

HICKORY TECH CORP
Form 10-K
March 07, 2012

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

FORM 10-K

(Mark one)

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

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

Commission File Number 0-13721

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

Minnesota
(State or other jurisdiction of
incorporation or organization)

41-1524393
(I.R.S. Employer
Identification No.)

221 East Hickory Street
Mankato, MN 56002-3248
(Address of principal executive offices)

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes ☐ No ☒

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

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

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

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

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

☐ Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

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SIGNATURES

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 contains certain safe harbor provisions regarding forward-looking statements. This 2011 Annual Report on Form 10-K (“Report”) and other documents filed by HickoryTech Corporation under the federal securities laws, including Form 10-Q and Form 8-K, and future verbal or written statements by HickoryTech and its management, may include forward-looking statements. These statements may include, without limitation, statements with respect to anticipated future operating and financial performance, growth opportunities and growth rates, acquisition and divestiture opportunities, business strategies, business and competitive outlook and other similar forecasts and statements of expectation. Words such as “expects,” “anticipates,” “intends,” “plans,” “believes,” “seeks,” “estimates,” “targets,” “projects,” “will,” “may,” “continues,” and “should,” and various other words and similar expressions, are intended to identify these forward-looking statements. Such forward-looking statements are subject to risks and uncertainties that could cause HickoryTech’s actual results to differ materially from such statements. These risks and uncertainties include those identified under Part I – Item 1A – “Risk Factors” beginning on page 14.

Because of these risks, uncertainties and assumptions and the fact that any forward-looking statements made by HickoryTech and its management are based on estimates, projections, beliefs and assumptions of management, they are not guarantees of future performance and you should not place undue reliance on them. In addition, forward-looking statements speak only as of the date they are made which is the filing date of this Form 10-K. With the exception of the requirements set forth in the federal securities laws or the rules and regulations of the Securities and Exchange Commission, we do not undertake any obligation to update or review any forward-looking information, whether as a result of new information, future events or otherwise.

PART I

Website Access to Securities and Exchange Commission Reports

Our website at www.hickorytech.com provides information about our products and services, along with general information about HickoryTech and its management, financial results and press releases. Copies of our most recent Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 can be obtained, free of charge, as soon as reasonably practical after such material is electronically filed, or furnished to the Securities and Exchange Commission. To obtain this information visit our website noted above and click on “Investor Relations,” or call (507) 387-3355.

Item 1. Business

“HickoryTech” or the “Company” refers to HickoryTech Corporation alone or with its wholly owned subsidiaries, as the context requires. When this report uses the words “we,” “our,” or “us,” it refers to the Company and its subsidiaries unless the context otherwise requires.

Company Overview and History

HickoryTech Corporation (dba HickoryTech and Enventis) is a leading integrated communications provider serving business and residential customers in the Upper Midwest. With headquarters in Mankato, Minnesota, HickoryTech has a five-state fiber network spanning more than 3,250 route miles with facilities-based operations across Minnesota and into Iowa, North Dakota, South Dakota and Wisconsin. Enventis provides business Internet protocol (“IP”) voice, data and video solutions, MPLS networking, data center and managed hosted services and communication systems. HickoryTech delivers broadband, Internet, digital TV, voice and data services to businesses and consumers

in southern Minnesota and northwest Iowa. We currently operate in three segments: (1) Fiber and Data, (2) Equipment and (3) Telecom. The Company trades on the Nasdaq Stock Exchange, symbol: HTCO.

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Our purchase of Enventis Telecom on December 30, 2005 provided the base for what today is our Fiber and Data and Equipment Segments. This portion of our business serves customers across a five-state region with IP based voice, transport, data and network solutions, managed services, equipment, network integration and support services. Through our regional fiber network we provide wholesale fiber and data services to regional and national service providers, including interexchange and wireless carriers. We also specialize in providing integrated unified communication solutions for businesses of all sizes - from enterprise multi-office organizations to small and medium-sized businesses (“SMB”), primarily in the Upper Midwest. Residential customers are not targeted by the Fiber and Data or Equipment Segments.

Our Telecom Segment provides residential and business services including: high-speed Internet, broadband services, digital TV and voice services in its legacy telecom markets. Telecom is comprised of the operation of local telephone companies or incumbent local exchange carriers (“ILEC”) and the operation of a competitive local exchange carrier (“CLEC”). Originally, our company consisted of the operation of a single ILEC which began in 1898. In 1985, we formed HickoryTech Corporation as a holding company for our current ILECs and to serve as a platform to expand our business. In 1998, we formed a CLEC, which provides the competitive services of local service, long distance, high-speed Internet access, Digital Subscriber Line (“DSL”) and digital TV. All of our Telecom operations are operated as one integrated unit. Our ILECs and CLEC are the primary users of the services provided by our subsidiary, National Independent Billing, Inc. (“NIBI”). NIBI activities are of strategic value to us primarily because of the billing and support services it provides to all our companies. NIBI also sells its services externally to other companies in the communications industry. The goals, objectives and management of the NIBI product line are closely aligned with, and its operating results included with, those of our Telecom Segment.

No customer accounted for more than 10% of our consolidated operating revenues during the years ended December 31, 2011, 2010 and 2009.

Our operations are conducted through the following nine subsidiaries:

Fiber and Data and Equipment Segments

- Enventis Telecom, Inc. (“Enventis”)
- Enterprise Integration Services, Inc. (“EIS”), formed January 2, 2012
 - IdeaOne Telecom, Inc. (“IdeaOne”), acquired March 1, 2012

Telecom Segment

- Mankato Citizens Telephone Company (“MCTC”)
 - Mid-Communications, Inc. (“Mid-Com”)
- Heartland Telecommunications Company of Iowa, Inc. (“Heartland”)
 - Cable Network, Inc. (“CNI”)
 - Crystal Communications, Inc. (“Crystal”)
 - National Independent Billing, Inc. (“NIBI”)

Fiber and Data and Equipment Segments

Through our two business-to-business segments, Fiber and Data and Equipment, we provide integrated data services and fiber based communication solutions including IP-based voice, data and network solutions to business customers in the Upper Midwest. Revenue from these combined segments has exceeded 55% of total Company revenue in two of the last three years and we expect to continue to grow these revenue streams.

Fiber and Data Segment

Product portfolio includes:

- Fiber, data and internet
- Voice and Voice over IP (“VoIP”)
- Managed and hosted services
 - Data center services

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We own or have long-term leases to approximately 2,175 fiber route miles of fiber optic cable, including 225 miles acquired with the IdeaOne acquisition completed on March 1, 2012 and have extensive metro fiber optic rings that directly connect the network with businesses (e.g. interexchange carriers, wireless carriers, retail, health care, government and education customers, etc.). Additional local fiber rings connect our network to local telephone central offices along with the Telecom Sector network which has 1,155 fiber optic miles. These connections allow us to utilize other communication providers' connections when company owned facilities are not available. We also serve customers through interconnections that are leased from third party service providers (commonly referred to as "the last mile") or when feasible and profitable we build the last-mile fiber connection to the building, tower or business customer premise.

Our product portfolio includes SingleLink® Unified Communications ("SingleLink"), a hosted or managed IP communications service which includes local and long distance voice, business IP telephony via a hosted IP private branch exchange, unified messaging and dedicated Internet access. The SingleLink solution is primarily targeted at SMB customers but also has enterprise customer applications. In August 2009, we acquired Computer Pro Inc., dba CP Telecom, to enhance our SMB customer base, expand our business product portfolio and further develop our agent sales channel. The operations of CP Telecom have been integrated within our Fiber and Data Segment. CP Telecom is no longer an operating subsidiary nor a marketing brand as a stand-alone entity.

On March 1, 2012, we acquired IdeaOne Telecom Group, LLC, a metro fiber network provider in Fargo, North Dakota, for \$28,000,000, with routine adjustments for capital expenditures and working capital. IdeaOne provides data networking, Internet, colocation, phone and hosting services to approximately 3,600 customers in the Fargo area. The acquisition added 225 fiber route miles to HickoryTech's regional network. The fiber network facilities, which extend to 650 on-net fiber-lit buildings, include multiple 10 GB fiber rings, ethernet capabilities, soft-switching infrastructure, and colocation services. The operations will be integrated with our Fiber and Data Segment.

We have authority to operate from the public utility commissions in the majority of states in the U.S. for interexchange carrier (private line or long distance) services and, where necessary, has or is seeking authority in states to provide regulated services to augment our VoIP services. Our services compete directly with other ILECs, cable companies and communications providers in the areas we operate.

We have Minnesota offices located in: Minneapolis, Duluth and Rochester and operates data centers in Edina, Duluth and Mankato. We also have an office located in the Des Moines, Iowa area and will retain the IdeaOne office in Fargo, North Dakota.

Equipment Segment

Product portfolio includes:

- Equipment solutions
- Total care support and monitoring
- Professional services

We have a leading market relationship with Cisco Systems, Inc. and are certified by Cisco as a Gold Partner with a master level Unified Communications accreditation. The relationship with Cisco Systems, Inc. is a strategic partnership between Cisco (as the supplier) and EIS (as the distributor). We provide converged IP services that allow all communications (e.g. voice, video and data) to use the same IP data infrastructure. Equipment solutions include: TelePresence, Unified Communications, Data Center and Virtualization, Professional Services, Total Care and Security. Our employees supporting our equipment segment are primarily based out of our office located in Plymouth, Minnesota.

