HICKORY TECH CORP
Form 10-Q
November 09, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from to .

Commission file number 0-13721

HICKORY TECH CORPORATION

(Exact name of registrant as specified in its charter)

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

221 East Hickory Street

Mankato, Minnesota 56002-3248

(Address of principal executive offices and zip code)

(800) 326-5789

(Registrant s telephone number, including area code)

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

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

Large accelerated filer o Accelerated filer x Non-accelerated filer o.

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

The total number of shares of the registrant's common stock outstanding as of November 1, 2006: 13,192,745.

TABLE OF CONTENTS

PART I. Financial Information

PART II. Other Information

HICKORY TECH CORPORATION
Consolidated Statements of Operations
(Unaudited)

(In Thousands Except Share and Per Share Amounts)	**Three Months Ended September 30 2006**	**2005**	**Nine Months Ended September 30 2006**	**2005**
Operating revenues:				
Telecom Sector	**$ 18,216**	$ 18,383	**$ 54,559**	$ 57,014
Information Solutions Sector	**482**	519	**1,705**	1,921
Enterprise Solutions Sector	**3,285**	3,402	**8,567**	11,745
Enventis Sector	**13,972**		**43,234**	
Total operating revenues	**35,955**	22,304	**108,065**	70,680
Costs and expenses:				
Cost of sales, Enterprise Solutions and Enventis	**9,493**	2,139	**28,990**	7,844
Cost of services (excluding depreciation and amortization)	**11,535**	8,354	**33,709**	24,696
Selling, general and administrative expenses (excluding depreciation and amortization)	**6,452**	3,575	**19,968**	12,024
Depreciation	**4,260**	3,544	**12,569**	11,588
Amortization of intangibles	**293**	26	**879**	467
Total costs and expenses	**32,033**	17,638	**96,115**	56,619
Operating income	**3,922**	4,666	**11,950**	14,061
Other income/(expense):				
Interest and other income	**40**	35	**109**	75
Interest expense	**(1,913)**	(1,124)	**(5,393)**	(3,128)
Total other income/(expense)	**(1,873)**	(1,089)	**(5,284)**	(3,053)
Income before income taxes	**2,049**	3,577	**6,666**	11,008
Income tax provision	**604**	1,447	**2,458**	4,453
Income from continuing operations	**1,445**	2,130	**4,208**	6,555
Discontinued operations:				
Income from operations of discontinued component		37		207
Income tax provision benefit		15		84
Income from discontinued operations		22		123
Net income	**$ 1,445**	$ 2,152	**$ 4,208**	$ 6,678
Basic earnings per share continuing operations	**$ 0.11**	$ 0.16	**$ 0.32**	$ 0.50
Basic earnings per share discontinued operations				0.01
	$ 0.11	$ 0.16	**$ 0.32**	$ 0.51
Dividends per share	**$ 0.12**	$ 0.12	**$ 0.36**	$ 0.36
Basic weighted average common shares outstanding	**13,172**	13,086	**13,152**	13,073
Diluted earnings per share continuing operations	**$ 0.11**	$ 0.16	**$ 0.32**	$ 0.50
Diluted earnings per share discontinued operations				0.01
	$ 0.11	**$ 0.16**	**$ 0.32**	$ 0.51
Diluted weighted average common and potential common shares outstanding	**13,172**	13,092	**13,155**	13,084

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

3

HICKORY TECH CORPORATION
Consolidated Balance Sheets
(Unaudited)

