

HICKORY TECH CORP  
Form 10-Q  
May 14, 2002

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**



## **FORM 10-Q**

(Mark One)

☒

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

**FOR THE QUARTERLY PERIOD ENDED March 31, 2002**

**OR**

☐

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

**FOR THE TRANSITION PERIOD FROM TO**

**Commission file number 0-13721**

**HICKORY TECH CORPORATION**

(Exact name of registrant as specified in its charter)

**Minnesota**

(State or other jurisdiction of incorporation or organization)

**41-1524393**

(I.R.S. Employer Identification No.)

**221 East Hickory Street**

**Mankato, Minnesota 56002-3248**

(Address of principal executive offices and zip code)

**(800) 326-5789**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

The total number of shares of the registrant's common stock outstanding as of March 31, 2002: 13,982,165.



**HICKORY TECH CORPORATION**

March 31, 2002

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS.****CONSOLIDATED STATEMENTS OF INCOME**

(UNAUDITED)

*(In Thousands Except Per Share Amounts)*

	<b>For Three Months Ended</b>	
	<b>3/31/2002</b>	<b>3/31/2001</b>
<b>OPERATING REVENUES:</b>		
Telecom	20,717	21,088
Information Solutions	1,034	978
Enterprise Solutions	3,361	5,165
<b>TOTAL OPERATING REVENUES</b>	<b>25,112</b>	<b>27,231</b>
<b>COSTS AND EXPENSES:</b>		
Operating Expenses, excluding Depreciation and Amortization	15,470	17,326
Depreciation	3,813	2,946
Amortization of Intangibles	361	789
<b>TOTAL COSTS AND EXPENSES</b>	<b>19,644</b>	<b>21,061</b>
<b>OPERATING INCOME</b>	<b>5,468</b>	<b>6,170</b>
<b>OTHER INCOME (EXPENSE):</b>		
Equity in Net Loss of Investees	(19)	(7)
Interest and Other Income	43	37
Interest Expense	(1,956)	(2,872)
<b>TOTAL OTHER INCOME (EXPENSE)</b>	<b>(1,932)</b>	<b>(2,842)</b>
<b>INCOME BEFORE INCOME TAXES</b>	<b>3,536</b>	<b>3,328</b>
<b>INCOME TAXES</b>	<b>1,446</b>	<b>1,365</b>
<b>NET INCOME</b>	<b>\$ 2,090</b>	<b>\$ 1,963</b>
<b>Basic Earnings Per Share</b>	<b>\$ 0.15</b>	<b>\$ 0.14</b>
<b>Dividends Per Share</b>	<b>\$ 0.11</b>	<b>\$ 0.11</b>
<b>Weighted Average Common Shares Outstanding</b>	<b>13,961</b>	<b>13,885</b>

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Diluted Earnings Per Share	\$	0.15	\$	0.14
Weighted Average Common and Equivalent Shares Outstanding		14,063		13,996

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

**HICKORY TECH CORPORATION**

March 31, 2002

**CONSOLIDATED BALANCE SHEETS**

(UNAUDITED)

