HICKORY TECH CORP
Form 10-Q
August 04, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2004

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)

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ý No o

The total number of shares of the registrant s common stock outstanding as of June 30, 2004: 12,981,929.

HICKORY TECH CORPORATION

June 30, 2004

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	For Three Months Ended		For Six Months Ended	
(In Thousands Except Per Share Amounts)	**6/30/2004**	**6/30/2003**	**6/30/2004**	**6/30/2003**
OPERATING REVENUES:				
Telecom Sector	**$ 18,847**	$ 18,680	**$ 38,273**	$ 37,248
Information Solutions Sector	**679**	809	**1,645**	1,907
Enterprise Solutions Sector	**3,338**	3,383	**5,633**	7,294
TOTAL OPERATING REVENUES	**22,864**	22,872	**45,551**	46,449
COSTS AND EXPENSES:				
Cost of Products Sold, Enterprise Solutions	**2,296**	2,550	**3,805**	5,069
Cost of Services, excluding Depreciation and Amortization	**7,871**	8,002	**16,479**	16,270
Selling, General and Administrative Expenses, excluding Depreciation and Amortization	**3,626**	3,672	**7,282**	7,496
Depreciation	**3,881**	3,731	**7,757**	7,233
Amortization of Intangibles	**237**	198	**473**	524
TOTAL COSTS AND EXPENSES	**17,911**	18,153	**35,796**	36,592
OPERATING INCOME	**4,953**	4,719	**9,755**	9,857
OTHER INCOME/(EXPENSE):				
Equity in Net Loss of Investees		(1)		(4)
Interest and Other Income	**19**	13	**34**	22
Interest Expense	**(1,138)**	(1,480)	**(2,327)**	(3,045)
TOTAL OTHER INCOME/(EXPENSE)	**(1,119)**	(1,468)	**(2,293)**	(3,027)
INCOME BEFORE INCOME TAXES	**3,834**	3,251	**7,462**	6,830
INCOME TAX PROVISION	**1,551**	1,329	**3,018**	2,791
INCOME FROM CONTINUING OPERATIONS	**2,283**	1,922	**4,444**	4,039
DISCONTINUED OPERATIONS (Note 4)				
Income/(Loss) from Operations of Discontinued Component		996	**(99)**	1,386
Income Tax (Benefit)/Provision		408	**(40)**	568
INCOME/(LOSS) FROM DISCONTINUED OPERATIONS		588	**(59)**	818
NET INCOME	**$ 2,283**	$ 2,510	**$ 4,385**	$ 4,857
Basic Earnings Per Share - Continuing Operations:	**$ 0.18**	$ 0.14	**$ 0.34**	$ 0.29
Basic Earnings Per Share - Discontinued Operations:		0.04		0.06
	$ 0.18	$ 0.18	**$ 0.34**	$ 0.35
Dividends Per Share	**$ 0.11**	$ 0.11	**$ 0.22**	$ 0.22
Basic Weighted Average Common Shares Outstanding	**12,975**	13,951	**12,972**	13,972
Diluted Earnings Per Share - Continuing Operations:	**$ 0.18**	$ 0.14	**$ 0.34**	$ 0.29
Diluted Earnings Per Share - Discontinued Operations:		0.04		0.06

	$	**0.18**	$	0.18	**$**	**0.34**	$	0.35
Diluted Weighted Average Common and Equivalent Shares Outstanding		**13,020**		13,981		**13,021**		13,986

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

HICKORY TECH CORPORATION

June 30, 2004

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In Thousands Except Share and Per Share Amounts)	**6/30/2004**	**12/31/2003**
ASSETS		
CURRENT ASSETS:		
Cash and Cash Equivalents	**$ 233**	$ 278
Receivables, Net of Allowance for Doubtful Accounts of $1,338 and $1,283	**10,224**	9,984
Income Taxes Receivable		2,838
Costs in Excess of Billings on Contracts	**619**	934
Inventories	**4,583**	4,453
Deferred Income Taxes	**1,057**	1,057
Other	**2,002**	2,497
TOTAL CURRENT ASSETS	**18,718**	22,041
INVESTMENTS	**4,371**	6,710
PROPERTY, PLANT AND EQUIPMENT	**236,263**	230,490
Less ACCUMULATED DEPRECIATION	**124,024**	116,487
PROPERTY, PLANT AND EQUIPMENT, NET	**112,239**	114,003
OTHER ASSETS:		
Goodwill	**25,086**	25,086
Intangible Assets, Net	**439**	481
Financial Derivative Instruments	**3,280**	2,515
Deferred Costs and Other	**4,138**	4,876
TOTAL OTHER ASSETS	**32,943**	32,958
TOTAL ASSETS	**$ 168,271**	$ 175,712
LIABILITIES & SHAREHOLDERS EQUITY		
CURRENT LIABILITIES:		
Cash Overdraft	**$ 828**	$ 1,001
Accounts Payable	**2,364**	3,771
Accrued Expenses	**3,277**	3,243
Accrued Interest	**68**	41
Accrued Income Taxes	**1,885**	
Billings in Excess of Costs on Contracts	**188**	73
Advanced Billings and Deposits	**2,964**	3,040
Current Maturities of Long-Term Obligations	**1,600**	1,572
TOTAL CURRENT LIABILITIES	**13,174**	12,741
LONG-TERM OBLIGATIONS, Net of Current Maturities	**107,280**	118,040
DEFERRED INCOME TAXES	**10,628**	10,331
DEFERRED REVENUE AND EMPLOYEE BENEFITS	**6,215**	5,883
TOTAL LIABILITIES	**137,297**	146,995
COMMITMENTS AND CONTINGENCIES (Note 9)		
SHAREHOLDERS EQUITY:		
Common Stock, no par value, $.10 stated value		
Shares authorized: 100,000,000		
Shares outstanding: 12,981,929 in 2004 and 12,967,811 in 2003	**1,298**	1,297
Additional Paid-In Capital	**7,947**	7,690
Retained Earnings	**19,777**	18,246
Accumulated Other Comprehensive Income (Notes 3, 11)	**1,952**	1,484

TOTAL SHAREHOLDERS EQUITY		**30,974**		28,717
TOTAL LIABILITIES & SHAREHOLDERS EQUITY	**$**	**168,271**	$	175,712

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

HICKORY TECH CORPORATION

June 30, 2004

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollars In Thousands)	For Six Months Ended 6/30/2004	6/30/2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	**$ 4,385**	$ 4,857
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	**8,230**	9,051
(Gain)/Loss on Sale of Assets	**4**	(2)
Stock-Based Compensation	**56**	402
Employee Retirement Benefits and Deferred Compensation	**434**	104
Accrued Patronage Refunds	**(197)**	(314)
Equity in Net Loss of Investees		5
Provision for Losses on Accounts Receivable	**326**	477
Changes in Operating Assets and Liabilities:		
Receivables	**4,158**	2,546
Inventories	**(130)**	(203)
Billings and Costs on Contracts	**431**	312
Accounts Payable and Accrued Expenses	**(1,079)**	(2,766)
Advance Billings and Deposits	**(76)**	114
Deferred Revenue and Employee Benefits	**(102)**	(44)
Other	**747**	1,351
Net Cash Provided By Operating Activities	**17,187**	15,890
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to Property, Plant and Equipment	**(6,240)**	(4,460)
Redemption of Investments	**2,600**	4,100
Purchase of Intangible Asset	**(9)**	
Proceeds from Sale of Assets	**56**	73
Net Cash Used In Investing Activities	**(3,593)**	(287)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in Cash Overdraft	**(173)**	
Payments of Capital Lease Obligations	**(314)**	(301)
Repayments on Credit Facility	**(12,000)**	(14,000)
Borrowings on Credit Facility	**1,500**	1,250
Proceeds from Issuance of Common Stock	**244**	496
Dividends Paid	**(2,853)**	(3,074)
Stock Repurchase/Retirement	**(43)**	(704)
Net Cash Used In Financing Activities	**(13,639)**	(16,333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(45)**	(730)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**278**	1,874
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**$ 233**	$ 1,144
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid for Interest	**$ 2,374**	$ 3,715
Cash Paid for Income Taxes, Net of Tax Refunds of $1,750 and $1,600 in 2004 and 2003	**$ (1,745)**	$ 150
NON-CASH INVESTING ACTIVITIES:		
Property, Plant and Equipment Acquired with Capital Leases	**$ 81**	$ 124

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

HICKORY TECH CORPORATION

JUNE 30, 2004

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 for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information necessary for a fair presentation of results of operations, financial position, and cash flows in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, the condensed consolidated financial statements reflect all adjustments (consisting only of normal recurring adjustments) considered necessary for a fair presentation of Hickory Tech Corporation s (HickoryTech) results for the periods presented. Operating results for interim periods are not necessarily indicative of results that may be expected for the fiscal year as a whole. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses, and related disclosures at the date of the financial statements and during the reporting period. Actual results could differ from these estimates. These unaudited interim condensed consolidated financial statements should be read in conjunction with HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2003.

The condensed consolidated financial statements of HickoryTech include Hickory Tech Corporation and its subsidiaries in the following three business segments: (i) Telecom Sector, (ii) Information Solutions Sector and (iii) Enterprise Solutions Sector. During the first two quarters of 2003, the Information Solutions Sector had an investment in an unconsolidated partnership, which was accounted for using the equity method. This partnership was dissolved in the fourth quarter of 2003. All inter-company transactions have been eliminated from the consolidated financial statements.

Certain expenses reported as operating expenses in 2003 have been reclassified between cost of services and selling, general and administrative expenses to conform to the 2004 presentation. These reclassifications did not change previously reported net income, shareholders equity or cash flows.

Cost of services include all costs related to delivery of HickoryTech s communications services and products. These costs include all costs of performing services and providing related products. It does not include costs associated with selling, general and administrative, depreciation and amortization of property, plant and equipment and intangible assets, and cost of products sold for the Enterprise Solutions Sector.

