been a wholly owned subsidiary of another public company. Enventis is now reported as a separate business segment, our Enventis Sector.

In December 2006, HickoryTech sold what had been a third business segment (Enterprise Solutions), which provided telephone, data and IP equipment sales and service. All financial statements and schedules have been restated to reflect Enterprise Solutions operations as discontinued operations.

Operating results for NIBI, which had previously been reported in the Information Solutions Sector, have been recast to be included in the Telecom Sector to consolidate our reporting for similar operations for all quarters presented. With the addition of Enventis, NIBI became a small proportion of the overall HickoryTech operations, measured on relative revenues, operating income, manpower, strategic growth potential and on several other levels. The primary internal user of NIBI services is the Telecom Sector. NIBI activities are of strategic value to HickoryTech, primarily because of the support services it provides to the Telecom Sector. The goals and objectives, and the way the NIBI product line is run, are closely aligned with that of the Telecom Sector. Due to the previously mentioned reasons, the NIBI product line was combined with the Telecom Sector in 2006 and all comparative results were recast to conform to the current presentation.

The HickoryTech parent company was incorporated in Minnesota in 1985 as part of an internal reorganization. HickoryTech replaced Mankato Citizens Telephone Company (formed in 1898) as the parent company.

In the years since 1985, HickoryTech has acquired and initiated other businesses. The seven current subsidiaries of HickoryTech and the business segments in which they operate are:

TELECOM SECTOR

Mankato Citizens Telephone Company (MCTC)

Mid-Communications, Inc. (Mid-Comm)

Heartland Telecommunications Company of Iowa, Inc. (Heartland)

Cable Network, Inc. (CNI)

Crystal Communications, Inc. (Crystal)

National Independent Billing, Inc. (NIBI)

ENVENTIS SECTOR

Enventis Telecom, Inc. (Enventis)

HickoryTech and its subsidiaries are engaged in businesses that provide services to their customers for a fee, as well as providing innovative IP services that combine voice and data onto a single platform and provide network solutions for a broad spectrum of large corporate, non-profit, government, and small business clients. Working capital requirements for the Telecom Sector include the financing of construction of networks, which consists of switches and cable, data, IP and digital TV. Capital requirements are also needed for maintaining a high amount of fixed assets, capital for software development, paying payroll costs of highly skilled labor, maintaining inventory to service capital projects and network and telephone equipment customers, and providing for the carrying value of trade accounts receivable, which may take several months *to collect in the normal course of business. Working capital requirements for the Enventis Sector include the construction of fiber/optical equipment, IP equipment, capital for payroll costs, the carrying value of accounts receivable, work-in-process and inventory.*

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The materials and supplies that are necessary for the operation of the businesses of HickoryTech and its subsidiaries are available from a variety of sources. All of HickoryTech s central office switches are supplied by Nortel. A majority of HickoryTech s equipment sold in its Enventis Sector are supplied by Cisco. Nortel and Cisco are leading suppliers of communications and data equipment, and HickoryTech s dependence on these brands is not viewed as a significant risk.

INDUSTRY SEGMENTS

HickoryTech reports the business operations of the ILEC and CLEC and their associated services, and data processing (NIBI) services as a single segment referred to as the Telecom Sector. The results of operations of the Enterprise Solutions Sector are reported as discontinued operations. The other business segment is the Enventis Sector.

TELECOM SECTOR

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

The Telecom Sector also includes Crystal, a CLEC. Crystal provides local telephone service, long distance, dial-up and broadband Internet access, and digital TV on a competitive basis. Crystal also connects communication networks of interexchange and wireless carriers with the equipment and facilities of end users. Crystal has customers in ten rural communities, encompassing eight exchanges in Minnesota and three communities, encompassing two exchanges in Iowa that are not in HickoryTech s ILEC service areas. Crystal also provides digital TV service in eight Minnesota communities in addition to its telephone services listed above. They include St. Peter, initiated in 2001; Waseca in 2004; New Richland, Ellendale and St. Clair in 2005; and Faribault, Lake Crystal and Eagle Lake in 2006, all of which are communities that HickoryTech provides telephone service to, either as an ILEC or CLEC. In September 2006, the Janesville City Council approved a cable television franchise. HickoryTech plans to make digital TV services available to the entire community in the second quarter of 2007. In October 2006, the City Councils of both Mankato and North Mankato unanimously approved cable television franchise agreements, which will allow HickoryTech to offer digital TV services in those communities and is targeted to begin in the second quarter of 2007.

The Telecom Sector also includes NIBI, which provides data processing and related services, principally for HickoryTech companies, other local exchange telephone companies, CLECs, interexchange network carriers, wireless companies and cable TV providers. NIBI s principal activity is the provision of monthly batch processing of computerized data for HickoryTech companies as well as non-affiliated companies. Services for telephone company customers include the processing of long distance telephone calls from data sources and telephone switches, the preparation of the subscriber telephone bills, customer record keeping and carrier access bills. There are a number of companies engaged in supplying data processing services comparable to those furnished by NIBI. Competition is based primarily on price and service. NIBI has developed an integrated billing and management system called SuiteSolution. SuiteSolution can provide wireline and wireless carriers the individual benefits of a billing platform or a total system solution. SuiteSolution is comparable in the majority of functional elements to similar products/companies providing end user billing services for small to medium-sized independent wireline and wireless service providers in North America. Certain features and functionality of SuiteSolution, which are based on Request for Proposal responses, are more highly rated than competing products, while other features and functionality may not be as highly rated as competing products. NIBI counts 18 to 20 companies as its primary competitors in marketing to small to medium-sized independent wireline and wireless service providers in North America. SuiteSolution does not utilize uniquely patentable inventions or technological innovations in the construction of the product. Commercially available programming languages are utilized in the development of code that may, based on the needs of a prospective user, deliver solutions that are preferred over those of competing products.

