TC97-007

KC/LB

TC97-007

DOCKET NO.

In the Matter of IN THE MATTER OF THE APPLICATION OF HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA FOR A CERTIFICATE OF AUTHORITY TO PROVIDE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA

Public Utilities Commission of the State of South Dakota

DATE		MEMORANDA
1/16	97	Filed and Docketed;
1/16	97	T.C. Fax Filing;
2/3	97	Supplemental response to application for COA of Heartland;
3/11	97	Order Granting COA;
3/11	97	Docket Closed.

TC97-007

LAW OFFICES
MAY, ADAM, GERDES & THOMPSON LLP
503 SOUTH PIERRE STREET
P. O. BOX 160
PIERRE, SOUTH DAKOTA 57501-0160

GLENN W. MARTENS 1881-1963
KARL GOLDSMITH 1885-1966
WARREN W. MAY
THOMAS C. ADAM
DAVID A. GERDES
CHARLES M. THOMPSON
ROBERT B. ANDERSON
BRENT A. WILBUR
TIMOTHY M. ENGEL
MICHAEL F. SHAW

TELEPHONE
605 224-8803
TELECOPIER
605 224-6289

January 16, 1997

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JAN 16 1997
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

HAND DELIVERED

Mr. William Bullard, Jr.
Executive Director
Public Utilities Commission
State Capitol
500 East Capitol Avenue
Pierre, South Dakota 57501

RE: **HICKORY TECH CORPORATION/HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA; APPLICATION FOR CERTIFICATE OF AUTHORITY FOR LOCAL EXCHANGE SERVICE**
Our file: 0220

Dear Mr. Bullard:

Accompanying this letter are the original and ten copies of an Application for a Certificate of Authority for Heartland Telecommunications Company of Iowa to provide local exchange service pursuant to SDCL § 49-31-3. I am also enclosing an extra copy of the first page of the application. Please date stamp it and return it to me in the enclosed stamped self-addressed envelope.

Also enclosed is our check in the sum of $250 payable to the Commission as your anticipated filing fee. Please file the application in your usual manner.

Thank you very much for your assistance. Please feel free to contact me if you have any questions.

Yours truly,

MAY, ADAM, GERDES & THOMPSON LLP

Robert K. Sahr

ROBERT K. SAHR

RKS:mw

Enclosures

cc: David Christensen, Hickory Tech Corporation

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JAN 16 1997
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

HEARTLAND Telecommunications Company of Iowa response to ARSD 20:10:24:02, Certificate of Authority - application requirements.

1) Hickory Tech Corporation, (HTC) 221 E. Hickory Street, Mankato, Minnesota, 56002. Telephone Number: 507-387-1760.

2) Heartland is a v holly owned subsidiary of HTC. Heartland will become operational when it takes possession of the local exchanges and will rely upon the financial strength and management expertise of its parent, HTC.

3) Yes, HTC is a corporation.

a. The state in which HTC is incorporated is Minnesota. HTC incorporated as a holding company in 1985. Formerly the company's stock was known as Mankato Citizens Telephone Company (MCTC). MCTC is now a subsidiary of HTC. MCTC was formed in 1898.

b. The location of the registered office is 503 South Pierre Street, Pierre, South Dakota, 57501; the registered agent is May, Adam, Gerdes & Thompson LLP.

c. None

d. Mankato Citizens Telephone Company, 221 E. Hickory Street, Mankato, MN, 56002

Amana Colonies Telephone Company, Homestead, Iowa, 52236

Mid-Communications, Inc., 221 E. Hickory Street, Mankato, MN, 56002

Cable Network, Inc., 221 E. Hickory Street, Mankato, MN, 56002

Computoservice, Inc., 221 E. Hickory Street, Mankato, MN, 56002

Digital Techniques, Inc., Allen, Texas

Collins Communications Systems, Inc., St. Paul, MN

e. In addition to minority interest in:

Mid-West Wireless, Mankato, MN

National Independent, Mankato, MN

4) Not Applicable

5) The specific telecommunications services Heartland intends to offer is a basic service package which will be comprised of one-party service with touch-tone provided out of a digital central office. The provision of additional service beyond that will be determined on the basis of market demand and a willingness to pay for the services in the communications being served.

6) The type of equipment Heartland will use is a Nortel, DMS 100 Base, with remote switching equipment in every Heartland exchange.