Telecom

The Telecom Segment provides local telephone service, long distance, calling features, DSL, Internet, digital TV, data services and a phone book directory to residents and businesses in our legacy markets. As an auxiliary business, the data processing services of NIBI are also included within this Sector.

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Telecom includes three ILECs: MCTC, Mid-Com and Heartland. MCTC and Mid-Com provide telephone services in south central Minnesota, specifically the Mankato, Minnesota region, and 11 rural communities surrounding Mankato. Heartland, our third ILEC, provides telephone services for 11 rural communities in northwest Iowa. In total, there are 23 ILEC exchanges within this Segment. Also included is a CLEC, Crystal, which provides competitive services in south central Minnesota and near Des Moines, Iowa. There are eight Minnesota CLEC exchanges and two Iowa CLEC exchanges.

NIBI, an auxiliary part of this Segment, provides data processing and related services for our affiliated companies, as well as for other ILECs, CLECs, interexchange network carriers, wireless companies and cable TV providers throughout the United States and Canada.

We own and operate a 1,075 mile fiber optic network and facilities in Minnesota and Iowa. These facilities are used to transport voice, data and video services between our exchanges, to connect customers to interexchange carriers and to provide service directly to end users. This network is interconnected with our 2,175 fiber mile network in the Fiber and Data Segment. We operate an unregulated carrier company, CNI, to administer part of this southern Minnesota fiber network. Our Minnesota ILECs and CLEC are the primary users of these fiber optic cable facilities.

We derive our principal revenue and income from local services (voice) charged to subscribers in our service area, network access services charged to interexchange carriers and the operation of a toll tandem-switching center in Mankato, Minnesota. The local and interexchange services for our telephone companies utilize the same facilities and equipment and are managed and maintained by a common workforce. We provide interexchange telephone access by connecting the communications networks of interexchange carriers and wireless carriers with the equipment and facilities of end-users through our switched networks or private lines.

As local exchange telephone companies, we provide end office switching and dedicated circuits to long distance interexchange carriers. These relationships allow our telephone subscribers to place long distance telephone calls to other networks. We provide access to our network for interexchange carriers to conduct long distance business with individual customers who select a long distance carrier for the origination and termination of calls to all customers. This interexchange access business is separate and distinct from our own long distance retail service, which is operated through Crystal.

Strategy

Our vision is to be the leader in connecting business and consumers with advanced, integrated communications solutions in the regions we serve. In 2009, we established a long-term growth strategy for our company and have since been implementing this plan. This growth plan includes making strategic investments to significantly grow our Fiber and Data Segment (business-to-business and wholesale customers) while continuing to focus on the growth of broadband services and the profitability of our Telecom Segment. We have committed to expanding our fiber network as part of this growth plan. In 2010, we increased bandwidth capacity on our core network, expanded our fiber network to Sioux Falls, South Dakota, and Fargo, North Dakota, and increased network capacity to our Des Moines, Iowa facilities. In 2011, we continued to expand our fiber footprint through our Greater Minnesota Broadband Collaborative Project, backed in part by the receipt of a \$16,800,000 broadband stimulus grant. While we realize there is some risk in this strategy (see “Risks Related to Our Business”), we believe this plan could generate long-term success for us and increase shareholder value. This success depends on the following strategies:

- Execute on our local telecom market strategy; grow broadband services. We will continue to leverage our strong reputation in our legacy telecom markets and offer a competitive, multi-service bundle of voice, high-speed Internet and digital TV in the majority of our markets. We will focus on growing our broadband services and increasing advanced services penetration. We will manage the decline in Telecom network access and local service revenue by

leveraging our strong brand and community presence, offering value-added services and local customer service as a competitive differentiator.

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- Grow monthly recurring revenue services through business-to-business sales. Our focus remains on supporting business customers ranging in size from small to large enterprise businesses and wholesale customers. We offer a wide array of data, Internet, voice and VoIP, and equipment support services. We believe we have created a competitive advantage by utilizing a consultative sales approach and developing innovative and flexible solutions for our customers. We will expand our retail business focus through the expansion of our local fiber network into metro cities in which we believe we can offer competitive services and take market share. We are able to do this by utilizing our IP expertise, leveraging our extensive fiber network and offering a full complement of high-quality products and services.
- Deploy advanced communications technologies. We have and will continue to upgrade our networks to take advantage of the fastest growing areas of technology including advanced, high-bandwidth capabilities and the expansion of our network for wholesale and retail customers, Fiber-to-the-Tower (“FTTT”) services for wireless carriers and last mile fiber builds to data centers and business customer premises. We believe our technical capabilities and the use of VoIP technologies combined with our support offering will allow us to attract and maintain customers by providing proactive monitoring and deployment of these services. Our enhanced SingleLink product, which provides customers with a single, centrally managed and hosted VoIP-based communications system, allows businesses to leverage the powerful benefits of integrated IP communications without the time and capital necessary for on-premise solutions.
- Maintain stable cash flows from operations and disciplined capital spending. The majority of our current customer base provides a recurring revenue stream generating stable cash flow. Our focus remains on growing our services and support product lines that will over time generate cash flow well in excess of capital expenditure needs. We have allocated resources to maintain and upgrade our network while focusing on optimizing returns by completing strategic capital outlays that will make our network more efficient and cost effective.
- Grow through select strategic growth initiatives that fit our current strategic initiatives. We will continue to invest in organic growth opportunities to expand our network to new markets and customers and develop new products which are complementary to our business portfolio. We also intend to pursue a disciplined process of evaluating selective acquisitions of businesses which fit our focus areas and growth strategy.

Revenue Sources

We currently divide our company operations into three segments for reporting: (1) Fiber and Data, (2) Equipment and (3) Telecom. The following table summarizes our primary sources of revenue within these three segments for the past three years:

For Year Ended December 31 (dollars in thousands)	2011		2010		2009	
	Amount	Percent	Amount	Percent	Amount	Percent
Fiber and Data	\$ 45,149	28 %	\$ 44,685	28 %	\$ 31,247	22 %
Equipment:						
Equipment	39,816	24 %	39,406	24 %	27,857	20 %
Support Services	9,116	5 %	8,138	5 %	9,579	7 %
Telecom:						
Local Service	14,363	9 %	15,288	9 %	16,163	12 %
Network Access	22,489	14 %	23,150	14 %	24,157	17 %
Broadband	20,371	12 %	18,832	12 %	17,028	12 %
Long Distance	2,892	2 %	3,185	2 %	3,791	3 %
Other	9,342	6 %	9,563	6 %	9,280	7 %

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Total Revenue	\$	163,538	100	%	\$	162,247	100	%	\$	139,102	100	%
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Fiber and Data

We service wholesale, enterprise and small-to-medium business customers with high-speed communications products supported by our extensive statewide fiber network and community access rings supported by a 24x7x365 network operations center. With our experience and communication expertise we are able to provide standard and customized network solutions which can be extended beyond our network to provide end-to-end national connectivity. This revenue stream is primarily based on multi-year contracts with retail businesses, regional and national service providers and wireless carriers building a solid monthly recurring revenue base. The Fiber and Data Segment also includes revenue from our SingleLink services and voice, data and Internet services sold to SMB business customers in several metropolitan markets.

Equipment

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

Support Services — We provide a complete array of products and services to support the Cisco equipment sold to business customers including professional services, maintenance, total care support and security. Professional services include network assessments, planning, design, implementation and training. Maintenance contracts (“Smartnet” contracts) are offered in collaboration with Cisco systems. Our total care support team provides a single-point-of-contact for the support of applications, systems and infrastructure. We also offer security solutions combining leading network security products with our experience and expertise in integrated communications systems.

Telecom

Local Service — We receive recurring revenue for local phone services which enable end-user customers to make and receive telephone calls within a defined local calling area for a flat monthly fee. In addition to subscribing to basic local telephone services, our customers may choose from numerous calling features. We also receive reciprocal compensation revenue based on interconnection agreements with wireless carriers using our network to terminate calls from their wireless subscribers.

Network Access — We provide access services to other communications carriers to terminate or originate long distance calls on our network. Additionally, we bill subscriber line charges to our end-user customers for access to the public switched network. The monthly subscriber line charges are regulated and approved by the Federal Communications Commission (“FCC”). In addition, network access revenue is derived from several federally administered pooling arrangements designed to provide support and distribute funding to ILECs.

Broadband — We provide a variety of broadband services on a monthly recurring basis to our end-user customers. This includes residential and business DSL access, high-speed Internet, digital TV and business Ethernet or data services. Our broadband services reflect our strategy to offer competitive integrated communication services and money-saving bundles to customers within our Telecom service area.

Long Distance — Our end-user customers are billed for toll or long distance service on either a per call or flat rate basis. This also includes the provision of directory assistance, operator service and long distance private lines.

Other — We generate revenue from directory publishing, customer premise equipment sales, bill processing, and add/move/change services. Our directory publishing revenue is monthly recurring revenue from businesses for yellow page advertising. Our bill processing revenue is earned through a combination of monthly recurring revenue generated from providing data processing as a service to other communication service providers (wireline/wireless), software license fees, and integration services revenue.