On December 15, 2003, HickoryTech sold its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC). The wireless operations are reported as part of the Telecom Sector. The results of operations of the wireless business are reported as discontinued operations for all periods presented (see Note 4).

NOTE 2. EARNINGS AND CASH DIVIDENDS PER COMMON SHARE

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

	For Three Months Ended		For Six Months Ended	
	6/30/2004	**6/30/2003**	**6/30/2004**	**6/30/2003**
Weighted Average Shares Outstanding	**12,974,669**	13,950,824	**12,972,130**	13,972,141
Stock Options (dilutive only)	**25,301**	13,723	**28,818**	194
Stock Subscribed (ESPP)	**20,347**	16,746	**20,347**	13,980
Total Dilutive Shares Outstanding	**13,020,317**	13,981,293	**13,021,295**	13,986,315

Options to purchase 449,283 shares for the three and six months ended June 30, 2004, and 493,548 shares for the three and six months ended June 30, 2003, were not included in the computation of earnings per share assuming dilution because their effect on earnings per share would have been antidilutive.

Cash dividends are based on the number of common shares outstanding at the respective record dates. Listed below is the number of shares outstanding as of the record date for the first two quarters of 2004 and 2003.

Shares Outstanding on Record Date	**2004**	**2003**
First Quarter (Feb. 15)	**12,967,886**	14,003,335
Second Quarter (May 15)	**12,971,954**	13,942,662

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

During the first six months of 2004 and 2003, shareholders have elected to reinvest $136,000 and $134,000, respectively, of dividends into HickoryTech common stock pursuant to the HickoryTech Dividend Reinvestment Plan.

NOTE 3. COMPREHENSIVE INCOME

HickoryTech follows the provisions of SFAS No. 130, Reporting Comprehensive Income. This statement established rules for the reporting of comprehensive income and its components. In addition to net income, HickoryTech s comprehensive income includes changes in unrealized gains and losses on derivative instruments qualifying and designated as cash flow hedges. Comprehensive income for the three months ended June 30, 2004 and 2003 was $3,617,000 and $3,091,000, respectively. Comprehensive income for the six months ended June 30, 2004 and 2003 was $4,853,000 and $5,438,000, respectively.

NOTE 4. DISCONTINUED OPERATIONS

On December 15, 2003, HickoryTech sold its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC). The wireless operations are reported as part of the Telecom Sector. The consolidated statements of operations for all periods presented have been restated to reflect wireless operations as discontinued operations.

Wireless business revenue and income before income taxes included in discontinued operations are as follows:

	For Three Months Ended		For Six Months Ended	
(Dollars in Thousands)	**6/30/2004**	**6/30/2003**	**6/30/2004**	**6/30/2003**
Revenues	**$**	$ 3,968	**$**	$ 7,361
Income/(Loss) Before Income Taxes	**$**	$ 996	**$ (99)**	$ 1,386

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. Market is the net realizable value of the inventory. Obsolescence reserves are maintained for inventory with an estimated net realizable value of less than cost.

NOTE 6. INTANGIBLE ASSETS

Effective January 1, 2002, HickoryTech adopted SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 142 established new standards related to how acquired goodwill and other intangible assets are to be recorded upon their acquisition as well as how they are to be accounted for after they have been initially recognized in the financial statements.

Effective with the adoption of this standard, HickoryTech is no longer amortizing acquired goodwill. Instead, SFAS No. 142 requires acquired goodwill to be evaluated for impairment using a two-step test based upon a fair value approach. The first step is used to identify potential impairment based upon the fair value of the applicable reporting unit. If the fair value of the reporting unit is less than its carrying value, a second step is required to determine the fair value of the individual assets and liabilities of the reporting unit in order to measure the amount of the goodwill impairment. Upon adoption of this standard, HickoryTech completed a transitional impairment test for its acquired goodwill, determining fair value using primarily a discounted cash flow model. The determined fair value was sufficient to pass the first step impairment test, and therefore no impairment was recorded.

On a prospective basis, HickoryTech is required to test acquired goodwill for impairment on an annual basis based upon a fair value approach. Additionally, goodwill shall be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of an entity below its carrying value. As of December 31, 2003, HickoryTech completed its annual impairment tests for acquired goodwill using methodologies consistent with those applied for its transitional impairment tests performed as of January 1, 2002. Such testing resulted in no impairment charge to goodwill, as the determined fair value was again sufficient to pass the first step impairment test. Other indefinite-lived intangible assets will be tested between annual tests if events or changes in circumstances indicate that the asset might be impaired.

The carrying value of HickoryTech s goodwill is $25,086,000 as of June 30, 2004 and December 31, 2003.

The components of HickoryTech s other intangible assets are shown in the following table:

	As of June 30, 2004		**As of December 31, 2003**	
(Dollars in Thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Definite-Lived Intangible Assets				
Customers	**$ 830**	**$ 391**	$ 821	$ 340

Other Intangibles	**100**	**100**	100	100
Total	**$ 930**	**$ 491**	$ 921	$ 440

Amortization expense related to the definite-lived intangible assets for the three months ended June 30, 2004 and 2003 was $26,000 and $25,000, respectively. Amortization expense related to the definite-lived intangible assets for the six months ended June 30, 2004 and 2003 was $51,000 and $51,000, respectively. Total estimated amortization expense for the remaining six months of 2004 and the five years subsequent to 2004 is as follows: 2004 (July 1 through December 31) - $52,000; 2005 - $104,000; 2006 - $104,000; 2007 - $104,000; 2008 - $74,000 and 2009 - $1,000.

NOTE 7. RECENT ACCOUNTING DEVELOPMENTS

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. This interpretation provides guidance on how to identify a variable interest entity and addresses when the assets, liabilities and results of operations of such entities must be included in a company s consolidated financial statements. This interpretation was effective immediately for variable interest entities created after January 31, 2003 and for variable interest entities in which the Company obtains an interest after that date. For interests in variable interest entities that were acquired prior to January 31, 2003, the Company adopted the provisions of this interpretation on July 1, 2003. Adoption of this statement did not result in the consolidation or disclosure of any variable interest entities in which the Company maintains an interest. The Company did not absorb the majority of the losses or residual returns of the variable interest entities in which the Company maintains an interest and these interests are not significant. In December 2003, the FASB issued a revised FIN No. 46 which clarifies certain aspects of the accounting for variable interest entities. The revision of FIN No. 46 had no impact on results of operations or financial position.

In May 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*, which supersedes FSP No. FAS 106-1 of the same name. This FSP outlines the appropriate accounting treatment for the effects of the new Medicare law, as well as the required financial statement disclosures. The new law introduces a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare plan. The retiree medical plans do provide prescription drug coverage. However, as permitted by FSP No. FAS 106-2, the Company has elected to defer recognition of the impacts of the new law on the accumulated post-retirement benefit obligation and net periodic post-retirement benefit expense presented in the consolidated financial statements. Specific authoritative accounting guidance on the accounting for the federal subsidy provided for in the Act is pending. That guidance, when issued, could require the Company to change previously reported information. Beginning January 1, 2006, Medicare s prescription drug plan may become the primary plan for qualified retirees when they become age 65 and are eligible for Medicare. Thus, the Company may see a decrease in the amount of prescription drug benefits to be paid beginning in 2006.

In December 2003, the FASB issued a revision of SFAS No. 132, *Employers Disclosures about Pensions and Other Post-retirement Benefits*. This statement revises the disclosures required for pension and other post-retirement benefit plans. The Company has incorporated the new disclosure requirements into the Notes to Consolidated Financial Statements included in this report.

NOTE 8. QUARTERLY SECTOR FINANCIAL SUMMARY

(Dollars In Thousands)	Telecom	Information Solutions	Enterprise Solutions	Corporate and Eliminations	HickoryTech Consolidated
Three Months Ended 6/30/04					
Operating Revenue from Unaffiliated Customers	$ 18,847	$ 679	$ 3,338	$	$ 22,864
Intersegment Revenues	69	1,127		(1,196)	
Total	18,916	1,806	3,338	(1,196)	22,864
Depreciation and Amortization	3,407	654	44	13	4,118
Operating Income (Loss)	5,778	(636)	(140)	(49)	4,953
Interest Expense	3	15		1,120	1,138
Income Taxes (Benefit)	2,338	(260)	(57)	(470)	1,551
Income (Loss) from Continuing Operations	3,440	(382)	(83)	(692)	2,283
Loss from Discontinued Operations Including Intersegment Revenues					
Net Income (Loss)	3,440	(382)	(83)	(692)	2,283
Identifiable Assets	145,126	6,776	7,661	8,708	168,271
Property, Plant and Equip., Net	107,198	4,514	387	140	112,239
Capital Expenditures	4,096		22		4,118
Three Months Ended 6/30/03					
Operating Revenue from Unaffiliated Customers	$ 18,680	$ 809	$ 3,383	$	$ 22,872
Intersegment Revenues	68	768		(836)	
Total	18,748	1,577	3,383	(836)	22,872
Depreciation and Amortization	3,274	581	60	14	3,929
Operating Income (Loss)	6,547	(935)	(558)	(335)	4,719
Interest Expense	2	20		1,458	1,480
Income Taxes (Benefit)	2,756	(336)	(232)	(859)	1,329
Income (Loss) from Continuing Operations	3,893	(606)	(334)	(1,031)	1,922
Income from Discontinued Operations Including Intersegment Revenues	419	122		47	588
Net Income (Loss)	4,312	(484)	(334)	(984)	2,510
Identifiable Assets	147,978	8,331	10,403	7,818	174,530
Property, Plant and Equip., Net	109,638	5,572	574	223	116,007
Capital Expenditures	2,105		97	26	2,228