HickoryTech also owns and operates fiber optic cable facilities in Minnesota in its Telecom Sector, in addition to its Enventis Sector. These facilities are used to transport interexchange communications as a service to telephone industry customers. HickoryTech s Minnesota ILECs and CLEC are the primary users of the fiber optic cable facilities in the Telecom Sector. None of the remaining companies in the Telecom Sector experienced major changes in operations during the first quarter of 2007 or 2006, respectively, other than the cumulative effect of repeated periodic declines in network access revenues and the gradual erosion of access lines in service, which has reduced the profitability of this Sector.

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

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

As local exchange telephone companies, MCTC, Mid-Comm and Heartland provide end office switching and dedicated circuits to long distance interexchange carriers. These relationships allow HickoryTech s telephone subscribers to place long distance telephone calls across to the telephone network. HickoryTech provides interexchange access to its network for interexchange carriers to conduct long distance business with individual customers who select a long distance carrier and for termination of calls to all customers. This interexchange access business is separate and distinct from HickoryTech s own long distance retail business, which is operated in its Crystal subsidiary. The long distance interexchange carriers are significant customers of HickoryTech, but no carrier represents more than ten percent of HickoryTech s consolidated revenues.

Alternatives to HickoryTech service include customers leasing private lines in lieu of switched voice services and data services in or adjacent to the territories served by HickoryTech, which permits the bypassing of local telephone switching facilities. Additionally, services provided by other companies utilizing various Internet, wireline or wireless technologies permit bypass of the local exchange network. Cable TV companies also provide Internet, Digital Subscriber Line (DSL) and voice services in our markets. These alternatives to the local exchange service represent a potential threat to HickoryTech s long-term ability to provide local exchange service at economical rates.

Competition exists in several of HickoryTech s ILEC service areas. A municipality has overbuilt Heartland s network in one community in Iowa and now serves over half of that market. Additionally, cable TV providers are offering voice services in several Heartland communities, two Mid-Comm communities and are also poised to do so in additional exchanges, including Mankato. MCTC, Mid-Comm, Heartland and Crystal are also periodically engaged in negotiations or renegotiations of arrangements for network interconnections and potential unit price declines with other wireline carriers and various wireless service providers. Although competition from these various sources may result in reduced revenue, HickoryTech cannot, at this time, estimate the potential impact related to these events or negotiations.

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

Crystal began operations in January 1998 as a new CLEC. Crystal offers local service, long distance, dial-up and broadband Internet access services, and digital TV on a competitive basis to customers in southern Minnesota and Iowa, which were not previously served by HickoryTech s Telecom Sector service area. These service offerings provide customers alternatives to the incumbent communication providers in various communities and are offered under the brand name HickoryTech. These services are currently being offered to customers in ten rural communities, encompassing eight exchanges in Minnesota, as well as three communities, encompassing two exchanges in Iowa. Crystal has also been granted the necessary authority to provide service in another ILEC community in Northwest Iowa. Crystal also provides the long distance service, dial-up and broadband Internet access services to HickoryTech s ILEC subscribers and is providing digital TV in three communities served by Mid-Comm, as well as five CLEC communities.

CLEC activities require Crystal to file for authority to operate with the appropriate public utilities commission (PUC) in each state it serves. Crystal competes directly against existing ILEC s in the areas in which it operates. Crystal competes directly with incumbent cable TV providers and satellite for its high speed Internet and digital TV services. Crystal is presently providing these services under franchise agreements with local communities. Crystal is not dependent upon any single customer or small group of customers. No single customer in Crystal accounts for ten percent or more of HickoryTech s consolidated revenues.

HickoryTech is investigating a potential civil dispute being discussed with a municipality regarding contract payments from HickoryTech to the municipality in support of the Company s CLEC product line. While no formal dispute or claim has been filed, HickoryTech and the municipality have exchanged letters outlining their disagreement.

ENVENTIS SECTOR

On December 30, 2005, HickoryTech acquired Enventis. Through Enventis, HickoryTech provides integrated data services, offering fiber optic-based communication and advanced data services to business communities in the Upper Midwest. Enventis owns or has long-term leases to approximately 1,500 route miles of fiber optic cable. Enventis also has extensive local fiber optic rings that directly connect the Enventis network with its larger clients (e.g. health care, government and education). Other local fiber rings connect the Enventis network to the local telephone company s central offices. This allows Enventis to utilize the telephone company s connections to access its smaller clients. Enventis serves customers through facilities that are primarily leased from third parties. Enventis has business relationships with Cisco Systems, Inc. and is recognized by Cisco as a Gold Partner. The relationship with Cisco Systems, Inc. is a strategic partnership of Cisco (as the supplier) and HickoryTech (as the distributor). Enventis is a regional leader in deploying leading edge technologies such as IP call centers. Enventis has offices located in Plymouth, Duluth and Rochester, Minnesota and Sioux Falls, South Dakota. Enventis provides converged IP services that allow all communications (e.g. voice, video and data) to use the same network.