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Competition

We compete in a rapidly evolving and highly competitive industry, and expect competition will continue to intensify as consolidation and mergers occur with communication companies. Regulatory developments and technological advances over the past several years have increased opportunities for alternative communications service providers, which in turn have increased competitive pressures on our business. These alternate providers often face fewer regulations and have lower cost structures than we do. In addition, several of our competitors have consolidated with other communications providers. The combined companies are generally larger, have more financial and business resources and have greater geographical reach to provide services. Our competitive advantages include: our strong commitment to the communities we serve and knowledge of these markets, experienced and local customer support and more flexible communications solutions than our larger competitors.

Fiber and Data

We offer wholesale fiber and data services including network transport services, Multi-Protocol Label Switching ("MPLS"), dedicated Internet access and Ethernet services. In our wholesale customer segment, we compete with regional and national carriers, cable companies and wireless service providers. During the past few years there has been a noticeable increase in fiber network construction by communications carriers and private entities which may directly compete with our existing fiber facilities. Our products and services in the SMB market segment compete with large telecom ILECs, business CLECs and cable companies for voice and data services. We differentiate ourselves with our extensive services and product portfolio, strategic location of our regional fiber network and network interconnections.

Equipment

Our Equipment Segment competes with a variety of business service providers including: equipment providers or Value Added Resellers ("VARs"), network providers, and data hosting service providers. Aggressive competition exists in all product areas, and specifically within the equipment sales of our product portfolio. We are a Gold Certified Cisco Partner, a Master Unified Communications Partner and maintain approximately 150 Cisco certifications which demonstrate our expertise and provides us favorable pricing. Competition also comes from an emerging class of services under the heading of IaaS ("Infrastructure as a Service") that will impact customer procurement of equipment now and in the future.

Telecom

Competition in our Telecom Segment has intensified within the past several years for end user services, such as: voice, broadband and transport services. We compete with cable providers, wireless providers, competitive telephone companies, long distance carriers, satellite providers, Internet Service Providers ("ISPs") and VoIP providers. We are closely connected to the communities we serve and focus on providing outstanding local customer support and competitive money-saving bundles, which allow our customers to select the features, speeds and channels they desire.

We expect to face increased competition from wireless carriers as technological developments in wireless features, applications, network capacity and economies of scale improve, providing our customers with alternatives to the traditional local telephone and broadband services we provide. Additionally, as consumers look to reduce expenses, they may be more inclined to discontinue their land line and maintain only a wireless phone or broadband service.

We also compete with companies that offer private lines in lieu of our switched voice services. Additionally, services provided by companies utilizing other Internet, wireline or wireless technologies permit the bypass of our local exchange network. These alternatives represent a potential threat to our local service and network access revenue.

Competition exists for the interexchange carriers' services we provide, such as dedicated private lines, network switching and network routing. Our provision of these services is primarily month-to-month ordered from a tariff, which is a schedule of terms, rates and conditions approved by the appropriate state or federal agency. The interexchange carriers primarily control the procurement of these services and as they make network rearrangements, our Telecom revenue may be reduced.

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NIBI competes with approximately 20 other companies in North America that provide data processing and related services to communications providers. Competition is based primarily on price, service and support.

Network Facilities

Our fiber network is one of the most extensive in Minnesota encompassing approximately 3,250 fiber route miles (includes owned and leased fiber miles). Our network is DWDM/SONET based throughout the state, has metro rings in the major business centers and reaches more than 75% of Minnesota's population. We have made significant investments in our network during the last several years adding technological augmentations such as 10G DWDM and Ethernet along with an MPLS/IP-based platform. Complementing our base network with Ethernet and IP-based services allows us to provide services such as Switched Ethernet, VoIP, MPLS, and IP-based digital TV services. We continually upgrade bandwidth capacity across our network through tactics such as migrating our DWDM platform to 10.0 gigabits, decentralizing our central office through use of new hubs and using fiber to the home and business in targeted new construction areas.

Interconnection agreements with local, regional, national and global carriers allow us to extend our network and provide complete solutions for companies nationwide, and broaden the availability of our hosted communications service, SingleLink. We maintain a 24x7x365 level of support to our network customers through our Network Operations Center, located in Mankato, Minnesota.

Materials and Supplies

The materials and supplies that are necessary for the operation of our businesses are available from a variety of sources. A majority of the equipment sold within our Equipment Segment is supplied by Cisco. Our Telecom Segment relies upon one vendor to supply a key piece of equipment to support our digital TV product in markets that do not utilize our IPTV platform. We are currently working with other vendors to potentially supply this equipment. Our central office switches are supplied by Avaya. Avaya and Cisco are leading suppliers of communications and data equipment.

Regulation

The following summary does not describe all present and proposed federal, state and local legislation and regulations affecting the communications industry. Some legislation and other regulations are currently the subject of judicial proceedings, legislative hearings and administrative proposals that could change the manner in which this industry operates. Neither the outcome of any of these developments nor their potential impact on our company can be predicted at this time. Regulation can change rapidly in the communications industry and these changes may have an adverse effect on us in the future. See "Risk Factors — Risks related to Regulations" on pages 17 to 19 for a further discussion of the risks associated with regulatory change.

Overview

The services we offer are subject to varying levels of regulatory oversight. Federal and state regulatory agencies share responsibility for enforcing statutes and rules relative to the provision of communications services. Our interstate or international telecommunications services are subject to regulation by the FCC. Intrastate services are governed by the relevant state regulatory commission. The Telecommunications Act of 1996 and the rules enacted under it also gave oversight of interconnection arrangements and access to network elements to the state commissions. Our digital TV services are governed by FCC rules and also by municipal franchise agreements. There are also varying levels of regulatory oversight depending on the nature of the services offered or if the services are offered by an incumbent or competitive carrier.

Crystal, Enventis and IdeaOne are CLECs. A company must file for CLEC or interexchange authority to operate with the appropriate public utility commission in each state it serves. Our CLECs provide a variety of services to both residential and business customers in multiple jurisdictions. Our CLECs provide services with less regulatory oversight than our ILEC companies.

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MCTC, Mid-Com and Heartland are ILECs. MCTC and MidCom are 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”). Due to the size of our ILEC companies, neither the MPUC nor the IUB regulates their rates of return or profits. In Minnesota, regulators monitor MCTC and Mid-Com price and service levels. In Iowa, Heartland is not price-regulated. Our companies can change local rates by evaluating various factors including economic and competitive circumstances.

Internet access (dial-up or high speed) is unregulated at both the state and federal levels.

Federal Regulatory Framework

All carriers must comply with the Federal Communications Act of 1934 as amended, which requires, among other things, that our interstate services be provided at just and reasonable rates on non-discriminatory terms and conditions. The Federal Communications Act of 1934 was amended by the Telecommunications Act of 1996, which had a dramatic effect on the competitive environment in the telecommunications industry. In addition to these laws, we are also subject to rules promulgated by the FCC and could be affected by any regulatory decisions or orders they issue.

Access Charges

Access charges refer to the compensation received by local exchange carriers for the use of their networks by an interexchange carrier. We provide two types of access services: special access and switched access. Special access is provided through dedicated circuits which connect other carriers to our network and is structured on a flat monthly fee basis. Switched access rates, which are billed to other carriers, are based on a per-minute of use fee basis. The FCC regulates the prices that our ILECs and CLECs charge for interstate access charges. There has been a trend toward lowering the rates charged to carriers accessing local networks and the application of a subscriber line charge as a flat rate on end user bills. The lower per-minute of-use access rate combined with overall lower minutes of use on our network due to competition has resulted in a decrease in network access revenue, which may continue. Traffic sensitive interstate rates are established every two years and were last established in June 2011 for the period from June 30, 2011 through July 1, 2013.

Each of our ILECs determines interstate access charges under rate of return regulation, under which they earn a fixed return over and above operating costs. The specific process of setting interstate access rates is governed by part 61.39 of the FCC rules, which applies only to service providers with fewer than 50,000 lines. Two of our ILECs (MCTC and Mid-Com), utilize an average schedule process and the concept of pooling with other ILECs in the National Exchange Carrier Association (“NECA”) to arrive at rates and fair compensation. Our third ILEC (Heartland) arrives at its interstate rates through a study of its own individual interstate costs. Intrastate access rates are governed by state utility commissions.

Interstate access rates for CLECs were established according to an order issued by the FCC in 2001. Under that order, the switched access rates charged by a competitive carrier can be no higher than the rates charged by the incumbent carrier with whom the CLEC competes. Consequently, the rates charged by our facilities-based CLECs for switched access are significantly lower than the rates charged by our ILECs.

The FCC released the National Broadband Plan in April 2010 recommending significant changes in the Access Charge policy and processes. This was followed on November 18, 2011, by FCC order 11-161, with comprehensive rules reforming all forms of intercarrier compensation and implementing a new support mechanism for the deployment of broadband. Generally, the intercarrier compensation reform sets forth a path toward a “Bill & Keep” regime where there is no compensation for termination of traffic received from another carrier. The timeline for this

transition has numerous steps depending on the type of traffic exchanged and the regulated status of the affected local exchange carrier

While these rules may be altered based on ongoing petitions for reconsideration and are being challenged through appeals in Federal Appellate courts, we are evaluating them for impact on our companies. Unless the rules are changed, they would force a substantial reduction of our terminating intercarrier compensation, including intrastate and interstate access charges, over the next nine years and provide for certain support mechanisms and end user charges as a means of offsetting compensation.