7) The geographic areas in which Heartland will offer these services are the portion of the Hawarden, Iowa, exchange and the portion of the Akron, Iowa, exchange located in South Dakota. Please see the attached maps.

8) Please see attached for financial statements, in the form of the latest interim report of HTC, a 1995 annual report and a tariff rate sheet.

9) The names and addresses of Heartland representatives to which inquiries will be made are as follows:

Mr. Thomas R. Borchert, President, 221 E. Hickory Street, Mankato, MN, 56002

Mr. Dennis Kilburg, General Manager, 4429 V. Street, Homestead, IA, 52236

HEARTLAND Telecommunications Company of Iowa response to ARSD 20:10:24:02, Certificate of Authority - application requirements.(Continued)

9) (Continued)

Customer service and customer billings will be handled through a management agreement. HTC will be responsible for handling requests for service activatio. , service repair, moves and adds or changes, operator assisted calls and directory assistance. HTC service personnel will be strategically located throughout its service territory in order to provide HTC's customers with the level of service that will meet their expectations as well as comply with regulatory guidelines. HTC will monitor the network for service affecting the conditions twenty-four hours a day, seven days a week, in order to resolve service impairing conditions before the customers experience service trouble. HTC will do all the billing in Iowa and South Dakato providing the customers with monthly bills that detail both recurring and nonrecurring charges as appropriate.

10) The states in which Hickory Tech Corporation is registered are as follows:

1) Minnesota
2) Iowa
3) South Dakota
4) Texas

11) HTC is firmly committed to providing the best quality telephone service possible in rural areas within the bounds of good business judgment. We believe that we can make improvements in the level of service provided to these customers.

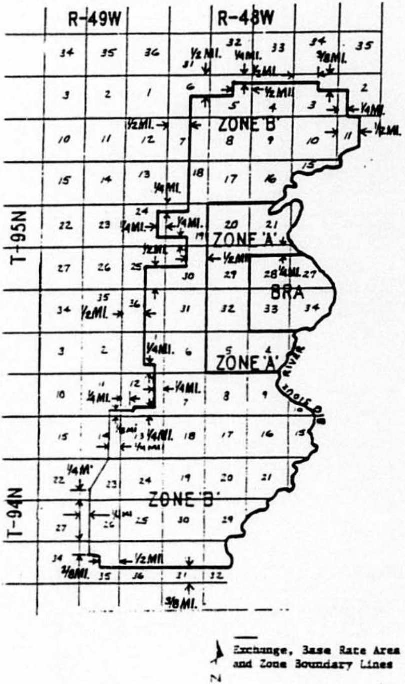
12) Heartland Telecommunications Company of Iowa, serving customers in Iowa, Minnesota and South Dakato will adopt the rates US West is currently offering at the time of closing.

MAP 1 - Geographic Area Located Within Union County, South Dakota

The Hawarden, Iowa, and Akron, Iowa, exchanges operate in Union County, South Dakota.

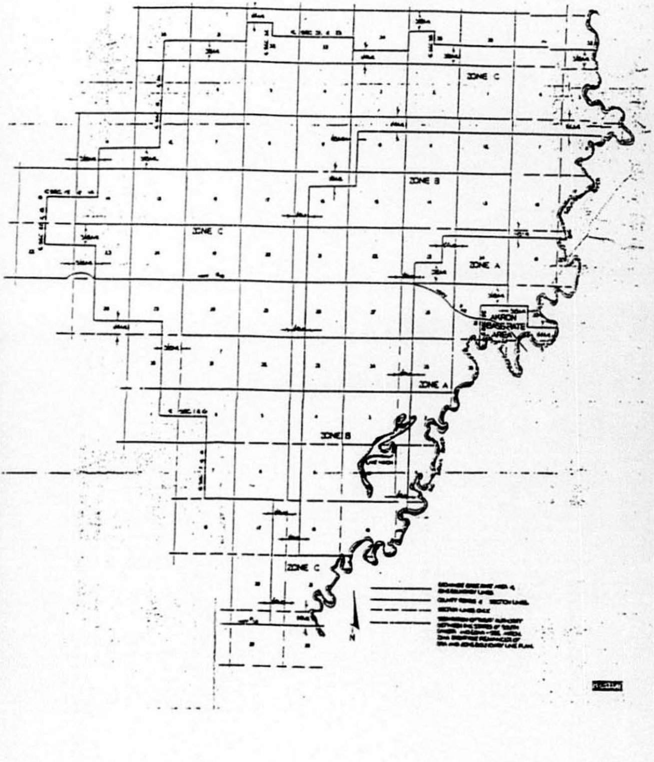
Map 2 - South Dakota portion of Hawarden, Iowa, Exchange

Heartland will be operating in Zone A, Zone B, and the Base Rate Area (BRA) for Hawarden, Iowa.