(In Thousands Except Share and Per Share Amounts)	**September 30, 2006**	**December 31, 2005**
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,119**	$ 601
Receivables, net of allowance for doubtful accounts of $417 and $334	**23,084**	19,867
Costs in excess of billings on contracts	**597**	462
Inventories	**9,611**	4,577
Deferred income taxes	**300**	300
Prepaid expenses	**1,537**	5,066
Other	**1,406**	1,155
Total current assets	**37,654**	32,028
Investments	**3,554**	3,407
Property, plant and equipment	**306,785**	290,499
Less accumulated depreciation	**153,722**	141,157
Property, plant and equipment, net	**153,063**	149,342
Other assets:		
Goodwill	**27,576**	27,109
Intangible assets, net	**3,432**	4,312
Financial derivative instruments	**2,785**	3,429
Deferred costs and other	**3,188**	3,640
Total other assets	**36,981**	38,490
Total assets	**$ 231,252**	$ 223,267
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Cash overdraft	**$**	$ 514
Short-term financing (Note 12)	**5,734**	
Accounts payable	**5,898**	5,224
Accrued expenses	**5,845**	6,809
Accrued interest	**414**	
Accrued income taxes	**5,769**	4,765
Billings in excess of costs on contracts	**425**	283
Advanced billings and deposits	**3,812**	4,577
Current maturities of long-term obligations	**1,639**	1,778
Total current liabilities:	**29,536**	23,950
Long-term obligations, net of current maturities	**141,898**	140,980
Deferred income taxes	**15,238**	15,346
Deferred revenue	**3,211**	1,948
Accrued employee benefits and deferred compensation	**6,644**	6,034
Total liabilities	**196,527**	188,258
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common stock, no par value, $.10 stated value		
shares authorized: 100,000,000		

shares outstanding: 13,192,745 in 2006 and 13,124,928 in 2005	**1,319**	1,312
Additional paid-in capital	**9,883**	9,262
Retained earnings	**21,847**	22,371
Accumulated other comprehensive income	**1,676**	2,064
Total shareholders' equity	**34,725**	35,009
Total liabilities and shareholders' equity	**$ 231,252**	$ 223,267

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

4

HICKORY TECH CORPORATION
Consolidated Statements of Cash Flows
(Unaudited)

(Dollars In Thousands)	**Nine Months Ended September 30 2006**	**2005**
Cash flows from operating activities:		
Net income	**$ 4,208**	$ 6,678
Adjustments to reconcile net income to net		
Cash provided by operating activities:		
Depreciation and amortization	**13,448**	12,055
Gain on sale of assets		12
Stock-based compensation	**158**	67
Employee retirement benefits and deferred compensation	**610**	462
Accrued patronage refunds	**(796)**	(287)
Provision for losses on accounts receivable	**425**	215
Deferred income taxes	**148**	
Changes in operating assets and liabilities:		
Receivables	**(2,637)**	4,741
Inventories	**(5,033)**	81
Billings and costs on contracts	**7**	(235)
Accounts payable and accrued expenses	**124**	(1,283)
Advance billings and deposits	**(764)**	(420)
Deferred revenue	**1,305**	(82)
Prepaid assets	**3,529**	(422)
Other	**828**	776
Net cash provided by/(used in) operating activities	**15,560**	22,358
Cash flows from investing activities:		
Additions to property, plant and equipment	**(16,802)**	(10,136)
Acquisitions, adjustments to purchase price and allocation	**125**	
Redemption of investments	**21**	2,100
Proceeds from sale of assets	**40**	46
Net cash provided by/(used in) investing activities	**(16,616)**	(7,990)
Cash flows from financing activities:		
Short-term financing	**5,734**	
Change in cash overdraft	**(514)**	(1,680)
Payments of capital lease obligations	**(374)**	(414)
Repayments on credit facility	**(19,510)**	(12,750)
Borrowings on credit facility	**20,500**	5,000
Proceeds from issuance of common stock	**470**	469
Dividends paid	**(4,732)**	(4,704)
Net cash provided by/(used in) financing activities	**1,574**	(14,079)
Net increase in cash and cash equivalents	**518**	289
Cash and cash equivalents at beginning of period	**601**	257
Cash and cash equivalents at end of period	**$ 1,119**	$ 546
Supplemental disclosure of cash flow information:		
Cash paid for interest	**$ 5,646**	$ 3,259
Net cash paid/(received) for income taxes	**$ 1,290**	$ (332)
Non-cash investing activities:		
Property, plant and equipment acquired with capital leases	**$ 162**	$ 666

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

HICKORY TECH CORPORATION
SEPTEMBER 30, 2006
PART 1. FINANCIAL INFORMATION

ITEM 1. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair statement of results of operations, financial position, and cash flows in conformity with accounting principles generally accepted in the United States. In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair statement of Hickory Tech Corporation s (HickoryTech or the Company) results for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. These unaudited interim condensed consolidated financial statements should be read in conjunction with HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2005.