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FCC order 11-161 also addressed the applicability of access charges on VoIP traffic and provided some structure to mitigate other arbitrage schemes causing traffic to be unbillable. In recent years, interexchange carriers and others have become more aggressive in disputing interstate carrier access charges and/or the applicability of access charges to their traffic, particularly VoIP traffic. We cannot, however, predict the effectiveness of these rules and cannot estimate the impact.

Due to the combination of rate reforms instituted by the FCC, competitive substitution by wireless and other carriers and decreased use of the switched network, the aggregate amount of interstate network access charges paid by long distance carriers to access providers such as our ILECs and CLECs, has decreased and we project that this decline will continue. For the year ended December 31, 2011, Telecom carrier access revenue represented approximately 14% of our operating revenue, consistent with year-end 2010.

Universal Service

The Federal Universal Service Fund was originally established to overcome geographic differences in costs of providing voice service and to enable all citizens to communicate over networks regardless of geographical location and/or personal income. The FCC established universal service policies at the national level under terms contained in the Telecommunications Act of 1934. The Telecommunications Act of 1996 required explicit Federal Universal Service Fund mechanisms and enlarged the scope of universal service to include four distinct programs:

- High-Cost program, which subsidizes local carriers operating in high-cost regions of the country to ensure reasonably based telephone rates. This program has the most direct impact on our operating companies,
- Low-Income Subscribers program, which includes the Link Up and Lifeline programs that provide subsidies for service initiation and monthly fees, respectively, with eligibility based on subscriber income,
- Rural Health Care Providers program, which subsidizes telecommunications services used by rural health care providers and provides them with toll free access to an Internet service provider, and
- Schools and Libraries program, also called the E-Rate program, which provides support funding to schools and libraries for telecommunications services, Internet access and internal connections.

In its Order released November 18, 2011, the FCC adopted rules which dramatically reform the universal service program and intercarrier compensation regime. Under the National Broadband plan and in FCC 11-161, the mandate for ubiquitous service is shifted from voice so that broadband availability will become a key outcome of the program. These rules are subject to petitions for reconsideration as well as court appeals. If they remain in place, they call for rates to end users to increase dramatically and establish a new federal subsidy program to recover a portion of revenues lost to decreased intercarrier compensation.

Federal Universal Service Fund high cost payments were previously only available to ILEC and CLEC's that have been designated as Eligible Telecommunications Carriers ("ETC") by a state commission. Support for CLEC ETC's will sunset over 5 years under FCC 11-161. Each of our ILECs has been designated as an ETC, however, none of our CLEC's have requested ETC certification or received USF support.

All ETCs must certify annually to USAC or their appropriate state regulatory commission that the funds they receive from the Federal Universal Service Fund are being used in the manner intended. The states must then certify to the FCC which carriers have met this standard. Order 11-161 expands the information that must be reported to the State Commissions to include information on broadband as well as voice services. To some extent, these levels of scrutiny put our receipt of Federal Universal Service Fund payments at risk each year.

For the year ended December 31, 2011, we received an aggregate of \$5,433,000 from the Federal Universal Service Fund, consisting of \$2,618,000 for a combination of high cost loop support and local switching support, and

\$2,815,000 of Federal common line support. Our net Universal Service funding in 2011 comprised 3% of our total revenue for the year. We receive no State Universal Service funding.

The Telecommunications Act of 1996 and Local Competition

The primary goal of the Telecommunications Act of 1996 and the FCC's rules promulgated under it was to open local telecommunications markets to competition while enhancing universal service. To some extent, Congress pre-empted the local authority of states to oversee local telecommunications services.

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The Telecommunications Act of 1996 imposes a number of requirements on all local telecommunications providers which include:

- To interconnect directly or indirectly with other carriers,
 - To allow others to resell their services,
- To provide for number portability, which allows end-users to retain their telephone number when changing providers,
 - To ensure dialing parity,
- To ensure that competitor's customers have nondiscriminatory access to telephone numbers, operator services, directory assistance and directory listing services, and
- To allow competitors access to telephone poles, ducts, conduits and rights-of-way, and to establish reciprocal compensation arrangements for the transport and termination of telecommunications traffic.

There is another tier of requirements under the Telecommunications Act of 1996 which apply to incumbent carriers that are not designated as "rural telephone companies." Each of our ILECs is a rural telephone carrier and this designation can only be removed by a petition of a competing carrier to the state regulatory commission. Because no one has challenged our designation, our ILECs have not had to meet these requirements. If this designation was removed, our ILECs would be required to:

- Provide non-discriminatory access to discrete parts of the network, such as local loops and transport facilities. These are referred to as unbundled network elements, and
- Provide at rates, terms and conditions that are just, reasonable and non-discriminatory, physical co-location of equipment necessary for interconnection or access to unbundled network elements.

The unbundling requirements of the Telecommunications Act of 1996 have been some of the most controversial provisions of the Act and the rules implementing them have been revised by the FCC over the years. While our ILECs have not been required to unbundle their networks, our CLEC operating entities have taken advantage of the unbundling and colocation requirements and currently purchase both products in territories served by CenturyLink.

National Telecommunications and Information Administration's Broadband Technologies Opportunity Program

The Broadband Technology Opportunities Program (BTOP) is a grant program funded through the American Recovery and Reinvestment Act of 2009. BTOP is administered by the National Telecommunications and Information Administration (NTIA) within the U.S. Department of Commerce and is intended to accelerate broadband deployment in unserved and underserved areas. We were awarded a grant under this program in 2010 to fund construction of 430 route miles of fiber network. We expect the total cost of the project to be \$24,000,000. The Federal portion of the cost is 70%, or up to \$16,800,000 and our portion is 30%, or \$7,200,000. As a recipient of this award, we are responsible for ensuring that the project is successfully implemented as approved and administered in compliance with BTOP requirements. The award is subject to U.S. laws and regulations, including the Recovery Act, which requires an increased level of transparency and accountability in use of award funds.

Environmental Regulation

We are subject to federal, state and local laws and regulations governing the use, storage, disposal of and exposure to hazardous materials, the release of pollutants into the environment and the remediation of contamination. We could be subject to certain environmental laws that impose liability for the entire cost of cleanup at a contaminated site, regardless of fault or the lawfulness of the activity that resulted in contamination. We believe that our operations are in substantial compliance with applicable environmental laws and regulations.

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Employees

We employ 500 employees, which include employees of IdeaOne, our acquisition which closed on March 1, 2012. The majority of these employees are based in Minnesota. Approximately 290 employees are located at our headquarters in Mankato, Minnesota. We have a collective bargaining agreement with the International Brotherhood of Electrical Workers Local 949, which involves 99 of our employees. There have been no work stoppages or strikes by our International Brotherhood of Electrical Workers Local 949 employees in the past 40 years and we consider our labor relations to be good.

Intellectual Property

We have trademarks, trade names and licenses that we believe are necessary for the operation of our business as we currently conduct it. HickoryTech, HickoryTech SuiteSolution, Enventis and SingleLink are registered trademarks of the United States. We do not consider our trademarks, trade names or licenses to be material to the operation of our business.

Item 1A. Risk Factors

Our businesses face many risks, the most important of which we attempt to describe in the following section. If any of the events or circumstances described in the following risks actually occurs, our business financial condition or results of operations may suffer and impact the trading price of our stock.

Risks Related to Our Business

The successful operation and growth of our business depends heavily on economic conditions within our service areas. The vast majority of our customers and operations are located in the Upper Midwest revolving around our fiber footprint servicing Minnesota, Iowa, North Dakota and South Dakota. Adverse economic conditions affect the affordability and demand for some of our products and services and could cause customers to shift to lower priced products and services or to delay or forgo purchases of our products and services. Our customers may not be able to obtain adequate access to credit, which could affect their ability to make timely payments to us. We cannot predict with certainty the impact to us of any further weakness in the overall economy or credit market.

The communications industry is highly competitive and the level of competition continues to increase. We face increased competition across all markets and customer segments from providers offering competing or alternative services. We expect competition to intensify as a result of new competitors and the development of new technologies, products and services.

Many of our voice and data competitors, such as cable TV providers, Internet access providers, wireless service providers and long distance carriers, have significantly greater brand name recognition and financial, personnel, marketing and other resources. In addition, due to consolidation and strategic alliances within the communications industry, we cannot predict the number of competitors that will emerge, especially as a result of existing or new federal and state regulatory or legislative actions. Such increased competition from existing and new entities could lead to price reductions and reduced operating margins or loss of market share. We attempt to differentiate our products and services through technology, reputation, customer service, value-added services and price. Increased competition has impacted our profitability in the past and we cannot assure you that it will not continue to impact our profitability in the future.

The federal broadband stimulus program is providing approximately \$7.2 billion in financial incentives to companies for the purpose of expanding broadband service in unserved or underserved markets. Financial incentives paid to new

or existing competitors could incent them to enter markets where we are already providing broadband service. Recently, we have seen a noticeable increase in fiber network construction by communications carriers and private entities which may directly compete with our existing fiber facilities and we have also realized accelerated market price compression over the past eighteen months as compared to prior trends, regarding certain services in certain markets. This accelerated market price compression is relevant to both business and wholesale customers. We cannot predict with any certainty whether this accelerated market price compression will continue or taper back to prior trends.