Map 3 - South Dakota Portion of Akron, Iowa, Exchange

Heartland will be operating in Zone A, Zone B, Zone C, and the Base Rate Area for Akron, Iowa.



BORDER EXCHANGES

SOUTH DAKOTA RURAL TERRITORY NEAR HAWARDEN, IOWA

A. This Tariff applies in the portion of the Hawarden, Iowa exchange located in the State of South Dakota.

B. The Exchange and Network Services for the State of Iowa is hereby made a part of this tariff and applies to this service except as otherwise provided herein.

C. A late payment charge applies as specified in the General Regulations.

D. The rates listed below entitle the customer to service without other charge within the Hawarden, Iowa exchange. The Hawarden exchange includes, in addition to rural territory in South Dakota near Hawarden, Iowa, the territory in Iowa comprising the city of Hawarden, Iowa and vicinity. Extended Area Service is provided to the Akron and Ireton, Iowa and the Alcester and Hudson, South Dakota exchanges.

E. Monthly Rates

	Monthly Rate	Usage Allowance	ITEC
Business			
a.One-Party Flat	\$28.15	n/a	
b.Measured Service	\$24.00	-	
c.Usage Charge, per minute - \$0.03			
d.Public Carrier Access	\$24.00	n/a	
Residence			
a.One-Party Flat	\$11.05	n/a	
b.Basic(Measured)	\$ 7.50	-	

BORDER EXCHANGES

SOUTH DAKOTA RURAL TERRITORY NEAR HAWARDEN, IOWA

E. Monthly Rates (Cont)

	Monthly Rate	Usage Allowance	ITEC
Residence			
c.Budget Pac (Measured)	$ 9.25	3 hours	
d.Value Pac (Measured)	$11.40	6 hours	

e.Usage charge,
per minute - $0.02

NEXT

DOCUMENT (S)

BEST IMAGE

POSSIBLE

Hickory Tech Corporation

1995 ANNUAL REPORT

Hickory Tech Corporation

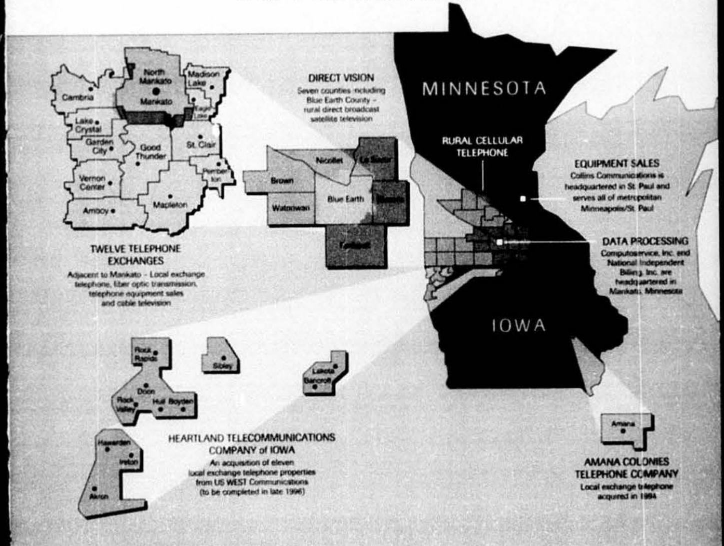
AT A GLANCE

[illegible]

BUSINESS SECTOR	SERVICES/PRODUCTS/LOCATIONS
TELEPHONE	[illegible]
Mankato Citizens Telephone Company *Mid-Communications, Inc.* *Amana Colonies Telephone Company* *Cable Network, Inc.*	[illegible]
COMPUTER	[illegible]
Collins Communications Systems Co. — *National Independent Billing, Inc. (NIBI)*	[illegible]
EQUIPMENT SALES	[illegible]
Collins Communications Systems Co.	[illegible]
TELECOMMUNICATIONS PRODUCT DEVELOPMENT	[illegible]
Digital Techniques, Inc. (DTI)	[illegible]