The condensed consolidated financial statements of HickoryTech include Hickory Tech Corporation and its subsidiaries in the following four business segments: (i) Telecom Sector, (ii) Information Solutions Sector, (iii) Enterprise Solutions Sector and (iv) Enventis Sector. All inter-company transactions have been eliminated from the consolidated financial statements.

Cost of Sales

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

Cost of Services:

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

Selling, General and Administrative Expenses

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

On December 30, 2005, HickoryTech purchased Enventis Telecom, Inc. (Enventis) from ALLETE, Inc. Enventis is a transport and enterprise Internet Protocol telephony equipment sales business which specializes in providing telecommunications and network solutions. In addition to its statewide SONET-based network, Enventis provides innovative Internet Protocol services that combine voice and data onto a single platform. Since 1997, Enventis has provided network solutions for a broad spectrum of large corporate, non-profit, government, and small business clients and has provided network capacity for other interexchange carriers on a wholesale basis. In 2001, Enventis added the distribution of Cisco Internet Protocol equipment to end-users as another service. Enventis has offices located in Duluth, Plymouth and Rochester, Minnesota and Sioux Falls, South Dakota.

Reclassifications

Certain reclassifications of prior period data have been made to conform to the current period s presentation.

The most significant of these reclassifications is to reclassify approximately $1.6 million of transport costs for each of the prior two quarters from cost of sales to cost of services. This reclassification results in reporting these costs for the Enventis Sector in a manner consistent with the rest of the organization.

A similar reclassification was made to reclassify selling commissions within the Enterprise Solutions Sector, previously included in cost of sales, to selling, general and administrative expenses (excluding depreciation and amortization). The amounts reclassified in Enterprise Solutions were approximately $503,000 and $420,000 for the years ended December 31, 2005 and 2004 respectively, and $76,000 and $118,000 for the first and second quarters, respectively, of 2006. Reclassified amounts for the three months and nine months ending September 30, 2005 were approximately $80,000 and $415,000, respectively. This reclassification results in reporting these costs for the Enterprise Solutions Sector in a manner consistent with the rest of the organization.

These reclassifications did not affect cash flows, financial position, or net income.

Recently Issued Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109. Fin No. 48 provides guidance for recognizing and measuring uncertain tax positions, as defined in Statement of Financial Accounting Standards (SFAS) No. 109, Accounting for Income Taxes. FIN No. 48 prescribes a threshold condition that a tax position must meet for any of the benefit of the uncertain tax position to be recognized in the financial statements. Guidance is also provided regarding de-recognition, classification and disclosure of these uncertain tax positions. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company does not expect that Fin No. 48 will have a material impact on its financial position, results of operations, or cash flows.

On September 29, 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106 and 132(R). SFAS No. 158 requires employers to recognize in their balance sheet the over-funded or under-funded status of defined benefit post-retirement plans, measured as the difference between the fair value of plan assets and the benefit obligation (the projected benefit obligation for pension plans and the accumulated postretirement plans). Employers must also recognize the change in the funded status of the plan in the year in which the change occurs through comprehensive income. SFAS No. 158 also requires plan assets and obligations to be measured as of the employer s balance sheet date. The recognition provisions of SFAS No. 158 are effective for fiscal years ending after December 15, 2006. The measurement date provision of SFAS No. 158 will be effective for fiscal years beginning after December 15, 2008. The company currently complies with the measurement date provision. The Company estimates the impact of SFAS No. 158 on the Company s December 31, 2006 consolidated financial statements to be as follows based on the most recent actuarial measurements of plan assets and obligations dated December 31, 2005. (*Dollars in thousands*)

Impact to Assets:	$	
Impact to Liabilities:	$	2,664
Impact to Shareholders' Equity: *(Shown gross of tax effect)*	$	(2,664)

The financial statement effects of complying with SFAS No. 158 do not cause the company to fail the financial covenants in its loan agreements nor do they expose the company to future such violation.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB No. 108), Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements. SAB No. 108 provides interpretative guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. The SEC staff believes that registrants should quantify errors using both a balance sheet and income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered is, material. SAB No. 108 is effective for fiscal years ending on or after November 15, 2006, with early application encouraged. The Company does not believe that SAB No. 108 will have a material impact on the Company s Consolidated Financial Statements.