Enventis product portfolio includes Encompass Unified Communications (Encompass), which serves small-to-medium-sized businesses. Encompass is a hosted or managed IP communications service including local and long distance voice; business IP telephony via hosted IP private branch exchange; unified messaging (a single inbox for voicemail, e-mail and fax), and dedicated Internet access. Encompass leverages Voice over Internet Protocol (VoIP) or IP telephony over a private connection, minimizing upfront capital investment and information technology management overhead. VoIP enables advanced functionality, voice interoperability with PCs and scalability. Enventis has been granted authority to operate from the PUCs in Minnesota and Wisconsin for private line services that are subject to minimal regulation. Enventis has been granted Minnesota authority to provide regulated local telephone (voice) services. Those services are provided primarily in a fashion that augments its VoIP service. Services provided by Enventis compete directly with those from ILEC s and other providers in the area in which it operates. Enventis is not dependent upon any single customer or small group of customers.

REGULATED INDUSTRY

ILEC Minnesota - HickoryTech s two Minnesota ILEC subsidiaries continue to operate under an alternative form of regulation as defined in Minnesota Statutes, Chapter 237, whereby companies with less than 50,000 customers are regulated on price and service level rather than profit. In 2005, the Minnesota legislature enacted a statute deregulating multi-line businesses in certain metropolitan markets.

The MPUC has been considering intrastate access reform and universal service for several years. The MPUC opened two dockets in 2004 regarding state access reform. These dockets were suspended in December 2004 subsequent to concerns expressed by state agencies regarding increases in local rates and the potential that federal activity may also address this issue, and they were officially closed in January 2006. The MPUC then opened a similar docket on the issue of state access reform and has recently asked for comments to refresh the record. HickoryTech cannot estimate the impact, if any, of future potential state access revenue changes.

ILEC Iowa HickoryTech s Iowa ILEC subsidiary is not price regulated.

Wireline Interstate The HickoryTech ILEC companies do not participate in the National Exchange Carrier Association (NECA) traffic sensitive pool. Instead, they set their own access rates according to either a nationwide average cost of providing access, or in the case of Heartland, according to its own interstate costs. This biannual rate process was completed in June 2005, and established traffic sensitive interstate rates for the period from July 1, 2005 through June 30, 2007. HickoryTech ILEC companies participate in the NECA common line pool. End User Common Line funds collected, are pooled and some of HickoryTech s revenues are based on settlements distributed from the pool. Pool settlements are adjusted periodically.

CLEC HickoryTech s CLEC businesses provide services in Minnesota, Iowa and Wisconsin with less regulatory oversight than the HickoryTech ILEC companies. Crystal provides local exchange services in Minnesota and Iowa, and Enventis provides their own private line services in Minnesota and Wisconsin. Both Crystal and Enventis also offer long distance services. In-state services in Minnesota are regulated by the MPUC with respect to uniform pricing statewide. In-state long distance service in Iowa is unregulated. Long distance services are also deregulated at the federal level (for interstate services), but are subject to annual certification of geographical rate averaging and rate integration. Dial-up and broadband Internet access are unregulated at both the state and federal levels.

In addition to the deregulation granted by Iowa law, the IUB has opened another docket investigating effective competition for several additional communities and may authorize additional deregulation for those communities. This docket includes one community served by Crystal. HickoryTech cannot, at this time, estimate the revenue impact, if any, related to this IUB investigation.

Crystal offers digital TV service in eight Minnesota markets under franchises negotiated with these local municipalities.

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

The FCC has an open docket on intercarrier compensation as well as several dockets on VoIP. In February 2005, the FCC issued a Further Notice of Public Rule Making and has received voluminous comments reflecting diverse opinions for intercarrier compensation reform. This process continues as an industry group has filed another plan (the Missoula Plan) with the FCC for its consideration. HickoryTech cannot predict the outcome of such proceedings nor can it estimate the impact, if any, on HickoryTech.

HickoryTech companies have entered into a civil complaint against a large interexchange carrier related to an access avoidance scheme for prepaid calling card traffic. HickoryTech cannot predict the outcome of such proceedings nor their impact, if any, on HickoryTech.

Local Number Portability (LNP) In 2003, the FCC released a decision providing guidance on porting between wireline and wireless networks (inter-modal porting). All of the Company s wireline operations have operated with LNP capabilities since early 2005. The effects of inter-modal porting on the Company s wireline operations have been minimal to date. It is possible that these requirements could adversely affect the Company s wireline operating costs and customer growth rates. HickoryTech is also unable to quantify the long-term effects or revenue impact of wireline customers that may switch to wireless or other wireline alternatives.

RESULTS OF OPERATIONS

CONSOLIDATED OPERATING RESULTS

The following information includes a table and summarized discussion of the consolidated results of operations. A more detailed discussion of the operating results by segment follows this discussion.

OVERALL SUMMARY OF CONTINUING OPERATIONS

(Dollars In Thousands)	**Three Months Ended March 31 2007**	**2006**
Operating Income/(Loss)		
Telecom Sector	**$ 4,103**	$ 4,264
Enventis Sector	**1,380**	567
Corporate	**(416)**	(652)
	5,067	4,179
Other Income	**84**	30
Interest Expense	**(2,182)**	(1,649)
Income Taxes	**(1,201)**	(1,027)
Income from Continuing Operations	**$ 1,768**	$ 1,533

OPERATING REVENUES

Consolidated operating revenues were $36,927,000, which is $4,187,000 or 12.8% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to increases in network equipment revenue, transport services, maintenance revenue and contract services, all in the Enventis Sector. Also contributing to the increase in consolidated operating revenues were increases in data, digital TV and long distance revenues, partially offset by decreases in local service and other revenues, all in the Telecom Sector.