[illegible]

HICKORY TECH CORPORATION OPERATIONS



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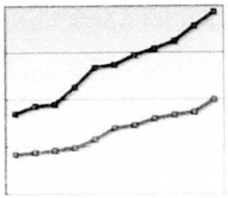
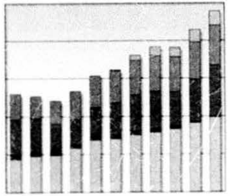
FINANCIAL HIGHLIGHTS





CHAIRMAN'S MESSAGE

To HTC Shareholders

1995 was another year of economic growth for Hickory Tech Corporation. For the second year in a row, all four sectors were profitable. From the results, one might assume it was a "business as usual" scenario, but it was not. Most of the year the corporate office was in negotiations with US WEST Communications, Inc. over the purchase of rural telephone properties. The result will be an increase of almost 30% in the number of access lines in our Telephone Sector. The addition of 11 rural exchanges in Iowa needs approval of the Iowa Utilities Board and the Federal Communications Commission. We expect the transfer of properties will take place in the fall of 1996.

During the intense activity on the acquisition front this past year, we never lost sight of our goal of increasing the profits of our existing businesses. Earnings per share grew from $1.78 in 1994 to $1.93 for 1995, an 8.4% increase. The consolidated net income for 1995 was $9.9 million compared to $9.1 million in 1994, or an 8.2% increase. Consistent, outstanding financial results are evidence of our strength as an organization. In light of our consistent financial performance, it is disappointing that more of our value is not reflected in our stock price. Improving share price performance is a top priority at HTC.

> **HTC**
>
> Hickory Tech Corporation
>
> **CORPORATE VISION**
>
> *To Become a Company that:*
>
> Is valued by our customers, delivers services and products that represent high utility.
>
> Shares a common vision with an enthusiastic and supportive employee work force.
>
> Creates recognizable economic value for our shareholders.
>
> Has the respect and admiration of our industry peers.

With all of the information in the press about the changes in the telecommunications industry, our shareholders might fairly ask, "How is HTC positioning itself for the future?" The answer to that question is that we have found, and will continue to find, profitable niches in the rapidly developing telecommunications market. We started to diversify long before many of the larger companies. Thirty-two years ago we saw data processing was a viable business and Computoservice, Inc. was created as our billing subsidiary. In the early 90's we purchased our retail subsidiary, Collins Communications Systems Co. in St. Paul and our telecommunications product development company, Digital Techniques, Inc. in Texas. Two years ago we purchased Amana Colonies Telephone Company in Iowa and we purchased the license for the Direct Broadcast Satellite business in seven counties around Mankato. HTC has been implementing a long-range plan to bring diversified telecommunications products and services to a variety of markets. This diversification greatly reduces our dependence on one market, one business, one economy or one regulatory environment. In short, it ensures continued value for our shareholders.

Our local telephone business produced another successful year. The emphasis on marketing, starting in 1994, is proving to be a good investment. The increase in sales

CHAIRMAN'S MESSAGE (cont.)

Robert D Alton

HICKORY TECH CORPORATION PERFORMANCE

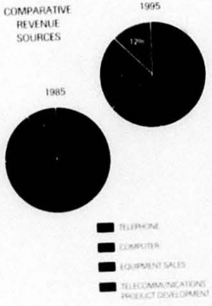
Hickory Tech Corporation was formed through internal reorganization in 1985, one year after the 1984 divestiture of the Bell System. The Company started in 1898 as Mankato Citizens Telephone Company. 1996 marks the beginning of the Company's 98th year of business.

The Company's financial performance can be evaluated in several ways.

- Over the ten year period since reorganization, consolidated net income has grown at a compound annual rate of 8.5%.
- For the second year in a row, all four business sectors of the Company were profitable. Non-telco sectors provided 15% of consolidated operating income in 1995.
- Dividends have always been paid by the Company. Dividends increased 14.9% in 1995, which marks the 14th consecutive year of increase. Over the ten year period since reorganization, dividends have grown at a compound annual rate of 9.1%. In addition, there were three stock splits in this ten year period.
- Operating revenues grew at a compound annual rate of 10.1% in the ten years since 1985.
- Shareholders' equity has increased at a compound annual rate of 10.6% in the ten years since the Company's reorganization.