(Dollars In Thousands)	Telecom	Information Solutions	Enterprise Solutions	Corporate and Eliminations	HickoryTech Consolidated
Six Months Ended 6/30/04					
Operating Revenue from Unaffiliated Customers	$ 38,273	$ 1,645	$ 5,633	$	$ 45,551
Intersegment Revenues	138	2,174		(2,312)	
Total	38,411	3,819	5,633	(2,312)	45,551
Depreciation and Amortization	6,814	1,293	95	28	8,230
Operating Income (Loss)	11,857	(1,342)	(516)	(244)	9,755
Interest Expense	7	27		2,293	2,327
Income Taxes (Benefit)	4,798	(550)	(209)	(1,021)	3,018
Income (Loss) from Continuing Operations	7,059	(808)	(307)	(1,500)	4,444
Loss from Discontinued Operations Including Intersegment Revenues	(59)				(59)
Net Income (Loss)	7,000	(808)	(307)	(1,500)	4,385
Identifiable Assets	145,126	6,776	7,661	8,708	168,271
Property, Plant and Equip., Net	107,198	4,514	387	140	112,239
Capital Expenditures	6,217	1	22		6,240
Six Months Ended 6/30/03					
Operating Revenue from Unaffiliated Customers	$ 37,248	$ 1,907	$ 7,294	$	$ 46,449
Intersegment Revenues	137	1,531		(1,668)	
Total	37,385	3,438	7,294	(1,668)	46,449
Depreciation and Amortization	6,459	1,125	121	52	7,757
Operating Income (Loss)	12,851	(1,684)	(484)	(826)	9,857
Interest Expense	7	38		3,000	3,045
Income Taxes (Benefit)	5,416	(595)	(205)	(1,825)	2,791
Income (Loss) from Continuing Operations	7,601	(1,102)	(295)	(2,165)	4,039
Income from Discontinued Operations Including Intersegment Revenues	484	246		88	818
Net Income (Loss)	8,085	(856)	(295)	(2,077)	4,857
Identifiable Assets	147,978	8,331	10,403	7,818	174,530
Property, Plant and Equip., Net	109,638	5,572	574	223	116,007
Capital Expenditures	3,156	144	189	153	3,642

The Telecom Segment Identifiable Assets, Property Plant and Equipment and Capital Expenditures presented above, exclude the following amounts related to the wireless business, which is reported as a discontinued operation:

	Three Months Ended		Six Months Ended	
(Dollars in Thousands)	**6/30/2004**	**6/30/2003**	**6/30/2004**	**6/30/2003**
Identifiable Assets	**$**	$ 53,203	**$**	$ 53,203
Property, Plant and Equip., Net	**$**	$ 16,254	**$**	$ 16,254
Capital Expenditures	**$**	$ 497	**$**	$ 818

NOTE 9. CONTINGENCIES

HickoryTech is involved in certain contractual disputes in the ordinary course of business. HickoryTech does not believe the ultimate resolution of any of these existing matters will have a material adverse effect on its financial position, results of operations or cash flows.

NOTE 10. STOCK COMPENSATION

At June 30, 2004, HickoryTech had four stock-based employee and director compensation plans, which are described more fully in the HickoryTech Annual Report on Form 10-K for the year ended December 31, 2003. HickoryTech has elected to account for these employee and director stock compensation plans using the intrinsic value method as permitted by Accounting Principles Board Opinion No. 25 and related interpretations.

In 2002, HickoryTech s Board of Directors modified the terms of the stock options of a retiring officer. The modification extended the period after retirement during which the officer could exercise his vested options. This modification resulted in HickoryTech recognizing $173,000 of compensation expense during the first quarter of 2003. During the third quarter of 2003, the Board of Directors extended the period during which this option holder can exercise his vested options to December 31, 2004. This extension will not result in any additional compensation charges.

If HickoryTech had elected to recognize compensation cost based on the fair value of the options and other stock compensation as prescribed by SFAS No. 123, the following operating results would have occurred using the Black-Scholes option-pricing model to determine the fair value of the options:

	For Three Months Ended		For Six Months Ended	
(Dollars in Thousands)	**6/30/2004**	**6/30/2003**	**6/30/2004**	**6/30/2003**
Reported Net Income	**$ 2,283**	$ 2,510	**$ 4,385**	$ 4,857
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	**12**	85	**33**	237
	(65)	(145)	**(153)**	(438)

Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects								
Pro Forma Net Income	**$**	**2,230**	$	2,450	**$**	**4,265**	$	4,656
Earnings per share:								
Basic - as reported	**$**	**0.18**	$	0.18	**$**	**0.34**	$	0.35
Basic - pro forma	**$**	**0.17**	$	0.18	**$**	**0.33**	$	0.33
Diluted - as reported	**$**	**0.18**	$	0.18	**$**	**0.34**	$	0.35
Diluted - pro forma	**$**	**0.17**	$	0.18	**$**	**0.33**	$	0.33

NOTE 11. FINANCIAL DERIVATIVE INSTRUMENTS

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

(Dollars in Thousands)		**Interest Rate Swap Agreement**
Accumulated other comprehensive income balance at December 31, 2003	$	1,484
Market value increase on interest rate swap agreement		468
Accumulated other comprehensive income balance at June 30, 2004	$	1,952

HickoryTech has variable rate debt instruments, which subject the Company to interest rate risk. HickoryTech has entered into interest rate swap agreements, with remaining maturities of twelve months to forty-eight months, to manage its exposure to interest rate movements on a portion of its variable rate debt obligations. The market value of the cumulative gain or loss on these derivative instruments is reported as a component of accumulated other comprehensive income in shareholders equity and will be recognized in earnings when the term of the swap agreement is concluded.

The fair value of HickoryTech s derivatives at June 30, 2004 and December 31, 2003 is a net asset of $3,280,000 and $2,515,000, respectively, which is included in other assets in the accompanying consolidated balance sheet.

NOTE 12. EMPLOYEE POST-RETIREMENT BENEFITS

HickoryTech provides post-retirement health care and life insurance benefits for certain employees. HickoryTech is not currently funding these post-retirement benefits, but has accrued these liabilities during the first two quarters of 2004 and 2003.

	For Three Months Ended				**For Six Months Ended**			
(Dollars in Thousands)		**6/30/2004**		**6/30/2003**		**6/30/2004**		**6/30/2003**
Components of Net Periodic Benefit Cost								
Service Cost	**$**	**93**	$	52	**$**	**186**	$	105
Interest Cost		**131**		90		**262**		180
Expected Return on Plan Assets								
Amortization of Transition Obligation		**15**		15		**30**		30
Amortization of Prior Service Cost		**(3)**		(3)		**(6)**		(6)
Recognized Net Actuarial Loss		**59**		25		**118**		49
Net Periodic Benefit Cost	**$**	**295**	$	179	**$**	**590**	$	358

	2004
Employer s Contributions	

Contributions Made For the Six Months Ended 06/30/04	$	**92**
Expected Contributions for Remainder of 2004		**93**
Total Estimated Employer Contributions for Fiscal Year 2004	$	**185**

NOTE 13. REGULATORY ASSET AND LIABILITY

Effective January 1, 2002, the FCC, in its MAG Order on Access Charge Reform, directed all rate-of-return carriers to file revisions to their tariffs to eliminate the transport interconnection charge (TIC) as a separate rate element. In effect, the costs previously recovered through the TIC were reallocated over all other access categories, including carrier common line, transport, local switching, information surcharge and special access. The FCC made it clear that this tariff filing should be a revenue neutral tariff filing.

The total revenues reallocated from the TIC to the remaining access elements were limited to the total revenues recovered from the TIC for the twelve-month period ended June 30, 2001. These revenues were calculated using the carrier s traffic volumes and the TIC rate for the twelve-month period ended June 30, 2001. These calculations were prepared by an independent third-party and approved by NECA (National Exchange Carrier Association). TIC was eliminated by reallocating the costs to the other access billing categories.

The FCC conducted an investigation of all tariff filings, including NECA s CCL (Carrier Common Line) tariff and Heartland s Traffic Sensitive (TS) tariff, to determine if the filing parties had properly reallocated the TIC costs among the other access charge categories.

The FCC terminated its investigation of several tariff filings, concluding that the carriers have substantially complied with the Rate-of-Return Access Charge Reform Order and their tariffs no longer warrant investigation. Despite this ruling by the FCC during the fourth quarter of 2003, NECA informed HickoryTech s Heartland subsidiary that it would not allow it to recover a portion of the TIC costs allocated to the CCL, because an incorrect TIC rate was used in the calculation.

As a result of this billing error, the Company recovered $611,000 of excess revenues from the NECA CCL pool. NECA requires Heartland to repay the $611,000 by November 2004. As of June 30, 2004, $350,000 has been repaid.

The FCC approved a mid-course correction to Heartland s TS tariff as a supportable method of recouping NECA s CCL reduction. The revision corrects the TIC rate originally used, and factors recovery of the $611,000, into the TS rate elements. HickoryTech recoups this revenue over the remaining eighteen months of the TS tariff, which began January 1, 2004. As of June 30, 2004, HickoryTech has recognized a recovery of $204,000 of the revenue.

In accordance with SFAS No. 71, HickoryTech recorded a regulatory asset for the revenue it would recoup with a balance of $407,000 at June 30, 2004 and $611,000 at December 31, 2003. Similarly, HickoryTech has recorded a liability for the amounts that will be repaid to the NECA CCL pool with a balance of $261,000 at June 30, 2004 and $611,000 at December 31, 2003.

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

FORWARD-LOOKING STATEMENTS

Statements in this Form 10-Q that are not historical fact are forward-looking statements that are based on management s current expectations, estimates and projections about the industry in which HickoryTech operates and management s beliefs and assumptions. Such forward-looking statements are subject to important risks and uncertainties that could cause HickoryTech s future actual results to differ materially from such statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and probabilities, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements, whether as a result of new information, future events or otherwise. Factors that might cause such a difference include, but are not limited to, those contained in this Management s Discussion and Analysis (Item 2) and the Cautionary Statement for Purposes of the Safe Harbor Provision of the Private Securities Litigation Reform Act of 1995 on pages 29-30 of HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2003, which is incorporated herein by reference. You are cautioned not to place undue reliance on these forward looking statements, which speak only as of the date on which they were made. Except as otherwise required by federal securities law, HickoryTech undertakes no obligation to update any of its forward-looking statements for any reason.