COST OF SALES (ENVENTIS)

Cost of sales was $10,314,000, which is $2,631,000 or 34.2% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to the $3,146,000 increase in revenues in the Enterprise Network Services product line in the first three months of 2007 compared to the first three months of 2006.

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COST OF SERVICES (excluding Depreciation and Amortization)

Cost of services (excluding depreciation and amortization) was $10,917,000, which is $501,000 or 4.8% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to a $524,000 increase in wages and benefits and a $287,000 increase in circuit expenses, partially offset by a $160,000 decrease in bad debt expense and a $144,000 decrease in contract labor, all in the Enventis Sector. Also contributing to the increase in cost of services was a $292,000 increase in programming expense in the Telecom Sector, partially offset by a $109,000 decrease in contract labor in that same Sector.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (excluding Depreciation and Amortization)

Selling, general and administrative expenses (excluding depreciation and amortization) were $5,836,000, which is $288,000 or 4.7% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This decrease was primarily due to a decrease in wages and benefits of $689,000, partially offset by increases in professional fees of $73,000 and computer expenses of $57,000, all in the Enventis Sector. Also partially offsetting the decrease in selling, general and administrative expenses was an increase in advertising expense of $44,000, computer expenses of $43,000 and maintenance expenses of $38,000, all in the Telecom Sector. Also partially offsetting the decrease in selling, general and administrative expenses was an increase in corporate professional fees of $280,000 due to increased auditing and Sarbanes-Oxley Section 404 compliance work in connection with the implementation of a new enterprise resource planning (ERP) software system and the integration of Enventis operations into HickoryTech. Sarbanes-Oxley Section 404 testing was effective in ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the applicable rules and forms and that such information is accumulated and communicated to the Company s management, including its Chief Executive Officer and Chief Financial Officer, in a manner that allows timely decisions regarding required disclosure.

DEPRECIATION AND AMORTIZATION:

Depreciation expense was $4,504,000, which is $459,000 or 11.3% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to an increase in fixed asset spending in both the Enventis and Telecom Sectors in 2006 and the first quarter of 2007. Amortization expense was $289,000, which is $4,000 or 1.4% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006.

OPERATING INCOME:

Operating income was $5,067,000, which is $888,000 or 21.2% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to the $4,187,000 increase in operating revenue and the $288,000 decrease in selling, general and administrative expenses, (excluding depreciation and amortization), offset by the $2,631,000 increase in cost of sales, the $501,000 increase in cost of services (excluding depreciation and amortization) and the $459,000 increase in depreciation, all of which were described above.

INTEREST EXPENSE:

Interest expense was $2,182,000, which is $533,000 or 32.3% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to a lower cooperative dividend received than had been accrued at December 31, 2006 from one of the Company s participating lenders and a lower quarterly accrual of cooperative dividends in the first quarter of 2007. HickoryTech accounts for cooperative dividends as an offset to interest expense as earned. The outstanding balance of the revolving credit facility was $138,375,000 at March 31, 2007 and $142,700,000 at December 31, 2006. The interest expense level of future quarters is expected to be approximately $100,000 lower than the level of the first quarter of 2007.

INCOME TAXES

The effective income tax rate of approximately 40.5% for the first quarter of 2007 and 40.1% for the first quarter of 2006 exceeds the federal statutory rate primarily due to state income taxes. Due to the effects of implementing FASB Interpretation No. 48 (FIN No. 48), Accounting for Uncertainty in Income Taxes , additional income taxes accruals of approximately $100,000 per quarter will be accrued beginning in the second quarter of 2007. This will raise the effective income tax rate in future periods.

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Cost of services (excluding depreciation and amortization) was $10,917,000, which is $501,000 or 4.8% higher in th

INCOME FROM CONTINUING OPERATIONS

Consolidated income from continuing operations was $1,768,000, which is $235,000 or 15.3% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to the increase in operating income, partially offset by the increase in interest expense, both of which are described above, and the change in income taxes.

TRENDS

Telecom Sector profitability is trending down. Telecom revenues, while increasing in the first quarter of 2007, have steadily decreased due to declines in network access revenue, competition for basic customer connections and choices made by specific customers not to interconnect or utilize the Company s network or services. At the same time, costs in the Telecom Sector, while tightly controlled, are not reducing at the same pace as the revenue declines. Declines in Telecom Sector access lines have been offset by increases in DSL and digital TV customers. Declines in Telecom Sector local service revenue and network access revenue are partially offset by increases in Telecom Sector broadband revenues such as data and digital TV. However, the profitability of adding these new services is not as high as the services the Telecom Sector has lost. The trend in declining Telecom Sector profitability is viewed to be ongoing.

The Enventis Sector was new in 2006 and long-term trends have not yet been established. The nature of the Enventis business has been a higher level of growth than that of the Company s Telecom Sector. Enventis revenues for 2006 represented a 14.1% increase over the unaudited Enventis revenues for 2005. In addition, 2007 first quarter revenues for Enventis were 27.5% higher than those in the first quarter of 2006. Enventis provided profitable operations and recorded positive operating income in each of the five quarters since its acquisition. Enventis consists of two major product lines. The largest is its Enterprise Network Services, or telecom equipment provisioning service. This service is subject to cyclical highs and lows depending on customer demand. The other product line is Enterprise Transport Services, or fiber optic transmission service for wholesale and retail use by customers. This product line contains more of a recurring revenue stream and is supported by long-term contracts. Both the Enterprise Network Service and the Enterprise Transport Service product lines show excellent growth characteristics.