*(In Thousands Except Share and Per Share Amounts)*

	ASSETS	3/31/2002	12/31/01
<b>CURRENT ASSETS:</b>			
Cash and Cash Equivalents	\$	1,018	\$ 2,008
Receivables, Net of Allowance for Doubtful Accounts of \$1,460 and \$1,231		12,368	14,616
Income Taxes Receivable		344	1,675
Costs in Excess of Billings on Contracts		1,117	1,520
Inventories		5,133	4,989
Deferred Income Taxes		646	646
Other		1,972	2,329
<b>TOTAL CURRENT ASSETS</b>		<b>22,598</b>	<b>27,783</b>
<b>INVESTMENTS</b>		<b>10,692</b>	<b>10,701</b>
<b>PROPERTY, PLANT AND EQUIPMENT</b>		<b>235,133</b>	<b>231,675</b>
Less ACCUMULATED DEPRECIATION		99,649	96,031
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>		<b>135,484</b>	<b>135,644</b>
<b>OTHER ASSETS:</b>			
Goodwill		25,086	25,086
Intangible Assets, Net		76,887	76,991
Deferred Costs and Other		6,794	7,087
<b>TOTAL OTHER ASSETS</b>		<b>108,767</b>	<b>109,164</b>
<b>TOTAL ASSETS</b>	\$	<b>277,541</b>	\$ 283,292
<b>LIABILITIES &amp; SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts Payable	\$	3,776	\$ 5,301
Accrued Expenses		2,592	3,372
Accrued Interest		287	382
Billings in Excess of Costs on Contracts		139	169
Advanced Billings and Deposits		3,592	3,580
Current Maturities of Long-Term Obligations		1,362	1,242
<b>TOTAL CURRENT LIABILITIES</b>		<b>11,748</b>	<b>14,046</b>

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LONG-TERM OBLIGATIONS, Net of Current Maturities	165,521	169,659
DEFERRED INCOME TAXES	13,876	13,876
DEFERRED REVENUE AND BENEFITS	4,922	4,946
TOTAL LIABILITIES	196,067	202,527
COMMITMENTS AND CONTINGENCIES (Note 8)		
SHAREHOLDERS' EQUITY:		
Common Stock, no par value, \$.10 stated value		
Shares authorized: 100,000,000		
Shares outstanding: 2002, 13,982,165; 2001, 13,935,308	1,398	1,394
Additional Paid-In Capital	6,406	6,254
Retained Earnings	73,670	73,117
TOTAL SHAREHOLDERS' EQUITY	81,474	80,765
TOTAL LIABILITIES & SHAREHOLDERS' EQUITY	\$ 277,541	\$ 283,292

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

**HICKORY TECH CORPORATION**

March 31, 2002

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(UNAUDITED)

<i>In Thousands</i>	<b>For Three Months Ended</b>	
	<b>3/31/2002</b>	<b>3/31/2001</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 2,090	\$ 1,963
Adjustments to Reconcile Net Income to Net		
Cash Provided by Operating Activities:		
Depreciation and Amortization	4,174	3,735
Stock-Based Compensation	172	272
Employee Retirement Benefits and Deferred Compensation	96	71
Accrued Patronage Refunds	(285)	(285)
Equity in Net Loss of Investees	19	7
Provision for Losses on Accounts Receivable	452	238
Changes in Operating Assets and Liabilities:		
Receivables	3,127	601
Inventories	(145)	(67)
Billings and Costs on Contracts	374	(250)
Accounts Payable and Accrued Expenses	(2,625)	(2,875)
Advance Billings and Deposits	12	71
Deferred Revenue and Benefits	(120)	(184)
Other	567	101
Net Cash Provided By Operating Activities	7,908	3,398
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to Property, Plant and Equipment	(3,488)	(5,400)
Additions to Capitalized Software Development Costs		(1,513)
Redemption of Investments	100	
Proceeds from Sale of Assets	172	1
Net Cash Used In Investing Activities	(3,216)	(6,912)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayments of Debt		(54)
Payments of Capital Lease Obligations	(105)	
Borrowings on Credit Facility		5,000
Repayments on Credit Facility	(4,250)	(250)
Proceeds from Issuance of Common Stock	210	69
Dividends Paid	(1,537)	(1,527)

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Net Cash (Used In) Provided By Financing Activities	(5,682)	3,238
NET DECREASE IN CASH AND CASH EQUIVALENTS	(990)	(276)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,008	1,190
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 1,018	\$ 914

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

HICKORY TECH CORPORATION

MARCH 31, 2002

PART I. FINANCIAL INFORMATION

ITEM 1. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of Hickory Tech Corporation's (HickoryTech) results for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. These unaudited interim condensed consolidated financial statements should be read in conjunction with HickoryTech's Annual Report on Form 10-K for the year ended December 31, 2001.