BUSINESSES

HickoryTech operates in three business segments: the Telecom, Information Solutions and Enterprise Solutions Sectors. Its largest and oldest business (since 1898) has been the operation of incumbent local exchange carriers (ILECs) or traditional wireline telephone service. The ILEC business is in HickoryTech s Telecom Sector. In 1998, HickoryTech began its competitive local exchange carrier (CLEC) line of business, competing for the telephone dial tone, dial-up and broadband Internet access, data and long distance calling business in other ILEC territories. The CLEC business is in HickoryTech s Telecom Sector. Since 1964, HickoryTech s Information Solutions Sector has provided computer data processing and software, predominantly for HickoryTech s Telecom Sector operations and also to other telecommunications companies. HickoryTech acquired its Enterprise Solutions Sector in 1990 and it has operated as a telecommunications and data equipment distributor from a base in Minneapolis/St. Paul, Minnesota. HickoryTech also began its wireless operations in 1998 by acquiring its first wholly owned wireless service license, an additional wireless service license in 1999 and two PCS licenses in 2001. HickoryTech sold the wireless operations on December 15, 2003. The wireless operations are reported as part of the Telecom Sector. All financial statements and schedules have been restated to reflect wireless operations as discontinued operations for all periods presented.

The eight subsidiaries of HickoryTech, all of which publicly operate and conduct business as HickoryTech, and the business segments in which they operate are:

TELECOM SECTOR
Mankato Citizens Telephone Company (MCTC)
Mid-Communications, Inc. (Mid-Comm)
Heartland Telecommunications Company of Iowa, Inc. (Heartland)
Cable Network, Inc. (CNI)
Crystal Communications, Inc. (Crystal)
Minnesota Southern Wireless Company (MSWC)-Discontinued Operations
INFORMATION SOLUTIONS SECTOR
National Independent Billing, Inc. (NIBI)
ENTERPRISE SOLUTIONS SECTOR

Collins Communications Systems Co. (Collins)

HickoryTech and its subsidiaries are engaged in businesses that provide services to their customers for a fee. Many of these services are recurring, and, as a result, backlog orders and seasonality are not significant factors. Working capital requirements primarily involve the funding of the construction of networks and switches and maintenance of a relatively high amount of fixed assets. Other working capital requirements include the payroll costs of highly skilled labor, the inventory to service its telephone equipment customers and the carrying value of trade accounts receivable for periods up to ninety days in the normal course of business.

The materials and supplies that are necessary for the operation of the businesses of HickoryTech and its subsidiaries are available from a variety of sources, and no future supply problems are anticipated. All of HickoryTech s central office switches, as well as a majority of HickoryTech s equipment sold in its Enterprise Solutions Sector, are supplied by Nortel. Nortel is a leading supplier of communications equipment, and HickoryTech s dependence on this brand is not viewed as a significant risk. An additional layer of network infrastructure equipment for broadband services is provided by Nextlevel. Nextlevel, a subsidiary of Motorola, is a newer supplier of communications equipment and the Company is monitoring the risk of maintaining Nextlevel as a supplier.

INDUSTRY SEGMENTS

TELECOM SECTOR

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

The Telecom Sector also includes Crystal, a competitive local exchange carrier (CLEC). Crystal provides local telephone service, long distance, dial-up and broadband Internet access and digital television on a competitive basis. Crystal has customers in ten rural communities, encompassing eight exchanges, in Minnesota and three communities, encompassing two exchanges, in Iowa that are not in HickoryTech s ILEC service areas. HickoryTech discontinued its service to four other Iowa communities in 2003. In addition to the digital television service provided to customers in St. Peter, Minnesota, HickoryTech will begin providing digital television service to customers in Waseca, Minnesota in July 2004.

HickoryTech also owns and operates fiber optic cable facilities in Minnesota in its subsidiary CNI. These facilities are used to transport interexchange communications as a service to telephone industry customers. HickoryTech s Minnesota ILECs and its CLEC are the primary users of the fiber optic cable facilities.

The Telecom Sector included the operations of MSWC, which was sold December 15, 2003. None of the remaining companies in the Telecom sector experienced major changes in operations during the first two quarters of 2004 or 2003.

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

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

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

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

Competition in HickoryTech s ILEC service area exists in one of Heartland s exchanges. In the city of Hawarden, Iowa, the municipal utilities overbuilt the city s telephone service infrastructure and is providing an alternative to HickoryTech s telephone service. The Hawarden CLEC has acquired approximately 1,000 access lines, or approximately 60% of that community s telephone business from HickoryTech. HickoryTech management does not believe there will be significant further impact from competition in Hawarden.

Competition also exists for some of the HickoryTech services provided to interexchange carriers, such as customer billing services, dedicated private lines, network switching and network routing. This competition comes primarily from the interexchange carriers themselves, in that carriers may decide that the services provided by HickoryTech may be redirected or handled on their own network. The provision of these services is of a contractual nature or is month-to-month service out of a general tariff, which is a schedule of terms, rates and conditions that is approved by the appropriate state or federal agency. In either case, the use of these services is primarily controlled by the interexchange carriers. As interexchange carriers make these service decisions, they have the potential to reduce the Company s revenue in the Telecom Sector. Other services, such as directory advertising and end user equipment, are open to competition. This type of competition is based primarily on service and experience.

The passage of the 1996 Telecommunications Act created the opportunity for HickoryTech to offer communications service in territories served by other telephone companies, and Crystal began operations in January 1998 as a new competitive local exchange carrier (CLEC). Crystal offers local service, long distance, dial-up and broadband Internet access services, and digital television, on a competitive basis to customers in southern Minnesota and Iowa, which were not previously served by HickoryTech s Telecom Sector service area. These service offerings provide customers alternatives to the incumbent communication providers in various communities and are offered under the brand name HickoryTech service. These services are currently offered to customers in ten rural communities, encompassing eight exchanges, in Minnesota, as well as three communities, encompassing two exchanges, in Iowa. Crystal also provides the long distance service, dial-up and broadband Internet access services to HickoryTech s ILEC subscribers.

CLEC activities require Crystal to file for authority to operate with the appropriate public utilities commission in each state it serves. Crystal competes directly against existing ILECs in the areas in which it operates. Crystal is not dependent upon any single customer or small group of customers. No single customer in Crystal accounts for ten percent or more of HickoryTech s consolidated revenues.

It is common in the ILEC industry for carriers to dispute certain access charges. There is currently a multi-state ILEC industry dispute with a large RBOC (Regional Bell Operating Company) regarding certain access charges. The ILEC industry in Minnesota has jointly filed a formal complaint regarding this dispute with the Minnesota Public Utilities Commission. On July 8, 2004, this complaint was referred to the Office of Administrative Hearings for a contested case proceeding as requested in the complaint.

On December 15, 2003, HickoryTech sold its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC). The wireless operations are reported as part of the Telecom Sector. The consolidated statements of operations for all periods presented have been restated to reflect wireless operations as discontinued operations.

REGULATED INDUSTRY

ILEC Minnesota - HickoryTech s two Minnesota ILEC subsidiaries continue to operate under an alternative form of regulation as defined in Minnesota Chapter 237, whereby companies with less than 50,000 customers are regulated on price and service level rather than profit. The Minnesota Public Utilities Commission (PUC) has been considering intrastate access reform and universal service for several years. In March 2004, the Minnesota PUC issued an order to refer the access reform issue to a contested case hearing. This process in Minnesota usually involves full development of a public record. The ILEC industry, interexchange carriers and state agencies are also concurrently negotiating in hopes of an agreement to transition access rate changes over several years, possibly through legislative change. The outcome of this process, whether by negotiation and legislation or commission order resulting from a hearing will not likely be realized until late in 2004, or later. HickoryTech cannot estimate the impact, if any, of future potential state access revenue changes.

ILEC Iowa - In Iowa, companies with fewer than 15,000 access lines remain unregulated. HickoryTech s Iowa ILEC subsidiary falls below this regulation threshold.

Wireline InterState - The HickoryTech ILEC companies do not participate in the NECA traffic sensitive pool and set access rates according to a nationwide average cost of providing access. This biannual rate process was completed in June 2003, and established traffic sensitive interstate rates for the period from July 1, 2003 through June 30, 2005. HickoryTech ILEC companies participate in the NECA common line pool. In July of 2003, common line rates charged to interexchange carriers were reduced (to zero), and common line charges to end users were increased in accordance with an October 2001 FCC order (a/k/a MAG Plan). Funds collected are pooled, and HickoryTech revenues are based on settlements distributed from the pool. Pool settlements are adjusted periodically.

CLEC - HickoryTech s CLEC company provides local exchange services in Minnesota and Iowa with less regulatory oversight than the HickoryTech ILEC companies. Additionally, Crystal offers digital television service in the St. Peter, Minnesota market under a franchise negotiated with the local municipality. Beginning in the third quarter of 2004, Crystal will offer digital television in the Waseca, Minnesota market under a franchise agreement negotiated with the local municipality. Crystal also offers long distance services. In-State services in Minnesota are regulated by the Public Utility Commission with respect to uniform pricing statewide. In-State long distance service in Iowa is unregulated. Long distance services are also deregulated at the federal level (for Inter-State services), but are subject to annual certification of geographic rate averaging and rate integration. Dial-up and broadband Internet access are unregulated at both the state and federal levels.

Other - HickoryTech s CLEC interstate access rates are established in accordance with an April 2001 FCC order. Under the final phase of this order, interstate switched access rates for HickoryTech s CLEC were reduced to levels comparable to those of the Incumbent LEC s (Local Exchange Carrier) in June of 2004.