Interest expense increased in 2006 after four years of decreases, which was primarily the result of the new company debt financing associated with the acquisition of Enventis in December 2005. A secondary factor was higher interest rates. Interest expense increased again in the first quarter of 2007 as the Company took action to extend its interest rate protection for three additional years and due to the change in the estimated cooperative dividend receivable. Since a portion of the debt is subject to variable interest rates and interest rates have risen over time, the Company s interest expense may be an area of increasing expense, subject to the Company s ability to pay down the overall balance of interest bearing debt.

Income from continuing operations, after declining in 2006 due to the decline in profitability of the Telecom Sector and higher interest expense, has risen again in 2007. The 2006 level of decline is primarily related to the impact of the Enventis acquisition, and was predicted as a twelve month temporary condition. The 2007 level of increase in income from continuing operations is a trend which is expected to continue in 2007.

SECTOR RESULTS OF OPERATIONS FROM CONTINUING OPERATIONS

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

TELECOM SECTOR

(Dollars in Thousands)	**Three Months Ended March 31 2007**	**2006**
Revenues before intersegment eliminations:		
Revenues		
Local Service	**$ 4,448**	$ 4,595
Network Access	**7,359**	7,341
Long Distance	**1,332**	1,148
Data	**1,676**	1,391
Internet	**1,126**	1,153
Digital TV	**489**	285
Directory	**885**	894
Message Processing & Billing	**689**	688
Intersegment	**107**	32
Other	**1,033**	1,161
Total Telecom Revenues	**$ 19,144**	$ 18,688
Total Telecom revenues before intersegment eliminations:		
Unaffiliated customers	**$ 19,037**	$ 18,656
Intersegment	**107**	32
	19,144	18,688
Cost of services (excluding depreciation and amortization)	**7,855**	7,688
Selling, general, and administrative expenses (excluding depreciation and amortization)	**3,273**	3,161
Depreciation and amortization	**3,913**	3,575
Operating income	**$ 4,103**	$ 4,264
Net income	**$ 2,439**	$ 2,633
Key Metrics		
Capital Expenditures	**$ 1,646**	$ 3,227
Access Lines	**67,578**	69,556
Long Distance Customers	**41,237**	40,372
Internet Customers	**20,387**	18,959
Digital Subscriber Line (DSL) Customers	**16,313**	13,820
Digital TV Customers	**4,865**	2,967

Revenues

Telecom Sector operating revenues before intersegment eliminations were $19,144,000, which is $456,000 or 2.4% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to an increase in data, digital TV and long distance revenues, partially offset by decreases in local service and other revenues, all of which are described below.

Local service revenue was $4,448,000, which is $147,000 or 3.2% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This decrease was primarily due to a 1,978 or 2.8% decrease in access lines from March 31, 2006 to March 31, 2007. A higher degree of competition from ILEC s, CLEC s and cable TV providers serving in the Company s markets, and from wireless substitution, could impact HickoryTech s local service revenue in future periods.

Cost of services (excluding depreciation and amortization) was $10,917,000, which is $501,000 or 4.8% higher in th

Cost of services (excluding depreciation and amortization) was $10,917,000, which is $501,000 or 4.8% higher in th

Network access revenue was $7,359,000, which is $18,000 or 0.2% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This leveling of the network access revenue trend is a departure from the many successive periods of quarterly declines. This leveling is believed to be an anomaly attributed to seasonality. A combination of changing minutes of use (MOU), carriers optimizing their network costs and lower demand for dedicated lines may negatively impact future access revenues. In addition, future federal or state access reform may provide further negative influences. The PUC has been considering intrastate access reform and universal service for several years (see Regulated Industry).

Long distance revenue was $1,332,000, which is $184,000 or 16.0% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to an increase in the long distance customer base of 865 or 2.1% in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Also contributing to the increase in long distance revenue was an increase in the MOUs in the first three months of 2007 compared to the first three months of 2006.

Data revenue was $1,676,000, which is $285,000 or 20.5% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to an increase in DSL customers of 2,493 or 18.0% between March 31, 2007 and March 31, 2006. Also contributing to the increase in data revenue was a $136,000 increase in Ethernet services to large business customers. Ethernet service revenues will continue to provide growth opportunities for HickoryTech. Expanded networking opportunities among medium and large enterprise customers are key drivers for this growth.

Internet revenue was $1,126,000, which is $27,000 or 2.3% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. The internet customer base increased 1,428 or 7.5% between March 31, 2006 and March 31, 2007. A reallocation of service package revenue, which is now being reflected in the data revenue, partially offset the revenue growth from the increase in the customer base.

Digital TV revenue was $489,000, which is $204,000 or 71.6% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily the result of the offering of digital TV in three additional communities in 2006, which resulted in a 1,898 or 64.0% increase in digital TV customers at March 31, 2007 compared to March 31, 2006.