Acquisitions of new lines of business and new internally developed products have contributed to this performance in recent years. It is the goal of the Company to continue this growth through acquisition and internal growth.

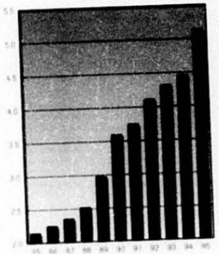
COMPARATIVE REVENUE SOURCES



OPERATING INCOME BY SEGMENT
(IN THOUSANDS)

	1995	1994	1993	1992
Telephone	$14,648	$12,721	$12,051	$12,515
Computer	721	763	1,501	1,550
Equipment Sales	581	765	42	(1,529)
Telecommunications Product Development	1,129	845	(274)	187

DIVIDENDS PAID
(IN MILLIONS)



OPERATING SECTOR REPORTS

MANKATO CITIZENS TELEPHONE COMPANY
MID-COMMUNICATIONS, INC.

AMANA COLONIES TELEPHONE COMPANY

MISSION

"To meet the broad based telecommunications and information needs of our customers through modern, high quality services and products that provide value and an above average return to our shareholders."

[illegible], President – Telephone Business Sector

TELEPHONE SECTOR

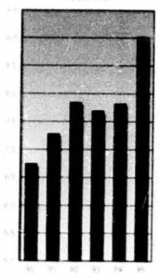
Profitability reached an all time high in 1995 in the Telephone Sector. This was due primarily to the first Mankato local service rate increase in [illegible] years and a full year's operation of the Amana, Iowa exchange acquired in April 1994.

Change is a key word for our industry, both internally and externally. To facilitate internal change, a "process review" was undertaken to assess the way the business is operated from the customers' point of view. The results spawned the formation of sub-committees working on nine areas for improvement. This is an ongoing program of quality improvement geared to move the business in an even more customer friendly direction by improving work systems for our employees. The first of the year brought success in the Minnesota Legislature resulting in new regulation for our industry and for Minnesota companies.

The Telephone Sector continued its expansion of the Carrier Serving Area outside plant design by adding three new remote switching stations in neighborhoods around Mankato. Also in Mankato, a fiber link was installed to the new Civic Center, along with a video conference room that allows video conferencing to the world. The Amana Colonies Telephone Company completed construction of a fiber link connecting the Amana Refrigeration Company to the Iowa Network Services hub in Cedar Rapids, ensuring uninterrupted service if the alternate route is damaged. The Telephone Sector continues its history of employing state of the art technology to ensure the latest telecommunications products to the customer.

The highest area of growth in the Sector was long distance access minutes which has increased [illegible] and [illegible] in 1995 and in 1994, respectively. Planning for expansion of the cellular interests of the Telephone

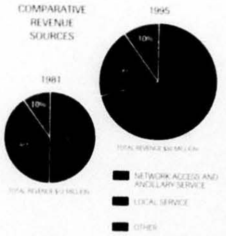
NET PROFIT AFTER TAX



Sector progressed in 1995 with the formation of a new Midwest cellular investment group including almost all of southern Minnesota and parts of neighboring states. This reorganization should be finalized in 1996.

During a good portion of 1995, the Telephone Sector, along with the Computer Sector, worked on plans for a smooth transition to combine another 12,200 customer lines from US WEST into the existing systems later in 1996. To accommodate that acquisition and future expansion, MCTC purchased a building adjacent to the existing building on Hickory Street in Mankato. Plans are progressing to remodel the building for office space.

Management prepared a very aggressive three year plan that positions this Sector for the new, less regulated environment for telecommunications. Years of aggressive infrastructure design and construction positions HTC's telephone interests well for the future.



The relative sources of revenue for the Telephone Sector have changed dramatically over 15 years.

COMPUTOSERVICE INCORPORATED

NATIONAL INDEPENDENT BILLING INCORPORATED

MISSION

"To provide high quality data processing, billing services, and software solutions to national and international telecommunications companies in a timely and cost effective manner using highly skilled and motivated employees, and to create value for our shareholders."

Bruce Malmgren, President – Computoservice, Inc. and National Independent Billing, Inc.