The consolidated financial statements of HickoryTech include Hickory Tech Corporation and its subsidiaries in the following three business segments: (i) Telecom Sector, (ii) Information Solutions Sector and (iii) Enterprise Solutions Sector. An investment in an unconsolidated partnership for the Information Solutions Sector is accounted for using the equity method. All intercompany transactions have been eliminated from the consolidated financial statements.

Beginning in the first quarter 2002, HickoryTech reports its previously reported business segments of Telephone, Communications Services and Wireless Services as a single segment referred to as the Telecom Sector. This new basis of segment reporting reflects the integration of HickoryTech's management, sales, service and support functions in these three areas, as well as reflecting the level at which management now reviews and makes resource allocation and other management decisions regarding the operations of the company. All segment information reported in 2001 has been reclassified to conform to this new presentation.

In addition to the change in business segments, certain reclassifications were made to the financial statements as of and for the three months ended March 31, 2001 to conform to the 2002 presentation. These reclassifications had no impact on previously reported operating income, net income or shareholders' equity.

Operating expenses include all costs related to delivery of HickoryTech's communications services and products. These costs include all selling, general and administrative costs and all costs of performing services and providing related products, except for costs associated with the depreciation and amortization of property, plant and equipment and intangible assets.

NOTE 2. EARNINGS AND CASH DIVIDENDS PER COMMON SHARE

Basic earnings per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the quarter. Shares used in the earnings per share assuming dilution calculation are based on the weighted average number of shares of common stock outstanding during the quarter increased by potentially dilutive common shares. Potentially dilutive common shares include stock options and stock subscribed under the employee stock purchase plan (ESPP).

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	For Three months Ended	
	3/31/02	3/31/01
Weighted Average Shares Outstanding	13,960,708	13,885,453
Stock Options (dilutive only)	92,553	101,765
Weighted Average Stock Subscribed (ESPP)	9,542	9,261
Weighted Average Dilutive Shares Outstanding	14,062,803	13,996,479

Options to purchase 76,650 shares and 38,750 shares for the three months ended March 31, 2002 and 2001, respectively, were not included in the computation of earnings per share assuming dilution because their effect on earnings per share would have been antidilutive.

Cash dividends are based on the number of common shares outstanding at the respective record dates. Listed below are the number of shares outstanding as of the record date for the first quarter of 2002 and 2001.

Shares Outstanding on Record Date	2002	2001
First Quarter (Feb. 15)	13,971,484	13,886,669

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

During the first three months of 2002 and 2001, shareholders have elected to reinvest \$60,000 and \$62,000, respectively, of dividends into HickoryTech common stock pursuant to the HickoryTech Dividend Reinvestment Plan.

## NOTE 3. COMPREHENSIVE INCOME

For the three months ended March 31, 2002 and 2001, comprehensive income was comprised solely of net income.

## NOTE 4. INVENTORIES

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

## NOTE 5. INTANGIBLE ASSETS

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HickoryTech adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. SFAS No. 142 required that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead tested for impairment at least annually. Accordingly, at January 1, 2002, HickoryTech ceased amortizing its goodwill (net carrying value as of March 31, 2002 of \$25,086,000) and FCC licenses (net carrying value as of March 31, 2002 of \$75,635,000). HickoryTech also tested these intangible assets for impairment at January 1, 2002 pursuant to the method prescribed by SFAS No. 142 and determined that these assets carrying values are not impaired.

The following table adjusts previously reported net income to exclude amortization expense recognized from goodwill and FCC licenses as if SFAS No. 142 had taken effect in 2001:

*(Dollars in Thousands, except Per Share Amounts  
and shown Net of Income Tax)*

	For Three Months Ended			
	3/31/02		3/31/01	
Reported Net Income	\$	2,090	\$	1,963
Goodwill Amortization				113
FCC License Amortization				259
Adjusted Net Income	\$	2,090		