Other revenue, consisting primarily of revenues from cable network services, sales of Customer Premise Equipment (CPE), circuit private lines, maintenance, and add, moves and changes was $1,033,000, which is $128,000 or 11.0% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This decrease was primarily due to the loss of $432,000 from Project SOCRATES (see below). Partially offsetting the loss of the Project SOCRATES revenue was a $106,000 increase in CPE sales, a $97,000 increase in pay station revenues and a $49,000 increase in add, moves and changes revenue. Until June 2006, HickoryTech had been providing Internet access and video conferencing for Project SOCRATES, which is a distance-learning network connecting schools and libraries in a 12-county region in south central Minnesota. HickoryTech s contract with Project SOCRATES ended on June 30, 2006.

Cost of Services (excluding Depreciation and Amortization)

Cost of services (excluding depreciation and amortization) was $7,855,000, which is $167,000 or 2.2% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to a $292,000 increase in digital TV programming expense, which supported the increase in the digital TV revenues. Partially offsetting the increase in programming expense was a $109,000 decrease in contract labor. Contract labor was used in the first three months of 2006 to support the Company s ERP software conversion, which HickoryTech began using in January of 2006.

Selling, General and Administrative Expenses (excluding Depreciation and Amortization)

Selling, general and administrative expenses (excluding depreciation and amortization) were $3,273,000, which is $112,000 or 3.5% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to a $44,000 increase in advertising expense, a $43,000 increase in computer expenses and a $38,000 increase in maintenance expenses.

Depreciation and Amortization

Depreciation and amortization were $3,913,000, which is $338,000 or 9.5% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Depreciation was $3,887,000, which is $342,000 or 9.6% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to an increase in fixed asset spending in 2006. Amortization was $26,000 in the three months ended March 31, 2007 and $30,000 in the three months ended March 31, 2006.

Operating Income

Operating income was $4,103,000, which is $161,000 or 3.8% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This decrease was due to the $338,000 increase in depreciation and amortization, the $167,000 increase in cost of services (excluding depreciation and amortization) and the $112,000 increase in selling, general and administrative expenses (excluding depreciation and amortization), offset by the $456,000 increase in revenue, all of which were described above.

Net Income

Net income was $2,439,000, which is $194,000 or 7.4% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This decrease was primarily due to the decrease in operating income described above and the change in taxes.

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

ENVENTIS SECTOR

(Dollars in Thousands)	For Three Months Ended March 31 2007		2006	
Revenues before intersegment eliminations:				
Enterprise Network Services	$	13,177	$	10,031
Enterprise Transport Services	4,713		4,053	
Intersegment	62			
	$	17,952	$	14,084
Total Enventis revenues before intersegment eliminations:				
Unaffiliated customers	$	17,890	$	14,084
Intersegment	62			
	$	17,952	$	14,084
Cost of sales	10,314		7,683	
Cost of services (excluding depreciation and amortization)	3,198		2,687	
Selling, general and administrative expenses, (excluding depreciation and amortization)	2,185		2,410	
Depreciation and amortization	875		737	
Operating income	$	1,380	$	567
Net income	$	822	$	338
Capital expenditures	$	1,084	$	507

Revenues:

Enventis operating revenues before intersegment eliminations were $17,952,000, which is $3,868,000 or 27.5% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to an increase in network services equipment revenue of $2,305,000, an increase in transport services of $660,000, which was the result of an increase in wholesale contract activity, an increase in maintenance revenue of $489,000 and an increase in contract services of $332,000.

Cost of services (excluding depreciation and amortization) was $10,917,000, which is $501,000 or 4.8% higher in th

Cost of Sales

Cost of sales was $10,314,000, which is $2,631,000 or 34.2% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to the $3,146,000 increase in revenues in the Enterprise Network Services product line in the first three months of 2007 compared to the first three months of 2006.

Cost of Services (excluding Depreciation and Amortization)

Cost of services (excluding depreciation and amortization) was $3,198,000, which is $511,000 or 19.0% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to a $524,000 increase in wages and benefits due to increased staffing, and a $287,000 increase in circuit expenses associated with an increase in off-net revenues. The increase in cost of services was partially offset by a decrease in bad debt expense of $160,000, which was associated with a decrease in the allowance for potential uncollectible accounts receivable. Also partially offsetting the increase in cost of services was a $144,000 decrease in contract labor.

Selling, General and Administrative Expenses (excluding Depreciation and Amortization)

Selling, general and administrative expenses (excluding depreciation and amortization) were $2,185,000, which is $225,000 or 9.3% lower in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This decrease was primarily due to a decrease in wages and benefits of $689,000, which was largely the result of a decrease in retention payments made to certain employees. Partially offsetting the increase in selling, general and administrative expenses were increases in inter-company executive services of $310,000, professional fees of $73,000 and computer expenses of $57,000.

Depreciation and Amortization

Depreciation and amortization were $875,000, which is $138,000 or 18.7% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. Depreciation was $612,000, which is $138,000 or 29.1% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to an increase in assets added in 2006 and in the first three months of 2007. Amortization was $263,000 in the three months ended March 31, 2007 and 2006.

Operating Income

Operating income was $1,380,000, which is $813,000 or 143.4% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was due to the $3,868,000 increase in revenues and the $225,000 decrease in selling, general and administrative expenses (excluding depreciation and amortization), offset by the $2,631,000 increase in cost of sales, the $511,000 increase in cost of services (excluding depreciation and amortization) and the $138,000 increase in depreciation, all of which are described above.