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We must adapt to rapid technological change, accurately predict technological trends and successfully introduce new products and services. We are subject to rapid and significant changes in technology, particularly in the areas of VoIP, data transmission and wireless communications, frequent new service introductions and evolving industry standards. Our success also depends, in part, upon our ability to successfully introduce new products and services including:

- our ability to offer services on terms attractive to our customers,
- our ability to expand and enhance our broadband offerings,
- our ability to introduce and distribute the equipment and systems of manufacturers of switching equipment and the suppliers of communications technology compared to the competitive alternatives of other suppliers,
- our ability to provide fiber and data solutions and competitive IP services, including communications and network solutions, and
- our ability to provide competitive services.

If we fail to anticipate or respond to technological developments, changes in industry standards or customer requirements in a cost-effective and timely manner; our business operating results and financial condition could be materially adversely affected.

Shifts in our product mix may result in declines in operating profitability. Our traditional Telecom services carry higher margins than many of our newer services. Changes in product mix may also cause some of our inventory to become obsolete. We currently manage potential obsolescence through reserves, but future technology changes may exceed current reserves.

We depend on third parties, over whom we have no control, to deliver some of our services. Although we own and operate our fiber network and the community networks in our markets, because of the interconnected nature of the communications industry, we depend heavily on other communications companies, network providers, and program service providers to provide services to our customers.

Our network operates pursuant to franchises, permits or rights from public and private entities, which are terminable if we fail to comply with material terms of the authority we receive. Many of these permits and contracts we utilize in our network have fixed terms and must be renewed periodically. Our success is dependent on continuing these relationships without material increase in our expenses or restrictions on our use.

We expect the cost of obtaining video programming to continue to be one of our largest operating costs associated with providing digital TV service. In recent years the cable industry has experienced rapid increases in the cost of programming. Programming costs are generally assessed on a per-subscriber basis, and therefore are related directly to the number of subscribers to which the programming is provided. Our relatively small base of subscribers limits our ability to negotiate lower per-subscriber programming costs. While we expect these increases to continue we may not be able to pass our programming cost increases on to our customers, particularly as an increasing amount of programming content becomes available via the Internet at little or no cost. Also, some competitors own programming in their own right and we may be unable to secure license rights to that programming. As our programming contracts with content providers expire, there can be no assurance that they will be renewed on acceptable terms or that they will be renewed at all, in which case we may be unable to provide such programming as part of our video services packages and our business and results of operations may be adversely affected.

We are dependent upon equipment vendors to deliver our services and delays in the shipment of equipment or the loss of our principal equipment supplier could significantly impact our operations. The failure to maintain these necessary third party arrangements on acceptable terms would have an adverse effect on our ability to conduct our business.

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Our possible pursuit of acquisitions could be expensive, may not be successful and, even if successful may be more costly than anticipated. Our ability to complete future acquisitions will depend on our ability to identify suitable acquisition candidates, negotiate acceptable terms for their acquisition and, if necessary, finance those acquisitions. Whether or not any particular acquisition is closed successfully, pursuing acquisitions are expensive and require our management to spend considerable time and effort to accomplish them, which may detract from their ability to run our current business. Once a deal is reached, we may face unexpected challenges in securing any required approvals from the FCC or other applicable state regulatory commissions, which could result in delay or our not being able to consummate the acquisition. Although we may spend considerable expense and effort to pursue acquisitions, we may not be successful in closing them.

When we are successful in closing acquisitions, such as our IdeaOne acquisition which closed March 1, 2012, we face several risks associated with integration. In addition, any due diligence we have performed may prove to have not been accurate. For example, we may face unexpected difficulties in entering markets in which we have little or no direct experience or in generating the expected revenue and cash flow from the acquired companies or assets and retaining customers and key employees.

If we do pursue an acquisition or a strategic transaction and any of these risks materialize, they could have a material adverse effect on our business and our ability to achieve sufficient cash flow, provide adequate working capital, service and repay our indebtedness and leave sufficient funds to pay dividends.

A failure in our operational systems or infrastructure could impair our liquidity, disrupt our business, damage our reputation and cause loss. To be successful, we will need to continue providing our customers with a reliable and secure network. Disruptions or system failures may cause interruptions in service or reduced capacity for customers. Some of the risks to our network and infrastructure include: physical damage to access lines, breaches of security, power surges or outages, software defects and disruptions beyond our control, such as natural disasters. We could also face disruptions due to capacity limitations if changes in our customers' usage patterns for broadband services result in a significant increase in capacity utilization. Despite the existence of contingency plans and facilities, disruptions may cause interruption of service or reduced capacity for customers, either of which could cause us to lose customers and incur expenses, and thereby adversely affect our business revenue and cash flow.

Our business may be harmed if we are unable to maintain data security. We are dependent upon automated information technology processes. Any failure to maintain the security of our data and our employees' and customers' confidential information, including the breach of our network security or the misappropriation of confidential information, could result in fines, penalties and private litigation. Any such failure could adversely impact our business, financial condition and results of operations.

Our businesses may be adversely affected if we are unable to hire and retain qualified employees. Our performance is largely dependent on the talents and efforts of highly skilled individuals in our communication businesses, including engineering and operations, fiber network sales and administration, billing software development and communications equipment sales and service. Technological advances require our employees to continually increase their knowledge base. Our ability to compete and grow our business effectively depends upon our ability to attract qualified employees and retain and motivate our existing employees. Our inability to attract and retain highly qualified technical and senior management could have a material adverse effect on our business, financial condition and results of operations. In addition, we may acquire new businesses and our success will depend, in part, upon our ability to retain, hire and integrate personnel from acquired businesses who are critical to the continued success and integration of these acquired businesses.

The loss of our certification as a Cisco Gold Partner or Cisco designations, or by Cisco losing its position as a leading provider of technology solutions would adversely impact our Equipment Segment. The majority of our equipment

practice is based on the Cisco product line by which we provide communications and technological solutions for business customers. If Cisco equipment and technology fall out of favor in the marketplace, our success as a distributor may decline or be delayed as we seek alternative solutions. While Cisco has made no previous indication it would do so, it could suspend our Gold Partner designation and affect our success as a leading distributor. It is also possible that we may lose the certified technicians who build the basis for our qualification as a Gold Partner.

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Our operations require substantial capital expenditures, operating and administrative costs and we operate in a cash-flow-dependent business. We require substantial capital to maintain, upgrade and enhance our network facilities and operations. In 2011, we incurred \$21,440,000 in capital expenditures. Our operating expenses in the form of payroll for a highly trained workforce and the maintenance cost of communications networks are large uses of cash. Our debt service obligation and any dividends to shareholders also require significant cash each year. New business development may require additional up-front investment in assets and funding of early stage operating losses. Although we establish financial plans to attempt to ensure cash is adequate to fund operations, a sudden unanticipated increase in cash outflow after we have already initiated our business plans could alter our future plans, which could possibly affect our growth or ability to maintain our current network infrastructure, our debt obligations or fund dividends.

Risks related to Regulations

The communications industry in which we operate is subject to federal, state and local regulation that could change in a manner adverse to us. Our local telephone businesses in Minnesota and Iowa are subject to regulations that impact the rates we charge, the areas we service, our contracts with suppliers and virtually every facet of our business. Laws and regulations may be, and in some cases have been, challenged in the courts and could be changed by Congress, state legislatures or regulators at any time. New regulations could be imposed by federal or state authorities further impacting our operating costs or capital requirements in a manner that is adverse to us. We cannot predict the impact of future developments or changes to the regulatory environment or the impact such developments or changes may have on us. Adverse rulings, legislation or changes in governmental policy on issues material to us could increase our competition, cause customer attrition, decrease our revenue, increase our costs and decrease our profitability.

Legislative or regulatory changes could reduce the revenue received from network access charges. Access charges, which are intended to compensate our ILEC and CLEC operations for originating, terminating or transporting long distance and other carriers' calls in our service areas, accounted for approximately 14% of our total revenue in 2011. The amount of network access charges we receive is based on interstate rates set by the FCC and intrastate rates set by the MPUC and the IUB. The large national carriers who pay these charges have advocated that access charges should be reduced and some network providers have argued that access charges do not apply to specific types of traffic. As our business becomes increasingly competitive, the regulatory disparities regarding network access revenue, the marketplace forces on its pricing levels and our ability to enforce the historical rules for collecting this revenue, could have a material adverse effect on our business.

In its Order released November 18, 2011, the FCC adopted rules which dramatically reform network access compensation. These rules are subject to petitions for reconsideration as well as court appeals. If they remain in place, they call for rates to end users to increase dramatically and establish a new federal subsidy program to recover a portion of revenues lost to decreased intercarrier compensation. The FCC has also issued further notice of proposed rulemaking to consider additional changes to intercarrier compensation. We cannot predict whether or when action may be taken on any of these issues, or what effect any action may have on revenue and costs.

We believe that there has been a general increase in the unauthorized use of telecommunications providers' networks without payment of appropriate access charges, or so-called "phantom traffic," due in part to advances in technology that have made it easier to use networks while avoiding payment for the traffic. In general, we believe this phantom traffic is due to unintended usage and, in some cases, fraud. While we perform revenue assurance tests regularly, we are at risk for potential claims made against us contesting the applicability of network access charges. If there is a successful dispute or avoidance of the applicability of network access charges, our revenue could decrease causing a material impact to our operations.