The FCC has an open docket on intercarrier compensation as well as several dockets on Voice over Internet Protocol (VoIP). HickoryTech cannot predict the outcome of such proceedings nor can it estimate the impact, if any, on HickoryTech.

Local Number Portability - Section 251(b) of the Communications Act of 1934 (the 34 Act), as amended, requires, in part, that local exchange carriers provide local number portability to any requesting telecommunications carrier. Wireless carriers are generally defined as telecommunications carriers under the 34 Act, and are therefore eligible to port numbers with wireline carriers, which is referred to as intermodal porting . On November 10, 2003, the FCC released a decision providing guidance on intermodal porting issues. The FCC stated that number porting from a wireline carrier to a wireless carrier is required upon bona fide request where the coverage area of the wireless carrier (i.e. the area in which the wireless carrier provides service) overlaps the geographic location in which the wireline number was provisioned. Further, while the FCC required the wireless carrier to maintain the rate center designation of the number, it also noted that wireless carriers were not required to have either direct connections or interconnection agreements with wireline carriers nor were wireless carriers required to have numbering resources in the rate center in which the wireline number is located in order to subject the wireline number to intermodal porting. The FCC s guidance requires that wireline numbers be ported to wireless carriers across traditional wireline rate centers, although the FCC left issues governing the payment of call routing costs to another pending proceeding. This requirement took effect on November 24, 2003 for wireline carriers in the top 100 Metropolitan Statistical Area s (MSAs), and May 24, 2004 for wireline carriers operating in markets below the top 100 MSAs. The Company s wireline operations are conducted in markets below the top 100 MSAs that were subject to the later May 24, 2004 implementation date for intermodal porting. Heartland Telecommunications Company of Iowa, however, has joined in an industry action by the Iowa Telecommunications Association to suspend the requirements for small rural carriers. The Iowa Utilities Board has granted a 180-day stay on implementation of Local Number Portability (LNP) in rural areas while it considers the petition, with a decision due no later than October 6, 2004. As of June 30, 2004 the effects of intermodal porting on the Company s Minnesota wireline operations have been minimal, however, given the short time intermodal porting has been available the Company cannot fully quantify the long-term effects on its wireline operations of implementing intermodal porting. It is possible that these requirements, when implemented, could adversely affect the Company s wireline operating costs and customer growth rates. HickoryTech is also unable to quantify the revenue impact of wireline customers that may switch to wireless alternatives.

<u>Triennial Review Order</u> - In August 2003, the FCC published a review order proposing changes in rules developed under the provisions of Telecommunications Act of 1996 Section 251(c)(3) which requires incumbent local exchange carriers to make elements of their networks available on an unbundled basis to new entrants at cost-based rates. This order was immediately challenged by USTA and several carriers. In April 2004, the Washington DC district court issued a ruling overturning portions of that order so that, generally, incumbent LEC s face reduced mandates to make their network available and CLEC s face reduced opportunities or increased costs in obtaining network from the incumbent with whom they compete.

HickoryTech s CLEC, Crystal Communications, has not made extensive use of the type of network elements addressed in the ruling in its CLEC business. While HickoryTech cannot fully quantify the impact of this issue, neither the FCC order or the subsequent overruling of portions of the order by the District Court are expected to have a material impact on Crystal s business.

INFORMATION SOLUTIONS SECTOR

Through NIBI, HickoryTech s Information Solutions Sector provides data processing and related services, principally for HickoryTech, other local exchange telephone companies, CLECs, interexchange network carriers, wireless companies, municipalities and utilities. The Information Solutions Sector s principal activity is the provision of monthly batch processing of computerized data for HickoryTech as well as non-affiliated companies. Services for telephone company customers include the processing of long distance telephone calls from data sources and telephone switches, the preparation of the subscriber telephone bills, customer record keeping, carrier access bills and general accounting and payroll services. NIBI, under the brand name HickoryTech Information Solutions, also provides certain billing clearinghouse functions for interexchange carriers.

17

There are a number of companies engaged in supplying data processing services comparable to those furnished by the Information Solutions Sector. Competition is based primarily on price and service. HickoryTech s Information Solutions Sector has developed an integrated billing and management system called SuiteSolution. SuiteSolution can provide wireline and wireless carriers the individual benefits of a billing platform or a total system solution. Management is unable to quantify what effect, if any, the sale of HickoryTech s wireless business may have on the marketplace for this product.

ENTERPRISE SOLUTIONS SECTOR

Through Collins, HickoryTech s Enterprise Solutions Sector provides telephone and data equipment sales and services as well as the sale, installation and service of Voice over Internet Protocol (VoIP) business systems to companies primarily based in metropolitan Minneapolis/St. Paul, Minnesota. This sector also supports the business telephone system service for HickoryTech ILEC and CLEC operations in southern Minnesota and in Iowa. The customers in the Enterprise Solutions Sector s market are the individual business end users of telecommunications service with ongoing service requirement offerings. Products consist of telecommunication platforms such as Nortel on the voice side of the Enterprise Solutions business, and Cisco and Bay Networks (Nortel) equipment on the data side of its business. Enterprise Solutions specializes in the quality custom installation and maintenance of data wide area networking solutions.

Revenues are primarily earned by the sales, installation and service of business telephone and data systems. Enterprise Solutions continues its commitment to service and support of its core product, Nortel, while identifying new opportunities such as call centers, computer telephone integration voice mail and interactive voice response systems.

HickoryTech s Enterprise Solutions Sector is not dependent upon any single customer or small group of customers. No single customer in the Enterprise Solutions Sector accounts for ten percent or more of HickoryTech s consolidated revenues.

Enterprise Solutions does business in a competitive market where a large number of companies compete for the sale, installation and servicing of telecommunications equipment and Voice over Internet Protocol communications products. Competition is based primarily on price and service. No single company is dominant in this market.

RESULTS OF OPERATIONS

CONSOLIDATED OPERATING RESULTS:

The following is a summarized discussion of consolidated results of operations. More detailed discussion of operating results by segment follows this discussion.

OPERATING REVENUES:

Consolidated operating revenues were $22,864,000, which is $8,000 or 0.03% lower in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Consolidated operating revenues were $45,551,000, which is $898,000 or 1.9% lower in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in revenues in the six months ended June 30, 2004 compared to the six months ended June 30, 2003 can be primarily attributed to a lower volume of business in the Enterprise Solutions Sector. This decrease was largely offset by an increase in revenues in the Telecom Sector, which was driven by revenue increases in ILEC high-speed data and network access, as well as growth in the CLEC business.

COST OF PRODUCTS SOLD, ENTERPRISE SOLUTIONS:

Cost of products sold, which is related to the Enterprise Solutions Sector was $2,296,000, which is $254,000 or 10.0% lower in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Cost of products sold was $3,805,000, which is $1,264,000 or 24.9% lower in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in cost of products sold in the second quarter of 2004 compared to second quarter 2003 was mainly due to the decrease in installation revenue. For the six month period ended June 30, 2004 as compared to the comparable 2003 period, the decrease in cost of products sold was in line with the corresponding decrease in operating revenues in this sector, as gross profit margins remained relatively consistent at 32.5% for the six months ended June 30, 2004 compared to 30.5% for the same period in 2003.

COST OF SERVICES (excluding Depreciation and Amortization):

Cost of services, excluding depreciation and amortization decreased $131,000 or 1.6% in second quarter 2004 compared to second quarter 2003. Cost of services, excluding depreciation and amortization increased $209,000 or 1.3% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase was due primarily to increased expenses surrounding post-retirement health care benefits, long distance costs corresponding to the increased customer base, plant operations costs, and an increase in bad debt expense, that were somewhat offset by decreased Enterprise Solutions expenses.

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

Selling, general and administrative expenses, excluding depreciation and amortization decreased $46,000 or 1.3% in second quarter 2004 compared to second quarter 2003. Selling, general and administrative expenses, excluding depreciation and amortization decreased $214,000 or 2.9% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in expense for the six months ended June 30, 2004 as compared to the six months ended June 30, 2003 is primarily due to cost reduction measures implemented in the Enterprise Solutions sector as well as a decrease in corporate wages partially caused by a one time charge in 2003 for the modification of the terms of the stock options of a retiring officer. These expense decreases were somewhat offset by an increase in Telecom sales and marketing related expenses. The modification of the terms of the stock options of a retiring officer extended the period after retirement during which the officer could exercise his vested options. This modification resulted in HickoryTech recognizing $173,000 of compensation expense during the first quarter of 2003.

DEPRECIATION AND AMORTIZATION:

Depreciation expense was $3,881,000, which is $150,000 or 4.0% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Depreciation expense was $7,757,000, which is $524,000 or 7.2% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase in depreciation expense was due to an increase in the Telecom Sector s network assets, as well as an increase related to the depreciation of billing software in the Information Solutions Sector. Amortization expense was $237,000, which is $39,000 or 19.7% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. This increase primarily relates to amortization of costs of new software, which began in the second quarter of 2003. For the six months ended June 30, 2004 amortization expense was $473,000, which is $51,000 lower than the comparable 2003 period. The decrease in amortization expense was largely due to an intangible asset in the Information Solutions Sector becoming fully amortized in the second quarter of 2003.

OPERATING INCOME:

Operating income was $4,953,000, which is $234,000 or 5.0% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. This increase was driven primarily by an increase in the operating income of the Enterprise Solutions sector in the second quarter of 2004 as compared to the second quarter of 2003. Operating income was $9,755,000, which is $102,000 or 1.0% lower in the six months ended June 30, 2004 compared to the six months ended June 30, 2003.

INTEREST EXPENSE:

Interest expense decreased $342,000 or 23.1% to $1,138,000 in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Interest expense decreased $718,000 or 23.6% to $2,327,000 in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in interest expense was primarily due to a decrease in total debt outstanding. The outstanding balance of the revolving credit facility was $108,000,000 at June 30, 2004 and $145,250,000 at June 30, 2003.