Net Income

Net income was $822,000, which is $484,000 or 143.2% higher in the three months ended March 31, 2007 compared to the three months ended March 31, 2006. This increase was primarily due to the increase in operating income mentioned above and the change in taxes.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

Cash generated from operations was $7,868,000 in the first three months of 2007 compared to $6,877,000 in the first three months of 2006. Cash provided by operations in the first three months of 2007 was primarily attributable to net income plus non-cash expenses for depreciation and amortization. The decrease in inventory of $2,848,000 was primarily due to a decrease in inventory in the Enventis Sector and directly correlated to the $2,260,000 increase in outstanding accounts receivables, which was the result of customer installations in progress evolving into the billing stage and normal collection process. Cash generated from operations in the first three months of 2006 was primarily attributable to net income plus non-cash expenses for depreciation and amortization as well as for a decrease in prepaid assets of $2,818,000 related to the Enventis acquisition.

Cost of services (excluding depreciation and amortization) was $10,917,000, which is $501,000 or 4.8% higher in th

Cash used in investing activities was $2,686,000 in the first three months of 2007 compared to $3,679,000 in the first three months of 2006. Capital expenditures were $2,730,000 in the first three months of 2007 compared to $3,830,000 for the same period in 2006. Capital expenditures for the first three months of 2007 supported the fiber network upgrades and network expansions as well as success-based network improvements. The anticipated level of Company spending over the next several years is expected to be below the level experienced in 2006.

Cash used in financing activities in the first three months of 2007 was $3,475,000, which was primarily due to a reduction in long-term debt of $4,325,000, the payment of dividends of $1,585,000 and a decrease in cash balances of $1,475,000, partially offset by an increase in short-term financing in the Enventis Sector of $2,024,000 and proceeds of $1,936,000 relating to the termination of two outstanding interest-rate swap agreements, which had original maturities of June 2008. Cash used in financing activities in 2006 was $3,549,000 and was primarily due to a reduction in long-term debt of $5,860,000, the payment of dividends of $1,576,000 and a decrease in cash balances of $514,000, partially offset by an increase in short-tem financing in the Enventis Sector of $4,456,000.

WORKING CAPITAL

Working capital (i.e. current assets minus current liabilities) was $13,592,000 as of March 31, 2007, compared to working capital of $7,731,000 as of December 31, 2006. The ratio of current assets to current liabilities was 1.6 to 1.0 as of March 31, 2007 and 1.3 to 1.0 as of December 31, 2006.

SHORT-TERM FINANCING ARRANGEMENT

Enventis has a $10,000,000 credit facility with a financing company to purchase inventories from certain approved vendors. Advances under the financing arrangement are collateralized by the accounts receivable and inventory of Enventis and a guaranty of the principal indebtedness by HickoryTech. The credit facility provides sixty-day payment terms for working capital and can be terminated at any time by either party. Borrowings outstanding under the credit facility were $9,743,000 and $7,719,000 at March 31, 2007 and December 31, 2006, respectively.

LONG-TERM OBLIGATIONS

HickoryTech s long-term obligations as of March 31, 2007 were $137,474,000 excluding current maturities of $1,300,000 on debt and $335,000 on capital leases. On December 30, 2005 HickoryTech entered into a $160,000,000 credit agreement with a syndicate of banks (subsequently amortized to a $158,700,000 facility as of December 31, 2006), which amended its previous credit facility. The credit facility is comprised of a $30,000,000 revolving credit component that expires on December 30, 2011 and a $130,000,000 term loan component.

The term loan component is comprised of two components, which are defined as term loan B and term loan C. The outstanding principal balance of term loan B is $108,625,000 as of March 31, 2007 and is held in varying amounts by three of the lenders in the syndicate (US Bank, GE Commercial Distribution Finance Corporation and CoBank). Under the terms of term loan B, HickoryTech is required to make quarterly principal payments of $275,000 from March 31, 2007 through December 31, 2011 with the remainder of the aggregate principal due in two payments on March 31, 2012 and June 30, 2012. The outstanding principal balance of term loan C is $19,750,000 as of March 31, 2007 and is held entirely by Rural Telephone Finance Cooperative. Under the terms of term loan C, HickoryTech is required to make quarterly principal payments of $50,000 on the aggregate principal amount from March 31, 2007 through December 31, 2012 with the remainder of the aggregate principal due in two payments on March 31, 2013 and June 30, 2013.

Cost of services (excluding depreciation and amortization) was $10,917,000, which is $501,000 or 4.8% higher in th

Under the terms of the revolving credit facility, any outstanding principal is payable in full on December 30, 2011. The outstanding balance of the revolving credit facility is $10,000,000 as of March 31, 2007. Under the credit facility, interest will be payable at an applicable margin in excess of a prevailing pricing level. The prevailing pricing level will be based on a Base Rate, LIBOR Rate Loans or Rural Telephone Finance Corporation (RTFC) rate table. The prevailing rate for Base Rate Loans is the higher of Prime Rate or the Federal Funds Rate plus 0.5%. The prevailing rate for LIBOR Rate Loans is publicly available. The RTFC rate tables are established based on RTFC policies, which are not publicly available and change from time to time. The applicable margin for the revolving credit facility, term loan B and term loan C will be determined quarterly, based on the leverage ratio of HickoryTech. The credit facility also provides for payment of a fee on any un-drawn commitment of the revolving credit facility and is payable quarterly. The credit facility requires HickoryTech to enter into or maintain in effect, interest rate protection agreements on at least 50% of the facility s outstanding balance in order to manage the Company s exposure to interest rate fluctuations. HickoryTech continually monitors the interest rates on its bank loans and has implemented interest rate protection agreements on various portions of the overall debt outstanding for varying terms.