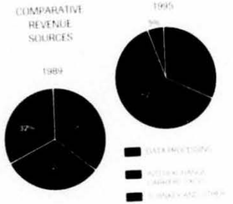
COMPUTER SECTOR

1995 was a year of assessment, reorganization and growth for Computoservice/National Independent Billing (CSI/NIBI). After a thorough review of the company's organization, restructuring took place assigning responsibilities directly for major accounts. The new organization provides improved accountability and a stronger process-oriented management of customers' accounts.

The Computer Sector is complementing its local exchange business with significant growth in additional long distance companies and other telecommunication providers. Upgrades were implemented to enhance the performance of the billing system.

The big news for CSI/NIBI in 1995 was a contract for a large billing system software sale to a major interexchange carrier (IXC) which is in excess of $1 million. Then in December, a sale of a Carrier Access Billing software package to the same IXC produced an additional

$750,000 of revenue. This project requires full time effort from a number of employees customizing and enhancing the software packages to the customer's specific requirements. This is the first customer to utilize our newest billing system. CSI/NIBI [illegible] vides training in the area of order entry and to the customer's finance and access billing staffs. Four sites are currently active, with nine others in a primary test phase and four others in a secondary test phase. The close of 1995 found 35 CSI/NIBI employees working full time on this project. There is a strong possibility that this project will develop into a long-term relationship.



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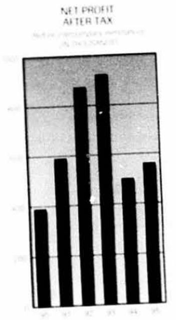


CSI/NIBI is working hand-in-hand with HTC's Telephone Sector on plans to convert the data from the 11 new exchanges to be acquired from US WEST Communications in 1996. The conversion of these 11 US WEST exchanges into HTC's Telephone Sector in 1996 has given the Telephone Sector an opportunity to look into upgrading all of its basic data systems and procedures.

For 1996, CSI/NIBI is currently reviewing potential new product avenues in the wireless marketplace. These added capabilities will respond to demand in all market segments, from the local exchange carriers to interexchange carriers. These added capabilities, accompanied by improved current products, represent the vehicles that will enable CSI/NIBI to remain a premier provider of high quality data processing, billing services and software solutions for the future.

COLLINS COMMUNICATIONS

MISSION

"To meet the advancing needs of our customers through services which are quality driven, flexible, and innovative – resulting in enhanced value to our customers and enhanced value to our shareholders."

Jon Anderson, President – Collins Communications Systems Co.

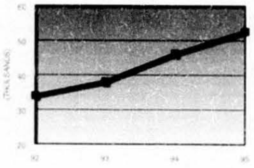
EQUIPMENT SALES SECTOR

1995 proved once again to be a challenging, rewarding and exciting year for Collins. As with most years in telecommunications, new products were introduced and shifts in the marketplace challenged our flexibility. Overall it was very rewarding. A strong Minneapolis/St. Paul economy prompted many of our customers to respond to their own growth by expanding their telecommunications systems. Sales victories were many. The flagship of the success in 1995 was the sale and installation of a new PBX system for Dakota County in the Twin Cities area. The sale included 1,900 telephone and 1,200 voice mail boxes and a massive weekend cut-over that went like clockwork. Altogether there were 259 different projects that were managed and our maintenance contracts brought 10,511 repair calls and many satisfied customers. This occurred in addition to sales contracts for 176 major upgrades, 48 new Norstar systems and 25 new PBXs in the Minneapolis/St. Paul market.

The only dark cloud on Collins' year was the sale of its California division, CoasTel. After careful consideration of the situation, the decision was made to sell the California division. The Southern California market is very competitive, with large companies able to bid more aggressively than a small company like CoasTel. A close look at the Equipment Sales Sector's overall results show that, without the drain of CoasTel, the results were really outstanding for this Sector.

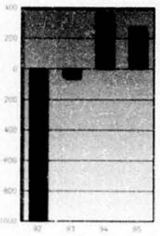
An exciting new area for expansion in the dynamic telecommunications industry is Computer Telephone Integrations. Collins, and its partner, Digital Data Voice, are developing very sophisticated applications for future sales. Collins prides itself on staying on the cutting edge of new products to meet its customers' needs. With an aggressive three year strategic plan, Collins is eager to meet the new challenges the industry presents.