INCOME TAXES:

The effective income tax rate of approximately 40.5% and 41% for second quarter 2004 and second quarter 2003, respectively, exceeds the federal statutory rate primarily due to state income taxes. The effective income tax rate of approximately 40.5% and 41% for the six months ended June 30, 2004 and June 30, 2003, respectively, exceeds the federal statutory rate primarily due to state income taxes.

INCOME FROM CONTINUING OPERATIONS:

Consolidated income from continuing operations was $2,283,000, which is $361,000 or 18.8% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. The increase in income from continuing operations for second quarter 2004 as compared to the second quarter of 2003 was primarily driven by the $254,000 decrease in cost of products sold, the $131,000 decrease in cost of services, and a $342,000 decrease in interest expense, all of which were explained above. Consolidated income from continuing operations was $4,444,000, which is $405,000 or 10.0% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase in income from continuing operations for the six months ended June 30, 2004 compared to the six months ended June 30,2003 can be primarily attributed to the $718,000 decrease in interest expense, coupled with the $1,264,000 decrease in cost of products sold for the Enterprise Solutions sector, which, taken together, helped offset increased depreciation and amortization expenses of $524,000, as well as the $898,000 decrease in operating revenues, all of which are described above.

SECTOR RESULTS OF OPERATIONS FROM CONTINUING OPERATIONS

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

TELECOM SECTOR

(Dollars in Thousands)	For Three Months Ended 6/30/2004	6/30/2003	For Six Months Ended 6/30/2004	6/30/2003
Revenues Before Intersegment Eliminations				
ILEC				
Local Service	**$ 3,818**	$ 3,765	**$ 7,549**	$ 7,574
Network Access	**8,272**	8,407	**16,949**	16,731
Data	**547**	430	**1,069**	880
Intersegment	**69**	68	**138**	137
Other	**1,596**	1,704	**3,343**	3,505
Total ILEC	**14,302**	14,374	**29,048**	28,827
CLEC				
Local Service	**925**	876	**1,854**	1,715
Network Access	**621**	608	**1,301**	1,150
Data	**399**	284	**780**	516
Other	**450**	466	**880**	898
Total CLEC	**2,395**	2,234	**4,815**	4,279
Long Distance	**1,106**	1,095	**2,334**	2,212
Internet	**994**	950	**1,989**	1,891
Digital TV	**119**	95	**225**	176
Total Telecom Revenues	**$ 18,916**	$ 18,748	**$ 38,411**	$ 37,385
Total Telecom Revenues Before Intersegment Eliminations				
Unaffiliated Customers	**$ 18,847**	$ 18,680	**$ 38,273**	$ 37,248
Intersegment	**69**	68	**138**	137
	18,916	18,748	**38,411**	37,385
Cost of Services, excluding Depreciation and Amortization	**7,182**	6,662	**14,662**	13,463
Selling, General, and Administrative Expenses, excluding Depreciation and Amortization	**2,549**	2,265	**5,078**	4,612
Depreciation and Amortization	**3,407**	3,274	**6,814**	6,459
Operating Income	**$ 5,778**	$ 6,547	**$ 11,857**	$ 12,851
Income from Continuing Operations, Net of Tax	**$ 3,440**	$ 3,893	**$ 7,059**	$ 7,601
Income/(Loss) from Discontinued Operations		419	**(59)**	484
Net Income	**$ 3,440**	$ 4,312	**$ 7,000**	$ 8,085
Capital Expenditures	**$ 4,096**	$ 2,105	**$ 6,217**	$ 3,156

21

(Dollars in Thousands)	For Six Months Ended 6/30/2004	6/30/2003
ILEC Access Lines	**60,044**	62,367
CLEC Access Lines		
Overbuild	**10,406**	9,036
Unbundled Network Element (UNE)	**1,699**	1,338
Total Service Resale (TSR)	**2,430**	4,162
Total	**14,535**	14,536
Long Distance Customers	**40,456**	35,667
Internet Customers	**16,707**	15,307
Total Telecom Customers	**131,742**	127,877
DSL Customers	**8,946**	5,691

Telecom Sector operating revenues before intersegment eliminations were $18,916,000, which is $168,000 or 0.9% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. The increase in revenue in the second quarter of 2004 as compared to the second quarter of 2003 was due primarily to growth in CLEC. Telecom Sector operating revenues before intersegment eliminations were $38,411,000, which is $1,026,000 or 2.7% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. For the six month period ended June 30, 2004 as compared to the same period in 2003, the increase in revenue was primarily due to increased ILEC network access and high-speed data, as well as growth in the CLEC business.

ILEC network access revenue was $8,272,000, which is $135,000 or 1.6% lower in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. ILEC network access revenue was $16,949,000, which is $218,000 or 1.3% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decline in ILEC network access revenue in the second quarter of 2004 as compared to the second quarter of 2003 was primarily due to one time adjustments related to disputed circuits and minutes. For the six month period ended June 30, 2004 as compared to the six month period ended June 30, 2003 the increase in ILEC network access revenue was driven by higher first quarter 2004 demand for dedicated lines and high-speed circuits. HickoryTech does not belong to any NECA traffic sensitive access revenue reimbursement pools, but instead, establishes access rates bi-annually following nationwide averages of providing access. HickoryTech s interstate access rates were adjusted as of July 2003. Recent industry trends, as discussed in the regulatory section above, suggest that access revenue may be at a plateau and may not experience the rate of increase year over year that the company has historically seen. Long-term continuation of these revenues is uncertain, however, as changes in the industry occur.

On October 16, 2003, the United States District Court, District of Minnesota, issued an injunction providing relief from regulation of an interexchange carrier providing Voice over Internet Protocol (VoIP) based services in Minnesota. The Minnesota Public Utilities Commission has appealed this decision. Depending on the outcome, this may result in a change in the business relationship between HickoryTech ILEC businesses and the interexchange carriers, as interconnections with certain VoIP providers may not be governed by tariffed Minnesota access charges. HickoryTech cannot, at this time, estimate the revenue impact, if any, related to this decision.

ILEC data revenue was $117,000 or 27.2% higher in second quarter 2004 compared to second quarter 2003, and was $189,000 or 21.5% higher for the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase is the result of increased Digital Subscriber Line (DSL) customers.

22

CLEC local service revenue was $925,000, which is $49,000 or 5.6% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. CLEC local service revenue was $1,854,000, which is $139,000 or 8.1% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase in CLEC local service revenue is driven primarily by an increase in revenues from business customers and an increase in local trunking revenue due primarily to a new customer relationship in northwest Iowa. In the second quarter of 2003, HickoryTech decided to exit several exchanges in its Iowa territories that utilized a resale of services approach. As a result of this decision, HickoryTech stopped providing service for 734 customers. Related revenues have decreased approximately $80,000 in the second quarter of 2004 compared to the second quarter of 2003. However, this decrease in revenues was offset by increased local service revenues in several other CLEC communities.

CLEC network access revenue was $13,000 or 2.1% higher in second quarter 2004 compared to second quarter 2003. CLEC network access revenue was $151,000 or 13.1% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. This increase is primarily the result of increased penetration of overbuild lines in CLEC communities.

CLEC data revenue was $115,000 or 40.5% higher in second quarter 2004 compared to second quarter 2003. CLEC data revenue was $264,000 or 51.2% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase is the result of increased DSL penetration in CLEC communities.

Long distance revenue was $11,000 or 1.0% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Long distance revenue was $122,000 or 5.5% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. This increase is the result of a corresponding increase in customers. HickoryTech experienced a 4,789 or 13.4% increase in its long distance customer base between June 30, 2003 and June 30, 2004. Although the customer base is increasing, revenue per customer is decreasing. The decrease in revenue per customer is primarily the result of optional long distance services available to customers, the increased use of Internet services and other alternatives to long distance services. Also, a competitor of HickoryTech received approval from the state of Minnesota to offer long distance services in all HickoryTech territories. This competitor already offers local telephone service in HickoryTech s CLEC territories and with this approval, has the potential to create stronger competition with HickoryTech in these markets, which could result in a reduction in long distance revenue in future periods.

Internet revenue was $44,000, or 4.6% higher in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Internet revenue was $98,000, or 5.2% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase in revenue was caused primarily by an increase in Internet customers of 1,400 or 9.1% between June 30, 2003 and June 30, 2004.

Cost of Services, excluding Depreciation and Amortization:

Cost of services, excluding depreciation and amortization was $520,000 or 7.8% higher in the second quarter of 2004 compared to the second quarter of 2003. Cost of services, excluding depreciation and amortization was $1,199,000 or 8.9% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The increase is primarily due to increases in expenses relating to long distance services that increased in conjunction with the corresponding increase in long distance customers and revenue, increased billing expense from the Information Solutions sector, increased plant operation expenses, and increased bad debt. These increases were somewhat offset by decreases in charges relating to the decrease in Total Service Resale (TSR) customers. In the second quarter of 2003, HickoryTech decided to exit several exchanges in its Iowa territories, which utilized a resale of services approach. As a result of this decision, HickoryTech has stopped providing service for 734 customers.

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

Selling, general and administrative expenses, excluding depreciation and amortization was $284,000 or 12.5% higher in the second quarter of 2004 compared to the second quarter of 2003. Selling, general and administrative expenses, excluding depreciation and amortization was $466,000 or 10.1% higher in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. This increase is primarily due to an increase in sales and marketing related expenses as well as corporate allocations. These increases were partially offset by a decrease in expenses related to cost reduction measures in the Iowa CLEC office that took place in the third quarter of 2003.

Depreciation and Amortization:

Depreciation and amortization were $3,407,000, which is $133,000 or 4.1% higher in the three months ended June 30, 2004 compared to the same period in 2003. Depreciation and amortization were $6,814,000, which is $355,000 or 5.5% higher in the six months ended June 30, 2004 compared to the same period in 2003. The increase in depreciation expense can be largely attributed to increased network infrastructure.