HickoryTech is required to comply with specified financial ratios and tests applicable to the Company and its current subsidiaries, including maximum leverage ratio, minimum interest coverage ratio and maximum capital expenditures. HickoryTech s obligations under the credit facility are secured by a first-priority lien on all property and assets, tangible and intangible, of HickoryTech and its current subsidiaries, including, but not limited to accounts receivable, inventory, equipment and intellectual property; general intangibles, cash and proceeds of the foregoing and a first-priority pledge of the capital stock of HickoryTech s current subsidiaries.

HickoryTech s Telecom Sector leases certain computer equipment under capital lease arrangements. During the three months ended March 31, 2007 and 2006, this Sector recorded additions to property, plant and equipment of $455,000 and $132,000, respectively, related to these capital lease arrangements.

CONSTRUCTION PLANS

HickoryTech has nearly completed its network enhancement program in its core telephone property. In both its Telecom and its Enventis Sector, capital spending is becoming more success-based, meaning the capital spending is associated with defined revenue producing services and strategic initiatives. The level of total company capital spending over the next two to three years is expected to be below the level of capital spending seen in 2006. Management believes that the enhancements of the past several years will support the broadband product deployment strategies of the next few years, as well as serving as defense against competition in its core businesses. These upgrades will give HickoryTech the capability to offer more diversified services to its core customer base.

COMMITMENTS AND CONTINGENCIES

HickoryTech is involved in certain contractual disputes in the ordinary course of business. HickoryTech does not believe the ultimate resolution of any of these existing matters will have a material adverse effect on its financial position, results of operations, or cash flows. HickoryTech did not experience any changes to material contractual obligations in the first quarter of 2007. Refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2006 for the discussion relating to commitments and contingencies.

OTHER

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

CRITICAL ACCOUNTING POLICIES

Management s discussion and analysis of financial condition and results of operations stated in this Quarterly Report on Form 10-Q are based upon HickoryTech s consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles and where applicable, conform to the accounting principles as prescribed by federal and state telephone utility regulatory authorities. HickoryTech presently gives accounting recognition to the actions of regulators where appropriate, as prescribed by SFAS No. 71, Accounting for the Effects of Certain Types of Regulation. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Management believes that the application of the accounting policies, which are important to HickoryTech s financial position and results of operations, requires significant judgments and estimates on the part of management. A description of the critical accounting policies adhered to by HickoryTech is contained in the Management s Discussion and Analysis of Financial Condition and Results of Operations in HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2006. HickoryTech adopted SFAS No. 123(R), Share-Based Payment, as of January 1, 2006 and has chosen to use the modified prospective basis of the Black-Scholes option-pricing model to calculate future stock compensation expense, using a fair value method as prescribed under SFAS No. 123(R). The valuation of equity instruments underlying stock-based compensation and the period during which the related stock compensation expense is recognized will be based in part on various assumptions, including the estimated useful life of equity instruments, stock volatility, interest rates and vesting terms. For the historical impact of share-based payments to employees under APB No. 25, refer to the disclosures in Note 9 of the Notes to Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

HickoryTech does not have operations subject to risks of foreign currency fluctuations. HickoryTech does, however, use derivative financial instruments to manage exposure to interest rate fluctuations. HickoryTech s objectives for holding derivatives are to minimize interest rate risks using the most effective methods to eliminate or reduce the impact of these exposures. Variable rate debt instruments are subject to interest rate risk. In March 2007, the Company terminated its two outstanding interest-rate swap agreements, with original maturities of June 2008, in exchange for $1,936,000 million in proceeds. Proceeds of $277,000 were recognized as an offset to interest expense in the first quarter of 2007. The remaining proceeds will be recognized as an offset to interest expense over the remaining original term of the agreements (15 months ending in June 2008). The unrecognized portion of the proceeds is recorded as a long-term liability in the Company s financial statements. Immediately following the termination of the two agreements discussed above, HickoryTech executed a new interest-rate swap agreement, effectively locking in the interest rate on $60,000,000 of variable-rate debt through March of 2010.

The effective portion of the cumulative gain or loss on derivative instruments is reported as a component of accumulated other comprehensive income (loss) in shareholders equity and is recognized in earnings when the term of the protection agreement is concluded. HickoryTech s earnings are affected by changes in interest rates as a portion of its long-term debt has variable interest rates based on LIBOR. If interest rates for the portion of HickoryTech s long-term debt based on variable rates had averaged 10% more for the quarter ended March 31, 2007 HickoryTech s interest expense would have increased $105,000.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures.

As of the end of the period covered by this Quarterly Report on Form 10-Q (the Evaluation Date), the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of the design and operation of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) promulgated under the Securities and Exchange Act of 1934, as amended). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company s disclosure controls and procedures were effective.

There have been no changes in the Company s internal control over financial reporting during the Company s most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

There have not been any material changes to the risk factors previously disclosed in Item 1A, Risk Factors, of our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits Listing.

Exhibit 3.1 Bylaws, as amended

Exhibit 31.1 Certification pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 31.2 Certification pursuant to Rule 13a-14(a) under the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit 32.1 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Exhibit 32.2 Certification pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

Dated:	May 3, 2007	HICKORY TECH CORPORATION
	By:	/s/ John W. Finke John W. Finke, President and Chief Executive Officer
	By:	/s/ David A. Christensen David A. Christensen, Senior Vice President and Chief Financial Officer

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