Legislative or regulatory changes could reduce or eliminate the government subsidies we receive. The federal system of subsidies, from which we derive a portion of our revenue, is subject to modification. In its Order released November 18, 2011, the FCC adopted rules which dramatically reform the universal service program and intercarrier compensation regime unless they are changed as a result of petitions for reconsideration or appellate court challenges, we anticipate sources of revenue to shift from intercarrier compensation to end users.

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In addition, under the Telecommunications Act of 1996, our competitors may obtain Federal Universal Service Fund subsidies if the MPUC or IUB, as applicable, determine that granting these subsidies to competitors would be in the public interest and the competitors offer certain telephone services as required by the Telecommunications Act of 1996 and the FCC. Under current rules, any such payments to our competitors would not affect the level of subsidies received by our ILEC and CLEC operations, but they would facilitate competitive entry into our ILEC and CLEC service areas and we may not be able to compete as effectively or otherwise continue to operate as profitably. Because of the growing number of competitors receiving Universal Service Fund subsidies, the FCC has taken action to discontinue payments to CLEC's.

Acceptance of the NTIA BTOP Grant imposes a new set of compliance guidelines. When we accepted the NTIA's BTOP grant award in 2010, we agreed to comply with all applicable public laws and regulations, including those specifically required under the American Recovery and Reinvestment Act of 2009 and the BTOP grant program itself. While we are already required to comply with many of these rules and guidelines, the award program itself imposes a new set of requirements. Failure to comply could result in federal action taken against us based on the severity of non-compliance, up to and including termination of the award and debarment from working with the federal government on future projects. In addition, failure to successfully complete the project, or to adequately account for and retain title to property and equipment funded under the award could require us to repay funds received under the award program.

Legislative and regulatory changes in the communications industry could raise our costs by facilitating greater competition against us and reduce potential revenue. Legislative and regulatory changes in the communications industry could adversely affect our business by facilitating greater competition, reducing our revenue or raising our costs. For example, federal or state legislatures or regulatory commissions could impose new requirements relating to standards or quality of service, credit and collection policies, or obligations to provide new or enhanced services.

Our operations are subject to environmental, health and safety laws and regulation that increase our costs of operations and could subject us to liability. Our operations and properties are subject to federal, state and local laws and regulations relating to the protection of the environment, natural resources and worker health and safety that could adversely affect our profitability. We operate under a number of environmental and health and safety laws, including laws and regulations governing and creating liability to, the management, storage and disposal of hazardous materials, asbestos, petroleum products and other regulated materials. We are subject to environmental laws and regulations governing air emissions from our fleets of vehicles. As a result, we face several risks, including the following:

- Under certain environmental laws, we could be held liable, jointly and severely and without regard to fault, for the costs of investigating and the remediation of any actual or threatened environmental contamination at currently and formerly owned or operated properties, and those of our predecessors, and for contamination associated with disposal by us or our predecessors of hazardous materials at third party disposal sites,
- The presence of contamination can adversely affect the value of our properties and our ability to sell any such affected property or to use it as collateral,
- We could be held responsible for third party property damage claims, personal injury claims or natural resource damage claims relating to any such contamination,
 - The cost of complying with existing environmental requirements could be significant,
- Adoption of new environmental laws, regulations or changes in existing laws or regulations or their interpretations could result in significant compliance costs or as yet identified environmental liabilities,
 - Future acquisition of businesses or properties subject to environmental requirements or affected by environmental contamination could require us to incur substantial costs relating to such matters, and
- In addition, environmental laws regulating wetland, endangered species and other land use and natural resource issues may increase costs associated with future business or expansion opportunities, delay, alter or interfere with such plans, or otherwise adversely affect such plans.

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The high cost of regulatory compliance could make it more difficult to enter new markets, make acquisitions or change our prices. Regulatory compliance results in significant costs and diverts the time and effort of our management and officers away from running the business. In addition, because regulations differ from state to state, we could face significant costs in obtaining information necessary to compete and provide services, such as long distance services, in different states. These information barriers could cause us to incur substantial costs and to encounter significant obstacles and delays in entering these markets. Compliance costs and information barriers could also affect our ability to evaluate and compete for new opportunities to acquire local access lines or businesses as they arise.

Our intrastate services are also generally subject to certification, tariff filing and other ongoing state regulatory requirements. Challenges to our tariffs by regulators or third parties or delays in obtaining certifications and regulatory approvals could cause us to incur substantial legal and administrative expenses. If successful, these challenges could adversely affect the rates that we are able to charge to customers, which would negatively affect our revenue.

We may incur significant costs associated with lawsuits and regulatory inquiries. Any such claims or regulatory inquiries, whether successful or not, may require us to devote significant amounts of monetary or human resources to defend ourselves. It could be necessary to spend significant amounts on our legal defense and senior management may be required to divert their attention which could detract from their ability to run our business. If as a result of any proceedings, a judgment is rendered or a decree is entered against us, it may adversely affect our business, financial condition and results of operations.

Risks Related to Our Indebtedness and Our Capital Structure

We have a large balance of senior bank debt outstanding under long-term financing agreements and may incur additional debt in the future, which could restrict our ability to pay dividends and fund our operations. As of December 31, 2011, we had \$120,235,000 of total long-term debt outstanding, including current maturities. As of March 1, 2012 we have incurred additional debt of \$22,000,000 in conjunction with the closing of IdeaOne. The degree to which we are leveraged could have important consequences including:

- Requiring us to dedicate a substantial portion of our cash flow from operations to make principal and interest payments on our debt,
- Limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate,
- Limiting our ability to borrow additional funds, or to sell assets to raise funds, if needed, for working capital, capital expenditures, acquisitions or other purposes,
- Increasing our vulnerability to general adverse economic and industry conditions, including changes in interest rates, and
 - Placing us at a competitive disadvantage compared to our competitors who have less debt.

We cannot assure you that we will generate sufficient revenue to service and repay our debt and have sufficient funds left over to achieve or sustain profitability in our operations, meet our working capital and capital expenditure needs, compete successfully in our markets or pay dividends to our stockholders.

If we seek additional financing, we may not be able to obtain it on favorable terms, or at all, and our shareholders may experience dilution of their ownership interest if we seek equity financing. We currently anticipate that our available cash resources, which include our ability to generate net cash inflow from our operations, our credit facility, existing cash, cash equivalents and available-for-sale securities, will be sufficient to meet our anticipated needs for working capital, capital expenditures and other fixed charges to execute our near-term business plan, based on current business operations and economic conditions. If our estimates are incorrect and we are unable to generate sufficient cash flows

from operations and we expand our credit facility, we may need to raise additional funds. In addition, if one or more of our strategic growth opportunities exceeds our existing resources, we may be required to seek additional capital. If we raise additional funds through the issuance of equity or equity-related securities, our shareholders may experience dilution of their ownership interests and the newly issued securities may have rights superior to those of common stock. Our existing debt covenants require a portion of the proceeds of an equity offering be applied to the outstanding debt balance. If we raise additional funds by issuing additional debt, we may be subject to restrictive covenants that could limit our operating flexibility and increased interest payments could dilute earnings per share.

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We are subject to restrictive debt covenants and other requirements related to our outstanding debt that limit our business flexibility by imposing operating and financial restrictions on us. These restrictions limit or restrict, among other things, our ability to:

- Incur additional debt and issue preferred stock,
- The payment of dividends on, and purchase or redemption of, capital stock,
 - Make investments in excess of a threshold,
 - Create liens on our assets,
 - Sell certain assets,
- Engage in some transactions with affiliates, and
- Make other restricted payments, including payments in connection with investments and acquisitions in excess of a threshold.

These restrictions could limit our ability to obtain future financing, make acquisitions or fund capital expenditures, withstand downturns in our business or take advantage of business opportunities. Furthermore, the credit facilities also require us to maintain specified total leverage and minimum interest coverage ratios and to satisfy specified financial condition tests, and may require us to make annual mandatory prepayments with a portion of our available cash. Our ability to comply with the ratios may be affected by events beyond our control including prevailing economic, financial and industry conditions.

A breach of any of these covenants contained in our credit agreement could result in a default under our credit facilities. If we were to default, the lenders could elect to declare all amounts outstanding under the credit facilities to be due and payable. If the amounts outstanding under our credit facilities were to be accelerated, we cannot assure you that our assets would be sufficient to repay the money in full owed to the lenders or to our other debt holders.

Risks Related to Our Common Stock

Our board of directors could, at its discretion, depart from or change our dividend payment practices at any time. We are not required to pay dividends, do not have a dividend policy and our stockholders are not guaranteed, and do not have contractual or other rights, to receive dividends. Our board of directors may decide at any time, at its discretion, to decrease the amount of dividends, otherwise change or revoke our past dividend payment practices or discontinue entirely the payment of dividends. In addition, if we do not pay dividends for whatever reason, your shares of our common stock could become less liquid and the market price of our common stock could decline.