Operating and Net Income:

Operating income was $5,778,000, which is $769,000 or 11.7% lower in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Net income was $3,440,000, which is $872,000 or 20.2% lower in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Operating income was $11,857,000, which is $994,000 or 7.7% lower in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. Net income was $7,000,000, which is $1,085,000 or 13.4% lower in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. These decreases in operating and net income were driven by the increases in cost of services, depreciation and amortization, and selling, general and administrative expenses described above, offset by the increase in revenue, also described above.

Discontinued Operations:

On December 15, 2003, HickoryTech sold its wireless business, Minnesota Southern Wireless Company (MSWC), to Western Wireless Corporation (WWC). The wireless operations are reported as part of the Telecom sector. The consolidated statements of operations for all periods presented have been restated to reflect wireless operations as discontinued operations.

INFORMATION SOLUTIONS   The following table provides a breakdown of the Information Solutions Sector operating results.

INFORMATION SOLUTIONS SECTOR

	For Three Months Ended		For Six Months Ended	
(Dollars in Thousands)	**6/30/2004**	**6/30/2003**	**6/30/2004**	**6/30/2003**
Revenues Before Eliminations				
Unaffiliated Customers	**$ 679**	$ 809	**$ 1,645**	$ 1,907
Intersegment	**1,127**	768	**2,174**	1,531
	1,806	1,577	**3,819**	3,438
Cost of Services, excluding Depreciation and Amortization	**1,536**	1,703	**3,422**	3,584
Selling, General, and Administrative Expenses, excluding Depreciation and Amortization	**252**	228	**446**	413
Depreciation and Amortization	**654**	581	**1,293**	1,125
Operating Loss	**$ (636)**	$ (935)	**$ (1,342)**	$ (1,684)
Net Loss	**$ (382)**	$ (606)	**$ (808)**	$ (1,102)
Capital Expenditures	**$**	$	**$ 1**	$ 144

Revenues:

Operating revenues from unaffiliated customers decreased $130,000 or 16.1% in the second quarter 2004 compared to the second quarter 2003. Operating revenues from unaffiliated customers decreased $262,000 or 13.7% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in operating revenues was primarily due to the loss of CABS processing customers and a decline in volume to existing customers.

Cost of Services, excluding Depreciation and Amortization:

Operating expenses excluding depreciation and amortization decreased $167,000 or 9.8% in the three months ended June 30, 2004 compared to the three months ended June 30, 2003. Operating expenses excluding depreciation and amortization decreased $162,000 or 4.5% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decreases in operating expenses primarily reflect the impact of management cost reduction actions.

Depreciation and Amortization:

Depreciation and amortization increased $73,000 or 12.6% in second quarter 2004 compared to second quarter 2003, and $168,000 or 14.9% for the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The primary reason for the increase is due to the depreciation of a new billing system.

Operating and Net Loss:

Operating loss decreased $299,000 or 32.0% in second quarter 2004 compared to first quarter 2003. Net loss decreased $224,000 or 37.0% in second quarter 2004 compared to second quarter 2003. Operating loss decreased $342,000 or 20.3% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. Net loss decreased $294,000 or 26.7% in the six month ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in operating loss and net loss in second quarter 2004 compared to second quarter 2003 was primarily attributable to the overall net increase in revenues, including an increase in intersegment revenues of $359,000, coupled with a decrease in cost of services, excluding depreciation and amortization as discussed above. The decrease in operating loss for the six months ended June 30, 2004 as compared to the same period in 2003 was primarily attributable to the increase in depreciation and amortization as discussed above.

ENTERPRISE SOLUTIONS The following table provides a breakdown of the Enterprise Solutions Sector operating results.

ENTERPRISE SOLUTIONS SECTOR

	For Three Months Ended		For Six Months Ended	
(Dollars in Thousands)	**6/30/2004**	**6/30/2003**	**6/30/2004**	**6/30/2003**
Revenues Before Intersegment Eliminations				
Installation	**$ 1,227**	$ 1,677	**$ 1,880**	$ 3,635
Service	**2,111**	1,706	**3,753**	3,659
	3,338	3,383	**5,633**	7,294
Cost of Products Sold	**2,296**	2,550	**3,805**	5,069
Cost of Services, excluding Depreciation And Amortization	**317**	442	**642**	827
Selling, General and Administrative Expenses, excluding Depreciation and Amortization	**821**	889	**1,607**	1,761
Depreciation and Amortization	**44**	60	**95**	121
Operating Income/(Loss)	**$ (140)**	$ (558)	**$ (516)**	$ (484)
Net Income/(Loss)	**$ (83)**	$ (334)	**$ (307)**	$ (295)

Capital Expenditures	**$**	**22**	$	97	**$**	**22**	$	189

Revenues:

Operating revenues decreased $45,000 or 1.3% in the second quarter of 2004 compared to the second quarter of 2003. Operating revenues decreased $1,661,000 or 22.8% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. Installation revenue decreased $450,000 or 26.8% in the second quarter of 2004 compared to the second quarter of 2003. Installation revenue decreased $1,755,000 or 48.3% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003, and is primarily due to a decrease in the installation of Private Branch Exchange (PBX) systems of $1,210,000 or 74.7% and a decrease in the installation of data systems of $681,000 or 40.4%. The decrease in installation revenue in the second quarter of 2004 compared to the second quarter of 2003 was primarily a result of a decrease in sales and installations of PBX systems of $639,000 or 63.1%, which was somewhat offset by an increase in Small Business Systems (SBS) installations of $228,000 or 185.8%. Revenues in 2003 were aided by installations of Voice over Internet Protocol networks that were performed in a corporate office and on a large college campus in Minnesota during the first six months of 2003. Service revenue was $405,000 or 23.7% higher in the second quarter of 2004 compared to the second quarter of 2003, due primarily to an increase in Move, Add, and Change (MAC) contract revenue of $362,000 or 68.2%. For the six months ended June 30, 2004, service revenue was $94,000, or 2.6% higher compared to the same period in 2003. This sector has encountered across the board reductions in demand in all of its major products and services. The reduction started in early 2002, and is believed to be associated with the economy s effect on customers of this sector, and due to changing technology (i.e. voice vs. data protocol) in the communications products, which this sector provides. Due to the uncertainty of the economy, HickoryTech cannot estimate when or if customer demand for these products and services may return to higher levels.

Cost of Products Sold:

Cost of products sold decreased $254,000 or 10.0% in the second quarter of 2004 compared to the second quarter of 2003. Cost of products sold decreased $1,264,000 or 24.9% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in cost of products sold in the second quarter of 2004 compared to second quarter 2004 was mainly due to the decrease in installation revenue. For the six month period ended June 30, 2004 as compared to the comparable 2003 period, the decrease in cost of products sold was in line with the corresponding decrease in operating revenues in this sector, as gross profit margins remained relatively consistent at 32.5% for the six months ended June 30, 2004 compared to 30.5% for the same period in 2003.

Cost of Services, excluding Depreciation and Amortization:

Cost of services, excluding depreciation and amortization decreased $125,000 or 28.3% in the second quarter 2004 compared to the second quarter 2003. Cost of services, excluding depreciation and amortization decreased $185,000 or 22.4% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in cost of services, excluding depreciation and amortization in the first quarter 2004 compared to the first quarter 2003 was largely the result of cost reduction measures, which included workforce reductions.

Selling, General and Administrative, excluding Depreciation and Amortization:

Selling, general and administrative expenses, excluding depreciation and amortization decreased $68,000 or 7.6% in the second quarter 2004 compared to the second quarter 2003. Selling, general and administrative expenses, excluding depreciation and amortization decreased $154,000 or 8.7% in the six months ended June 30, 2004 compared to the six months ended June 30, 2003. The decrease in selling, general and administrative expenses was largely due to cost reduction measures, which included workforce reductions.

Operating and Net Loss:

Operating loss was $140,000 in the three months ended June 30, 2004 compared to an operating loss of $558,000 in the three months ended June 30, 2003. Operating loss was $516,000 in the six months ended June 30, 2004 compared to an operating loss of $484,000 in the six months ended June 30, 2003. Net loss in the three months ended June 30, 2004 was $83,000 compared to a net loss of $334,000 in the three months ended June 30, 2003. Net loss in the six months ended June 30, 2004 was $307,000 compared to a net loss of $295,000 in the six months ended

June 30, 2003. The operating and net losses generated in the three and six months ended June 30, 2004 compared to the three and six months ended June 30, 2003 occurred for the reasons described above.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS Cash provided by operations was $17,187,000 in the first six months of 2004 compared to $15,890,000 in the first six months of 2003. Cash flows from operations in the first six months of 2004 were primarily attributable to net income plus non-cash expenses for depreciation and amortization as well as a decrease in income taxes receivable. Cash flows from operations in the first six months of 2003 were primarily attributable to net income plus non-cash expenses for depreciation and amortization and a decrease in receivables, partially offset by decreases in accounts payable related to the timing of payments.

Cash flows used in investing activities were $3,593,000 in the first six months of 2004 compared to cash flows used of $287,000 for the same period in 2003. Capital expenditures were $6,240,000 during the first six months of 2004 as compared to $4,460,000 for the same period in 2003. Capital expenditures for the six months ended June 30, 2004 were incurred primarily to provide additional network facilities in the Telecom Sector. Management expects capital expenditures in the remainder of 2004 to be approximately $12,000,000. As part of the 2004 capital spending, HickoryTech is investing in an enhanced network, including an Internet Protocol (IP) capable switch and high capacity cable infrastructure for its ILEC market. Additional investments in growth for its CLEC markets are being made as well, including an additional $400,000 to be spent this year to provide digital television service in Waseca, Minnesota. There were $2,600,000 redemptions of investments in the first six months of 2004, compared to $4,100,000 in the first six months of 2003. The redemptions in the first six months of both 2004 and 2003 reflect the amount by which HickoryTech was permitted to reduce its equity investment in one of its lenders, through conditions of its debt agreements.

