

HICKORY TECH CORP
Form 10-K/A
November 09, 2012

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

FORM 10-K/A

Amendment No. 1

(Mark one)

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

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

Commission File Number 0-13721

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

Minnesota
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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

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

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

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

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

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

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

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

DOCUMENTS INCORPORATED BY REFERENCE

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

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A amends our Annual Report on Form 10-K for the year ended December 31, 2011, which was filed on March 7, 2012 with the Securities and Exchange Commission. This Amendment No. 1 should be read in conjunction with our 2011 Annual Report.

The amendment is a result of the restatement of our consolidated financial statements for the years ended December 31, 2011, 2010, and 2009. The impacts of the restatement on our Statement of Operations and Balance Sheets are detailed in Note 2 to the Notes to the Consolidated Financial Statements. The amendment is also being made to revise unaudited quarterly financial information for the quarters ended in 2011 and 2010. The impact of the restatement on the quarterly financial information is detailed in Note 15 to the Notes to the Consolidated Financial Statements.

We are restating our previously reported financial information for these periods to change our accounting for interest rate swaps. We utilize interest rate swap agreements to manage our exposure to interest rate fluctuations on a portion of our variable-interest rate debt.

We account for our financial derivative instruments in accordance with FASB ASC 815 "Derivatives and Hedging" ("the Standard"). The Standard requires all derivative instruments (including certain derivative instruments embedded in other contracts) be recorded on the balance sheet as either an asset or liability measured at its fair value, and that changes in the derivatives' fair value be recognized currently in earnings unless specific hedge accounting criteria are met. We applied a method of cash flow hedge accounting under FASB ASC 815 to account for the interest rate swap agreements that allowed us to record changes in the instruments' fair value in other comprehensive income (the "cash flow" method). After discussing the matter with our independent registered public accounting firm, we recently concluded that the interest rate swap agreements did not qualify as a "cash flow" hedge in prior periods because of insufficient contemporaneous documentation. Under FASB ASC 815, cash flow hedge accounting is not allowed retrospectively because the documentation required was not in place at the inception of the hedge as well as on an ongoing basis. Eliminating the application of cash flow hedge accounting reverses the fair value adjustments that were made in other comprehensive income and transfers the fair value adjustments to earnings.

We also will be filing amended Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2012 and June 30, 2012 to reflect the restatements, which include comparative quarterly information for comparable periods in 2011.

We have amended each item of our Annual Report on Form 10-K for the year ended December 31, 2011 that has been affected by the restatement. This includes restatement of comparative unaudited financial information for the years ending December 31, 2008 and 2007, which can be found in Item 6. This Amendment No. 1 does not reflect events occurring after the March 7, 2012 filing of our Form 10-K or modify or update the disclosures set forth therein in any way, except as required to reflect the effects of the restatement.

There is no effect on previously reported cash flows from operating, investing, or financing activities for this change. The change in the accounting treatment has not impacted the economics of the interest rate swaps. Likewise, this change has no effect on total comprehensive income, operating income, total stockholders' equity, EBITDA as defined by our debt agreement, or the Company's ability to pay dividends.

None of the financial covenants to our senior credit agreement were breached as a result of this restatement. We did notify the lenders in the agreement that restatement did result in breach of our representation to them about our financial statements being prepared in accordance with Generally Accepted Accounting Principles (GAAP). We have requested, and we did receive a waiver regarding this temporary breach from the lenders involved in our credit agreements. No event of default exists regarding our credit agreement.

We have reassessed our disclosure controls and procedures as shown in Item 9A related to the material weakness in our internal control over financial reporting with respect to accounting for derivative instruments.

TABLE OF CONTENTS

PART II

<u>Item 6.</u>	<u>Selected Financial Data</u>	<u>4</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>6</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>24</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>28</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>55</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>55</u>
<u>Item 9B.</u>	<u>Other Information</u>	<u>57</u>

PART IV

<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>57</u>
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SIGNATURES

Item 6. Selected Financial Data

Five-year historical data as reported in our Annual Report on Form 10-K for the year ended December 31, 2011 is restated as shown below:

(Dollars in thousands except share and per share amounts)	Audited				Unaudited					
	2011	(F)	2010	(F)	2009	(F)	2008	2007		
Statement of Operations Data:	(Restated)		(Restated)		(Restated)		(Restated)	(Restated)		
Operating revenue										
Fiber and Data	\$ 45,149		\$ 44,685		\$ 31,247		\$ 24,075	\$ 20,464		
Equipment and Support Services	48,932		47,544		37,436		55,901	59,338		
Telecom	69,457		70,018		70,419		73,199	76,847		
Total revenue	\$ 163,538		\$ 162,247		\$ 139,102		\$ 153,175	\$ 156,649		
Net Income from continuing operations	\$ 8,401		\$ 12,592		\$ 12,102		\$ 6,925	\$ 7,760		
EBITDA per our credit agreement from continuing operations (A)	\$ 43,284		\$ 43,063		\$ 39,867		\$ 40,925	\$ 42,471		
Per Share Data:										
Basic EPS	\$ 0.63		\$ 0.95		\$ 0.93		\$ 0.52	\$ 0.59		
Diluted EPS	\$ 0.63		\$ 0.95		\$ 0.93		\$ 0.52	\$ 0.59		
Dividends per share	\$ 0.545		\$ 0.525		\$ 0.52		\$ 0.49	\$ 0.48		
Balance Sheet Data:										
Total assets	\$ 243,986		\$ 230,188		\$ 222,483		\$ 225,508	\$ 227,495		
Shareholders' equity	\$ 43,197		\$ 41,304		\$ 34,546		\$ 29,749	\$ 31,932		
Current maturities of long-term obligations	\$ 1,407		\$ 4,892		\$ 620		\$ 1,621	\$ 731		
Long-term debt	118,828		114,067		119,871		125,384	128,475		
Total debt, long-term and current	\$ 120,235		\$ 118,959		\$ 120,491		\$ 127,005	\$ 129,206		
Debt ratio (B)	74	%	74	%	78	%	81	%	80	%
Telecom Customer Data:										
Business access lines	23,316		24,043		25,133		25,274	27,403		
Residential access lines	24,386		27,199		30,197		33,757	37,428		
Total access lines	47,702		51,242		55,330		59,031	64,831		
Long distance subscribers	32,280		33,854		36,107		38,458	40,956		
DSL customers	19,531		19,667		19,346		18,696	17,427		

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Digital TV customers	10,374	10,562	9,663	8,368	6,487
Other Data:					
Employees (C)	500	463	448	433	400
Capital expenditures	\$ 21,440	\$ 22,888	\$ 17,893	\$ 17,691	\$ 17,500
Shares outstanding (year end)	13,396,176	13,298,626	13,100,568	12,992,376	13,284,903
Share price (D) (year end)	\$ 11.08	\$ 9.56	\$ 8.83	\$ 5.44	\$ 9.32
Shareholders					
Registered	1,269	1,330	1,345	1,394	1,430
Beneficial owners (E)	2,093	2,172	1,925	1,834	1,778
Total shareholders	3,362	3,502	3,270	3,228	3,208

Footnotes for this table are on the following page.

Table of Contents

- (A) Management believes that Earnings before Interest, Taxes, Depreciation and Amortization as defined in our credit agreement (“EBITDA”), a non-GAAP financial measure, is an important financial metric as it represents our ability to generate cash flow and is helpful when evaluating our performance. A reconciliation of net income to EBITDA from continuing operations can be found in the non-GAAP measures section on page 19.
 - (B) Debt Ratio = Total Debt / (Total Debt + Shareholders’ Equity as of December 31).
- (C) Employee counts reflect current employees as of March 7, 2012. Our CP Telecom acquisition in 2009 added 35 employees. The acquisition of IdeaOne which closed on March 1, 2012, added 38 employees.
 - (D) Share price is the last day closing price.
- (E) The number of beneficial shareholders is the approximate number of registrations in street company accounts.
- (F) The restatement impacts on the Company’s Statement of Operations and Balance Sheets are detailed in Note 2 to the Notes to the Consolidated Financial Statements.

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Table of Contents

The following table details the impact of the restatement on the Company's Statement of Operations of the unaudited financial information for the years ended December 31, 2008 and 2007 and the Balance Sheets for December 31, 2008 and 2007.

(Dollars in thousands, except share data)	2008			2007		
	As Reported	Restatement	Restated	As Reported	Restatement	Restated
Statement of Operations Data:						
Operating income	\$ 20,226	\$ -	\$ 20,226	\$ 23,180	\$ -	\$ 23,180
Other income and expense:						
Interest and other income	93	-	93	287	-	287
Interest expense	(6,870)	(1,835)	(8,705)	(8,121)	(1,451)	(9,572)
Total other (expense)	(6,777)	(1,835)	(8,612)	(7,834)	(1,451)	(9,285)
Income before income taxes	13,449	(1,835)	11,614	15,346	(1,451)	13,895
Income tax provision	5,420	(731)	4,689	6,711	(576)	6,135
Income from continuing operations	\$ 8,029	\$ (1,104)	\$ 6,925	\$ 8,635	\$ (875)	\$ 7,760
Loss on discontinued operations	\$ -	\$ -	\$ -	\$ (24)	\$ -	\$ (24)
Net Income	\$ 8,029	\$ (1,104)	\$ 6,925	\$ 8,611	\$ (875)	\$ 7,736
Other comprehensive income, net of taxes	\$ (2,186)	\$ 1,104	\$ (1,082)	\$ (1,517)	\$ 875	\$ (642)
Total comprehensive income	\$ 5,843	\$ -				