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

NOTE 2. EARNINGS AND CASH DIVIDENDS PER COMMON SHARE

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2006	**2005**	**2006**	**2005**
Weighted average shares outstanding	13,171,658	13,086,371	13,152,435	13,072,656
Stock options (dilutive only)		3,200		8,964
Stock subscribed (ESPP)	427	1,948	2,353	1,948
Total dilutive shares outstanding	13,172,085	13,091,519	13,154,788	13,083,568

Options to purchase 565,251 shares and 564,850 shares for the three months ended September 30, 2006 and 2005, respectively, and 502,161 shares and 517,950 shares for the nine months ended September 30, 2006 and 2005, respectively, were not included in the computation of earnings per share assuming dilution because their effect on earnings per share would have been anti-dilutive.

Cash dividends are based on the number of common shares outstanding at the respective record dates. Listed below is the number of shares outstanding as of the record date for the first, second, and third quarters of 2006 and 2005, respectively.

Shares outstanding on record date	**2006**	**2005**
First quarter (Feb. 15)	13,133,928	13,057,106
Second quarter (May 15)	13,153,067	13,073,602
Third Quarter (August 15)	13,156,490	13,076,331

Dividends per share are based on the quarterly dividend per share as declared by the HickoryTech Board of Directors. HickoryTech paid dividends of $0.12 per share for the third quarter of 2006 and 2005.

During the nine months ended September 30, 2006 and 2005, shareholders have elected to reinvest $186,000 and $196,000, respectively, of dividends into HickoryTech common stock pursuant to the HickoryTech Dividend Reinvestment Plan.

NOTE 3. COMPREHENSIVE INCOME (LOSS)

HickoryTech follows the provisions of SFAS No. 130, Reporting Comprehensive Income. This statement established rules for the reporting of comprehensive income (loss) and its components. In addition to net income, HickoryTech s comprehensive income (loss) includes changes in unrealized gains and losses on derivative instruments qualifying and designated as cash flow hedges. Comprehensive income (loss) for the three months ended September 30, 2006 and 2005 was ($594,000) and $2,597,000, respectively. Comprehensive income for the nine months ended September 30, 2006 and 2005 was $2,379,000 and $7,173,000, respectively.

NOTE 4. ACQUISITION OF ENVENTIS

On December 30, 2005, HickoryTech purchased Enventis from ALLETE, Inc. Enventis was formerly a wholly owned subsidiary of ALLETE, Inc. Enventis is a network transport and an enterprise Internet Protocol telephony equipment sales business. The acquisition of Enventis was made to expand the geographical region which HickoryTech could serve with its business broadband service capabilities. Both Enventis and HickoryTech have similar business plans and use the concept of combined network service with equipment provisioning for end user customers.

The purchase price was cash of $35,500,000 in exchange for the common stock of Enventis, with further purchase price adjustments and transaction costs making the estimated total purchase consideration $38,602,000 as of December 31, 2005. Enventis had no debt at the time of acquisition. The purchase agreement outlined certain purchase price adjustments which were estimated as of December 31, 2005 and resulted in cash payments between ALLETE and HickoryTech in the first quarter of 2006. These adjustments were for working capital, capital expenditures and employee benefits. These adjustments decreased the estimated purchase price by $125,000, which reduced the amounts originally estimated for total purchase consideration and goodwill. In the second quarter of 2006 an adjustment was made to goodwill to accommodate a change in the fair value of acquired deferred revenue of $41,000. Goodwill was also adjusted in the amount of $633,000 as of September 30, 2006 due to an adjustment in the fair value assigned to property, plant, and equipment.

The financing for the adjusted $38,602,000 total purchase consideration for Enventis, plus an additional $8,500,000 for Enventis working capital as of December 31, 2005, was entirely from HickoryTech s credit agreement, as established on December 30, 2005. The credit facility is composed of a $30,000,000 revolving credit component, which expires on December 30, 2011, and a $130,000,000 term loan component, which has partial maturities during its term, with final maturity on June 30, 2013. In the first quarter of 2006, an additional $10,000,000 credit facility with a vendor finance organization was established for short-term inventory floor-plan financing of accounts payable for Enventis.