Our ability to pay dividends, and our board of directors' determination to maintain the dividend declaration, will depend on numerous factors, including the following:

- The state of our business, the environment in which we operate and the various risk factors we face, including, but not limited to competition, technological change, industry change, regulatory and other risks summarized in this Annual Report on Form 10-K,
 - Our future results of operations, financial condition, liquidity needs and capital resources,
- Our cash needs, including interest and any future principal payments on our indebtedness, capital expenditures, taxes, pension and other post-retirement contributions and certain other costs, and
 - Potential sources of liquidity, including borrowing under our revolving credit facility or possible asset sales.

While our cash flow available for the year ended December 31, 2011 was sufficient to pay dividends, if our estimated cash flow were to fall below our expectations, our assumptions as to estimated cash needs are too low or if other applicable assumptions were to prove incorrect, we may need to:

- Either reduce or eliminate dividends,
- Fund dividends by incurring additional debt (to the extent we were permitted to do so under agreements governing our then existing debt), which would increase our leverage, debt repayment obligations and interest expense and decrease our interest coverage, resulting in, among other things, reduced capacity to incur debt for other purposes, including to fund future dividend payments,

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- Amend the terms of our credit agreement, if our lenders agreed, to permit us to pay dividends or make other payments if we are otherwise not permitted to do so,
- Fund dividends from future issuances of equity securities, which could be dilutive to our stockholders and negatively affect the price of our common stock,
- Fund dividends from other sources, such as by asset sales or by working capital, which would leave us with less cash available for other purposes, and
 - Reduce other expected uses of cash, such as capital expenditures.

If we continue to pay dividends at the level currently anticipated under our past dividend payment practices, our ability to pursue growth opportunities may be limited. We believe that our dividend payment practices has an effect on our ability to grow. If we continue paying dividends at the level anticipated under our past dividend payment practices, and there was a general business downturn we may not retain a sufficient amount of cash and may need to seek financing to fund a material expansion of our business, including any significant acquisitions or to pursue growth opportunities requiring capital expenditures significantly beyond our current expectations.

Anti-takeover provisions in our charter documents, our shareholder rights plan and Minnesota law could prevent or delay a change in control of our Company. Provisions of our articles of incorporation and bylaws, our shareholder rights plan and Minnesota law may discourage, delay or prevent a merger or acquisition that a shareholder may consider favorable and may limit the market price for our common stock. These provisions include the following:

- Authorization for our Board of Directors to issue preferred stock without shareholder approval,
 - Limitations on business combinations with interested shareholders, and
 - Advance notice requirements for shareholders proposals.

Some of these provisions may discourage a future acquisition even though our shareholders would receive an attractive value for their shares or a significant number of our shareholders believe such a proposed transaction would be in their best interest.

Our stock price varies. Based on the trading history of our common stock and the nature of the market for publicly traded securities of companies in our industry, we believe that some factors have caused and are likely to continue to cause the market price of our common stock to fluctuate substantially. These fluctuations could occur day-to-day or over a longer period of time and may be accentuated by the lack of liquidity in our stock.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our business is primarily focused on the provision of communication service and our properties are used for administrative support and to store and safeguard equipment. On December 31, 2011, our gross property, plant and equipment consisted primarily of telephone switches, cable, fiber optic networks and communications network equipment. Our extensive fiber optic network is primarily owned, but we also have indefeasible rights to use and long-term leasing commitments to accentuate our owned network. It is our opinion that our properties are suitable and adequate to provide modern and effective communications services within our service areas. Our principal property locations are the following:

Fiber and Data

1. Lease approximately 9,300 square feet in Duluth, Minnesota for general offices.

2. Lease approximately 2,300 square feet in Duluth, Minnesota for a warehouse facility.
 3. License approximately 400 square feet in Duluth, Minnesota for a data center.
 4. Lease approximately 5,550 square feet in Minneapolis, Minnesota for general offices.
 5. Lease approximately 2,200 square feet in Des Moines, Iowa for a network equipment facility.
 6. License approximately 2,200 square feet in Edina, Minnesota for a data center.
 7. Utilize approximately 1,100 square feet of secured space within our headquarters building in Mankato, Minnesota for a data center.
 8. Lease approximately 8,200 square feet in Rochester, Minnesota for general offices.
 9. Lease approximately 1,700 square feet in Rochester, Minnesota for network equipment facility.
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Acquired as part of the IdeaOne acquisition, closed March 1, 2012

10. Lease approximately 22,000 square feet in Fargo, North Dakota for general offices and a co-location facility.
11. Own an approximately 2,750 square feet building in Fargo, North Dakota for a central office location.

Equipment

1. Lease approximately 16,000 square feet of office space in Plymouth, Minnesota for general offices, technology services and system support.

Telecom

1. Own a 60,000 square feet building in Mankato, Minnesota which is used for general offices and our principal central office exchange building.
2. Own a 48,000 square feet building in Mankato, Minnesota which is used for office space and a warehouse facility.
3. Own a 17,000 square feet building in Mankato, Minnesota which is used for office space for the data processing services of our company.
4. Lease approximately 6,000 square feet in Urbandale, Iowa for office space. This location is also used for office space by the Fiber and Data Segment.
 5. Lease approximately 1,500 square feet in Rock Rapids, Iowa to house central office equipment.
 6. Lease approximately 2,000 square feet in Rock Valley, Iowa for general office space.

Item 3. Legal Proceedings

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

Item 4. Mining Safety Disclosures

None.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "HTCO." As of February 24, 2012, there were 1,269 registered shareholders and 2,093 beneficial owners of HickoryTech stock. The following table reflects the end-of-day high and low prices for our common stock quoted on the NASDAQ Global Select Market during 2011 and 2010. The prices below are daily closing prices, not intraday prices.

2011		High	Low	End of Qtr.
	4th Quarter	\$ 11.87	\$ 9.63	\$ 11.08
	3rd Quarter	\$ 12.42	\$ 8.62	\$ 9.62
	2nd Quarter	\$ 11.96	\$ 9.00	\$ 11.88
	1st Quarter	\$ 10.46	\$ 8.83	\$ 9.05
2010		High	Low	End of Qtr.
	4th Quarter	\$ 9.74	\$ 8.50	\$ 9.56
	3rd Quarter	\$ 8.53	\$ 6.65	\$ 8.53
	2nd Quarter	\$ 8.99	\$ 6.74	\$ 6.75
	1st Quarter	\$ 9.25	\$ 8.13	\$ 8.83

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Dividend Tendencies and Restrictions

We declared quarterly dividends on our common stock of \$0.135 per share for the first three quarters in 2011 and \$0.14 per share for the fourth quarter in 2011. We declared quarterly dividends on our common stock of \$0.13 per share for the first three quarters in 2010 and \$0.135 per share for the fourth quarter in 2010. A quarterly cash dividend of \$0.14 per share will be paid on March 5, 2012 to stockholders of record at the close of business on February 15, 2012.

Our board of directors has adopted dividend payment practices that reflect its judgment that our stockholders would be better served if we distributed to them a portion of the cash generated by our business in excess of our expected cash needs rather than retaining it or using the cash for other purposes, such as to make investments in our business or to make acquisitions. We do not have a formal dividend policy; however, we expect to continue to pay quarterly dividends at an annual rate of \$0.56 per share during 2012, but only if and to the extent declared by our board of directors on a quarterly basis and subject to various restrictions on our ability to do so. Dividends on our common stock are not cumulative.

The terms of our credit facility include certain restrictions regarding the payment of dividends. The dividend restriction provides that our dividend distributions cannot exceed a total amount of \$8,500,000 in any fiscal year. Dividend payments in 2011 totaled \$7,281,000.

The cash requirements of our dividend payment practices are in addition to the expected cash needs of our business, both of which we expect to be funded with cash flow from operations. If it were required, we expect to have sufficient availability under our revolving credit facility to fund dividend payments in addition to any expected fluctuations in working capital and other cash needs, although we do not intend to borrow under this facility to pay dividends.

Issuer Purchases of Common Stock

In August 2011, we announced that our board of directors authorized a stock repurchase plan to repurchase up to \$3,000,000 of our common stock. In the third quarter of 2011, we acquired and retired 36,248 shares. Details of the transactions are below. We did not acquire any of our own common stock in 2010 or 2009.

Transactions	Total Number of Shares Purchased	Average Price Paid per Share	Maximum Dollar Value that May Yet be Purchased under Plan
Balance, July 1, 2011			\$ 3,000,000
September 23, 2011	7,100	\$ 9.03	2,935,887
September 26, 2011	9,716	8.94	2,849,007
September 27, 2011	9,716	8.77	2,763,832
September 28, 2011	9,716	9.06	2,675,820
Balance, December 31, 2011	36,248	\$ 8.94	\$ 2,675,820

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Equity Compensation Plan

The following table provides information on equity compensation plans under which equity securities of the Company are authorized for issuance as of December 31, 2011.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights A	Weighted-average exercise price of outstanding options, warrants and rights B	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) C
Equity compensation plans approved by security holders (1):	247,650	\$ 11.28	1,534,757
Equity compensation plans not approved by security holders:	-	-	-
Total	247,650	\$ 11.28	1,534,757

(1) Includes the Company's Employee Stock Purchase Plan, Stock Award Plan, Retainer Stock Plans for Directors, Non-Employee Director Stock Option Plan and Non-Employee Directors' Incentive Plan.