Cash flows used in financing activities were $13,639,000 for the first six months of 2004 compared to $16,333,000 for the first six months of 2003. Included in cash flows used in financing activities are debt repayments and dividend payments. HickoryTech made payments on its revolving credit facility of $12,000,000 during the first six months of 2004, and $14,000,000 during the first six months of 2003. HickoryTech borrowed $1,500,000 on its revolving credit facility during the first six months of 2004, and $1,250,000 during the first six months of 2003. Dividend payments for the first six months of 2004 were $2,853,000 compared to $3,074,000 for the same period in 2003. During the second quarter of 2004, HickoryTech retired 3,299 shares for $43,000 from a stock compensation plan. During the first six months of 2003, HickoryTech repurchased 53,300 common shares for $519,000, as well as retiring 18,370 shares for $185,000 from a stock compensation plan.

WORKING CAPITAL Working capital (i.e. current assets minus current liabilities) was $5,544,000 as of June 30, 2004, compared to working capital of $9,300,000 as of December 31, 2003. The change in taxes receivable is the primary reason for this decrease. Income taxes receivable were $2,838,000 at December 31, 2003, and income taxes payable were $1,885,000 at June 30, 2004. The ratio of current assets to current liabilities was 1.4 to 1.0 as of June 30, 2004 and 1.7 to 1.0 as of December 31, 2003.

LONG-TERM OBLIGATIONS- HickoryTech s long-term obligations as of June 30, 2004 were $107,280,000, excluding current maturities of $1,600,000. As of June 30, 2004, HickoryTech had a $138,175,000 credit facility with a syndicate of banks. The credit facility is comprised of a $116,675,000 revolving credit component and a $21,500,000 term loan component. The available line of credit on the $116,675,000 revolving credit began decreasing in increments in March of 2004, and has a final maturity date in September 2008. However, since not all of the available revolving credit has been utilized as of June 30, 2004, the payment schedule is as follows: 2006 - $25,562,000, 2007 - $32,813,000 and 2008 - $28,125,000. The term loan component requires equal quarterly principal payments of

$250,000 during the period of March 2001 to December 2008, and $17,000,000 in the first quarter of 2009. The weighted average interest rate associated with this credit facility and related instruments varies with LIBOR and certain other rates and was 4.05% at June 30, 2004 and 3.9% at June 30, 2003. HickoryTech has implemented fixed interest terms on various portions of the overall debt outstanding for varying terms. The longest fixed interest term, on $60,000,000 of the debt, is fixed until June 2008. As of June 30, 2004, HickoryTech had drawn $108,000,000 on this credit facility and had $30,175,000 of available credit. Management believes the remaining available credit is sufficient to cover future cash requirements. This includes review of the timing of future reductions in the available credit line versus the projected future levels of HickoryTech debt. Annually, management assesses the industry capital markets, and has concluded that adequate access to alternative capital sources exists if management chooses to replace its existing capital sources.

HickoryTech s Information Solutions Sector leases certain computer equipment under capital lease arrangements. During the six months ended June 30, 2004, this sector recorded additions to property, plant and equipment of $81,000 related to these capital lease arrangements.

CONSTRUCTION PLANS Beginning in 2004, HickoryTech has embarked on a five-year network enhancement program in its core telephone property in Mankato in support of its leading broadband service strategy. The Company will add approximately $20,000,000 to the network over the five-year period, in addition to the historical levels of capital spending in 2003 and 2002. Management believes that the enhancement will support the broadband product deployment strategies of the future, as well as serving as defense against competition in its core market. These upgrades to an already state of the art network will give HickoryTech the capability to offer more diversified services to its core customer base.

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

CRITICAL ACCOUNTING POLICIES

Management s discussion and analysis of financial condition and results of operations stated in this Form 10-Q are based upon HickoryTech s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America and, where applicable, conform to the accounting principles as prescribed by federal and state telephone utility regulatory authorities. HickoryTech presently gives accounting recognition to the actions of regulators where appropriate, as prescribed by Statement of Financial Accounting Standards (SFAS) No. 71, Accounting for the Effects of Certain Types of Regulation. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses and related disclosure of contingent assets and liabilities. Management believes that the application of the accounting policies, which are important to HickoryTech s financial position and results of operations, requires significant judgments and estimates on the part of management. A description of the critical accounting policies adhered to by HickoryTech is contained in the Management s Discussion and Analysis of Financial Condition and Results of Operations in HickoryTech s Annual Report on Form 10-K for the year ended December 31, 2003. There were no significant changes to these critical accounting policies during the quarter ended June 30, 2004. During 2003, HickoryTech purchased an interest rate swap contract, which is accounted for pursuant to the provisions of SFAS No. 133 as described in Note 11 of the notes to the accompanying financial statements.

RECENT ACCOUNTING DEVELOPMENTS

In January 2003, the FASB issued FIN No. 46, *Consolidation of Variable Interest Entities*. This interpretation provides guidance on how to identify a variable interest entity and addresses when the assets, liabilities and results of operations of such entities must be included in a company s consolidated financial statements. This interpretation was effective immediately for variable interest entities created after January 31, 2003 and for variable interest entities in which the Company obtains an interest after that date. For interests in variable interest entities that were acquired prior to January 31, 2003, the Company adopted the provisions of this interpretation on July 1, 2003. Adoption of this statement did not result in the consolidation or disclosure of any variable interest entities in which the Company maintains an interest. The Company did not absorb the majority of the losses or residual returns of the variable interest entities in which the Company maintains an interest and these interests are not significant. In December 2003, the FASB issued a revised FIN No. 46 which clarifies certain aspects of the accounting for variable interest entities. The revision of FIN No. 46 had no impact on results of operations or financial position.

In May 2004, the FASB issued FASB Staff Position (FSP) No. FAS 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003*, which supersedes FSP No. FAS 106-1 of the same name. This FSP outlines the appropriate accounting treatment for the effects of the new Medicare law, as well as the required financial statement disclosures. The new law introduces a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to the Medicare plan. The retiree medical plans do provide prescription drug coverage. However, as permitted by FSP No. FAS 106-2, the Company has elected to defer recognition of the impacts of the new law on the accumulated post-retirement benefit obligation and net periodic post-retirement benefit expense presented in the consolidated financial statements. Specific authoritative accounting guidance on the accounting for the federal subsidy provided for in the Act is pending. That guidance, when issued, could require the Company to change previously reported information. Beginning January 1, 2006, Medicare s prescription drug plan may become the primary plan for qualified retirees when they become age 65 and are eligible for Medicare. Thus, the Company may see a decrease in the amount of prescription drug benefits to be paid beginning in 2006.

In December 2003, the FASB issued a revision of SFAS No. 132, *Employers Disclosures about Pensions and Other Post-retirement Benefits*. This statement revises the disclosures required for pension and other post-retirement benefit plans. The Company has incorporated the new disclosure requirements into the Notes to Consolidated Financial Statements included in this report.

ITEM 3. QUANTATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

HickoryTech does not have operations subject to risks of foreign currency fluctuations. HickoryTech does, however, use derivative financial instruments to manage exposure to interest rate fluctuations. HickoryTech s objectives for holding derivatives are to minimize interest rate risks using the most effective methods to eliminate or reduce the impact of these exposures. Variable rate debt instruments are subject to interest rate risk. HickoryTech has entered into interest rate swap agreements with remaining maturities ranging from twelve to forty-eight months to manage its exposure to interest rate movements on a portion of its variable rate debt obligations. The effective portion of the cumulative gain or loss on these derivative instruments is reported as a component of accumulated other comprehensive income in shareholders equity and is recognized in earnings when the term of the swap agreement is concluded. HickoryTech s earnings are affected by changes in interest rates as a portion of its long-term debt has variable interest rates based on LIBOR. If interest rates for the portion of HickoryTech s long-term debt based on variable rates had averaged 10% more for the quarter ended June 30, 2004, HickoryTech s interest expense for the quarter would have increased $38,000. If interest rates for the portion of HickoryTech s long-term debt based on variable rates had averaged 10% more for the entire six months ended June 30, 2004, HickoryTech s interest expense for the six months ended June 30, 2004 would have increased $76,000.

ITEM 4. CONTROLS AND PROCEDURES

HickoryTech carried out an evaluation under the supervision, and with the participation of, the Company s management, including its Chief Executive Officer (CEO) and Chief Financial Officer (CFO) of the effectiveness of the Company s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of June 30, 2004, the end of the period covered by this report. Disclosure controls and procedures are designed with the objective of ensuring that information required to be disclosed in the Company s reports filed or submitted under the Securities Exchange Act, such as this Form 10-Q, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s applicable rules and forms. Based on that evaluation, the CEO and CFO have concluded that the disclosure controls and procedures are effective to satisfy the objectives for which they are intended. During the quarter ended June 30, 2004, there has been no change in the Company s internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

Information on the Company s purchases of equity securities during the second quarter follows:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share (b)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (c)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period) (d)
April 1, 2004 April 30, 2004	3,299	12.97	-	N/A
May 1, 2004 May 31, 2004	-	-	-	N/A
June 1, 2004 June 30, 2004	-	-	-	N/A

The share purchase disclosed in the above table represents shares withheld to cover employee withholding taxes upon the transfer of shares due to the departure of the employee from the Company. This was in accordance with the provision of the 1993 Stock Award Plan.

Item 3. Default Upon Senior Securities.

None.

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

a. The annual shareholders meeting was held on April 26, 2004.

b. 3 directors were elected to serve three-year terms. The names of the directors elected at the annual meeting and the applicable votes were as follows:

Director	**For**	**Withheld**	**Broker Nonvotes**
James H. Holdrege	10,253,242	389,914	None
Lyle G. Jacobson			