The Enventis acquisition was accounted for using the purchase method of accounting. Accordingly, the purchase price was allocated to the estimated fair value of assets acquired and liabilities assumed. The preliminary purchase price allocation resulted in goodwill of $2,023,000, which has been adjusted to $2,490,000 as of September 30, 2006, as noted in the table below. For income tax purposes, ALLETE and HickoryTech have agreed to treat the transaction as a purchase of assets. Accordingly, the tax basis of the acquired assets and assumed liabilities will be the same for financial reporting.

A summary of the changes in the Enventis goodwill is as follows:

	Enventis Goodwill (Dollars in Thousands)
Balance at December 31, 2005	$ 2,023
Purchase Price Adjustments	(125)
Balance at March 31, 2006	1,898
Adjustments to estimated fair values of assets acquired and liabilities assumed	(41)
Balance at June 30, 2006	1,857
Adjustments to estimated fair values of assets acquired	633
Balance as of September 30, 2006	$ 2,490

The purchase price allocation is still considered preliminary. Specific reasons causing the purchase price allocation to still be preliminary are: 1) the liquidation of acquired accounts receivable, and 2) resolution of one litigation matter. With respect to the litigation matter, HickoryTech has received an indemnification from ALLETE which management believes to be adequate to cover any loss. Both items are expected to be resolved by December 2006.

NOTE 5. INVENTORIES

Inventories, which consist of equipment for resale, materials and supplies, are stated at the lower of average cost or market. Cost is determined on a first-in, first-out (FIFO) basis. Reserves offset the cost of inventory to arrive at the net realizable value of the inventory. Telecommunications equipment supply markets have changed in recent years and have caused the Company to apply additional valuation methods, which estimate the lower of cost or market principle in the Enterprise Solutions Sector. The Company has a regular process of evaluating its inventory and modifying its value to its estimate of market prices and making the adjustments to lower of cost or market on a consistent basis. The Company cannot predict the impact or timing, if any, of future inventory valuation changes.

NOTE 6. INTANGIBLE ASSETS

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

The carrying value of HickoryTech s goodwill increased from $27,109,000 as of December 31, 2005 to $27,576,000 as of September 30, 2006 due to the working capital adjustment described above and the Enventis purchase price allocation adjustment associated with the acquisition of Enventis (see Note 4).

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

	Useful Lives	September 30, 2006 Gross Carrying Amount (Dollars in Thousands)	Accumulated Amortization	December 31, 2005 Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets					
Customers	1 - 8 years	$ 4,229	$ 1,264	$ 4,229	$ 544
Other intangibles	1 - 5 years	730	263	730	103
Total		$ 4,959	$ 1,527	$ 4,959	$ 647

As required by SFAS No. 142, we periodically reassess the carrying value, useful lives and classification of identifiable intangible assets. Amortization expense related to the definite-lived intangible assets for the three months ended September 30, 2006 and 2005 was $293,000 and $26,000, respectively. Amortization expense related to the definite-lived intangible assets for the nine months ended September 30, 2006 and 2005 was $879,000 and $467,000, respectively. Total estimated amortization expense for the remaining three months of 2006 and the five years subsequent to 2006 is as follows: 2006 (October 1 through December 31) - $293,000; 2007 - $1,157,000; 2008 - $1,127,000; 2009 - $853,000; 2010 - $2,000 and 2011 - $0.

NOTE 7. QUARTERLY SECTOR FINANCIAL SUMMARY

(Dollars In Thousands)	**Telecom**	**Information Solutions**	**Enterprise Solutions**	**Enventis**	**Corporate and Eliminations**	**HickoryTech Consolidated**
Three Months Ended September 30, 2006						
Operating revenue from unaffiliated customers	$ 18,216	$ 482	$ 3,285	$ 13,972	$	$ 35,955
Intersegment revenues	77	972			(1,049)	
Total	18,293	1,454	3,285	13,972	(1,049)	35,955
Depreciation and amortization	3,397	384	25	732	15	4,553
Operating income/(loss)	4,354	(644)	(348)	680	(120)	3,922
Interest and other income	1			(3)	42	40
Interest expense	1	11			1,901	1,913
Income taxes/(benefit)	1,710	(262)	(139)	274	(979)	604
Net income/(loss)	2,567	(393)	(209)	403	(923)	1,445
Identifiable assets	151,381	6,236	5,897	57,420	10,318	231,252
Property, plant and equipment, net	115,295	5,687	173	31,828	80	153,063
Capital expenditures	4,828	472		1,240		