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Five Year Shareholder Return Performance Presentation

The following table compares the cumulative total shareholder return on the common stock of HickoryTech for the last five fiscal years with the cumulative total return on the Russell 2000 Index and the NASDAQ Telecommunications Index. "Total shareholder return" assumes the investment of \$100 in HickoryTech's common stock, the Russell 2000 index and the NASDAQ Telecommunication Index on December 31, 2006 and reinvestment of all dividends.

Total Return to Shareholders (includes reinvestment of dividends)

ANNUAL RETURN PERCENTAGE
Years Ended

	12/07	12/08	12/09	12/10	12/11
Hickory Tech Corporation	38.17 %	-37.69 %	74.09 %	15.14 %	22.31 %
Russell 2000	-1.57 %	-33.79 %	27.17 %	26.86 %	-4.18 %
NASDAQ Telecommunications	13.48 %	-45.80 %	39.28 %	10.23 %	-11.43 %

INDEXED RETURNS
Years Ended

	12/06	12/07	12/08	12/09	12/10	12/11
Hickory Tech Corporation	100.00	138.17	86.09	149.87	172.57	211.07
Russell 2000	100.00	98.43	65.18	82.89	105.14	100.75
NASDAQ Telecommunications	100.00	113.48	61.50	85.66	94.42	83.63

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Item 6. Selected Financial Data

(Dollars in thousands except
share and per share amounts)

Statement of Operations Data:	2011	2010	2009	2008	2007
Operating revenue					
Fiber and Data	\$ 45,149	\$ 44,685	\$ 31,247	\$ 24,075	\$ 20,464
Equipment and Support					
Services	48,932	47,544	37,436	55,901	59,338
Telecom	69,457	70,018	70,419	73,199	76,847
Total revenue	\$ 163,538	\$ 162,247	\$ 139,102	\$ 153,175	\$ 156,649
Net Income	\$ 9,237	\$ 12,094	\$ 11,273	\$ 8,029	\$ 8,635
EBITDA per our credit agreement from continuing operations (A)					
	\$ 43,284	\$ 43,063	\$ 39,867	\$ 40,925	\$ 42,471
Per Share Data:					
Basic EPS	\$ 0.69	\$ 0.91	\$ 0.86	\$ 0.61	\$ 0.65
Diluted EPS	\$ 0.69	\$ 0.91	\$ 0.86	\$ 0.61	\$ 0.65
Dividends per share	\$ 0.545	\$ 0.525	\$ 0.52	\$ 0.49	\$ 0.48
Balance Sheet Data:					
Total assets	\$ 243,986	\$ 230,188	\$ 222,483	\$ 225,508	\$ 227,495
Shareholders' equity	\$ 43,197	\$ 41,304	\$ 34,546	\$ 29,749	\$ 31,932
Current maturities of long-term obligations	\$ 1,407	\$ 4,892	\$ 620	\$ 1,621	\$ 731
Long-term debt	118,828	114,067	119,871	125,384	128,475
Total debt, long-term and current	\$ 120,235	\$ 118,959	\$ 120,491	\$ 127,005	\$ 129,206
Debt ratio (B)	74	% 74	% 78	% 81	% 80
Telecom Customer Data:					
Business access lines	23,316	24,043	25,133	25,274	27,403
Residential access lines	24,386	27,199	30,197	33,757	37,428
Total access lines	47,702	51,242	55,330	59,031	64,831
Long distance subscribers	32,280	33,854	36,107	38,458	40,956
DSL customers	19,531	19,667	19,346	18,696	17,427
Digital TV customers	10,374	10,562	9,663	8,368	6,487
Other Data:					
Employees (C)	500	463	448	433	400
Capital expenditures	\$ 21,440	\$ 22,888	\$ 17,893	\$ 17,691	\$ 17,500
Shares outstanding (year end)	13,396,176	13,298,626	13,100,568	12,992,376	13,284,903
Share price (D) (year end)	\$ 11.08	\$ 9.56	\$ 8.83	\$ 5.44	\$ 9.32
Shareholders					

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Registered	1,269	1,330	1,345	1,394	1,430
Beneficial owners (E)	2,093	2,172	1,925	1,834	1,778
Total shareholders	3,362	3,502	3,270	3,228	3,208

Footnotes for this table are on the following page.

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- (A) Management believes that Earnings before Interest, Taxes, Depreciation and Amortization as defined in our credit agreement (“EBITDA”), a non-GAAP financial measure, is an important financial metric as it represents our ability to generate cash flow and is helpful when evaluating our performance. A reconciliation of net income to EBITDA from continuing operations can be found in the Non-GAAP measures section on page 39.
- (B) Debt Ratio = Total Debt / (Total Debt + Shareholders’ Equity as of December 31).
- (C) Employee counts reflect current employees as of the filing date of this Form 10-K report. Our CP Telecom acquisition in 2009 added 35 employees. The acquisition of IdeaOne which closed on March 1, 2012, added 38 employees.
- (D) Share price is the last day closing price.
- (E) The number of beneficial shareholders is the approximate number of registrations in street company accounts.

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

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

Overview

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

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

Executive Summary

Highlights in 2011:

- Net Income in 2011, totaled \$9,237,000, a 24% decline compared to 2010. We incurred income tax reserve reversals of \$406,000 in 2011 and \$2,726,000 in 2010. We also benefitted from a unique fiber construction project in 2010 adding \$1,378,000. Excluding the income tax reserve releases and the fiber construction project net income would have increased 11% year-over-year.
- Consolidated revenue for 2011 totaled \$163,538,000, a 1% increase over 2010. A unique fiber construction project in 2010 added \$4,980,000 of revenue. Excluding the 2010 fiber construction project revenue for 2011 grew 4%.
- Fiber and Data Segment revenue for 2011 totaled \$45,149,000, a 1% increase compared to 2010. Excluding the 2010 fiber construction project, Fiber and Data Segment revenue grew 14%. This segment has realized double-digit percentage growth each year for the past five years.
- Our Equipment Segment experienced 3% overall growth in revenue in 2011 compared to 2010. Support Services revenue, which includes maintenance contracts, support and professional services, accounted for 70% of the increase while sales of Cisco equipment and hardware remained stable year-over-year.
- EBITDA in our Telecom Segment increased \$297,000 or 1% in 2011 compared to 2010. Broadband revenue growth and the impact of cost-reduction initiatives helped offset our continued and expected decline in local service and access revenue providing stable cash flows for our company. See the Non-GAAP Measures section for additional information and reconciliation to the most directly comparable GAAP measure.

- In the third quarter of 2011 we refinanced our senior credit facility. This agreement, which runs through fiscal 2016, totals \$150,000,000 and offers the company access to additional financing for growth initiatives. As of December 31, 2011, \$119,700,000 of term loan debt is outstanding.

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- In December 2011 we announced a definitive agreement to acquire IdeaOne Telecom Group, LLC, a metro fiber network provider in Fargo, North Dakota, in a transaction valued at \$28,000,000. This acquisition was completed on March 1, 2012 utilizing an additional \$22,000,000 of term-loan debt.

Business Trends

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

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

Small/Medium Business services – In 2011, we marked the tenth year of providing Singlelink® Unified Communications, a centrally managed hosted VoIP communications service to business customers. We anticipate that business customers will continue shifting from traditional communication services to VoIP protocol, realizing cost advantages and significant new feature availability. We continue to enhance our small to medium business service offerings such as providing customers with the opportunity to bundle hosted VoIP services with additional services including internet and data service, local and long distance voice, unified messaging and 24X7 support. All of the Small/Medium Business and VoIP services revenue are recorded in the Fiber and Data operating revenue of our Business Sector.

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

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

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Results of Operations

Business Sector

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

Business

For Year Ended December 31

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

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Fiber and Data Segment

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

Equipment Segment

(Dollars in thousands)	2011	For Year Ended December 31		2010	For Year Ended December 31		2009
		%	%		%	%	
		Change			Change		
Operating revenue before intersegment eliminations:							
Equipment	\$ 39,816	1 %		\$ 39,406	41 %		\$ 27,857
Services	9,116	12 %		8,138	-15 %		9,579
Total operating revenue	\$ 48,932	3 %		\$ 47,544	27 %		\$ 37,436
Cost of sales (excluding depreciation and amortization)	34,163	3 %		33,300	34 %		24,923
Cost of services (excluding depreciation and amortization)	6,759	-3 %		6,957	-2 %		7,082
Selling, general and administrative expenses	4,962	6 %		4,660	-4 %		4,848
Depreciation and amortization	302	-23 %		392	-5 %		414
Total costs and expenses	46,186	2 %		45,309	22 %		37,267
Operating income	\$ 2,746	23 %		\$ 2,235	1222 %		\$ 169
Net income	\$ 1,651	22 %		\$ 1,348	1005 %		\$ 122

Capital expenditures	\$	428	97	%	\$	217	-59	%	\$	528
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Revenue

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

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

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

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

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

Equipment Services. Services include network assessments, planning, design, implementation and training. Maintenance contracts ("Smartnet" contracts) are offered in collaboration with Cisco systems. Our total care support team provides a single-point-of-contact for the support of applications, systems and infrastructure. We also offer security solutions combining leading network security products with our experience and expertise in integrated communications systems.

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

Cost of Sales

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

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Cost of Services (excluding Depreciation and Amortization)

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

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

Selling, General and Administrative Expenses

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

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

Depreciation and Amortization

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

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

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

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Telecom Sector

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

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