Collins – St. Paul
Customer Stations Supported



Collins' operation in the Minneapolis/St. Paul market has experienced steady growth in the base of customer stations (telephones) supported. This base adds to periodic sales by providing recurring maintenance and moves, adds and change contract revenue.

NET PROFIT
AFTER TAX
Before intercompany eliminations
(IN THOUSANDS)



DIGITAL TECHNIQUES, INC.

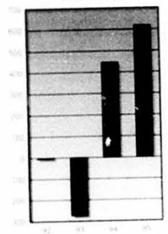
MISSION

"To be the best developer and supplier of business voice and data products through dedicated employees providing the highest quality products and service at reasonable prices in order to provide an above average return to our shareholders."

"At DTI quality is more than a slogan."

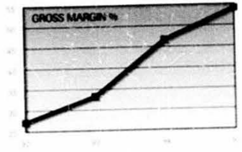
David Rowley, President – Digital Techniques, Inc.

NET PROFIT
AFTER TAX
Before intercompany eliminations
(IN THOUSANDS)



TELECOMMUNICATIONS PRODUCT DEVELOPMENT SECTOR

1995 marked the second consecutive profitable year for the Telecommunications Product Development Sector. In addition, several improvements have been made in service processes, product design and distribution channels. Well down the road on the quest for ISO 9001 certification, DTI's product returns went from 6.3% in 1994 to 1.9% in 1995. In addition, the on time shipments improved from 88% in 1994 to 92% in 1995. The order cycle time moved from 18 days in 1994 to just 11 days in 1995, and repair cycle times went from 33 to 17 days. An important measure of success is the perception of the customers, and DTI continues the steady improvement since 1993 when the first customer survey was generated. These figures illustrate some of the accomplishments of this success story. 1995 represents the second year of positive growth for the company.



[illegible]

DTI doubled its floor space to accommodate its growing business. The sales, marketing and design groups were reorganized for greater efficiency. A formal design process and document control procedure was introduced to facilitate better management of new designs. In addition, a new customer service software system was purchased for implementation in 1996.

The conversion in 1994 to selling through distributors versus selling directly proved a positive one with increased sales and reduced overhead. It also emphasized the importance of the continuous quality improvement process because closer relationships are established with the distributors. As forecasted last year, DTI's overall margin on products increased from 46% in 1994 to 54% in 1995.

Besides DTI's strong family of products for the PBX market, two new products were introduced. The first, I.Star, is an automated call distribution and auto attendant solution for the Nortel (formerly Northern Telecom) Norstar product. This service welcomes the caller with a message personalized by the company being called and connects the caller to the next available agent. The other product is a multiplexer which enhances the cellular capabilities of the Nortel wireless technology.

The advancements made in 1995 set the stage for a very aggressive three year plan that will produce even greater benefits to our customers, employees and shareholders.

FINANCIAL SECTION

FINANCIAL SECTION INDEX

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW

Hickory Tech Corporation (the Company) is a diversified communications holding company with four main business segments encompassing eight operating companies. The Telephone Segment provides service to its franchised territories in south central Minnesota and east central Iowa. The Computer Segment provides data processing service to small telephone companies and large interexchange long distance carriers.

The Equipment Sales Segment sells and services telecommunication equipment in Minneapolis/St. Paul, and in southern Minnesota. The Telecommunications Product Development Segment designs, assembles and distributes unique telecommunications components for business telephone systems throughout North America and Europe from its facility in Texas.

TELEPHONE OPERATIONS	COMPUTER	EQUIPMENT SALES	TELECOMMUNICATIONS PRODUCT DEVELOPMENT
Mankato Citizens Telephone Company	Computoservice, Inc.	Collins Communications Systems Co.	Digital Techniques, Inc.
Mid-Communications, Inc.	National Independent Billing, Inc.		
Amana Colonies Telephone Company			
Cable Network, Inc.			

MAJOR EVENTS

1995

- Signed purchase agreement to buy eleven exchanges from US West in Iowa
- Minnesota telephone regulation was amended to allow more freedom from earnings reviews
- Fiber optics were fully deployed in Mankato/North Mankato
- Formed significant data processing software relationship with a major IXC
- Released the new DTI Qstar product
- Installed a multimillion dollar telephone system for Dakota County, Minnesota
- Sold the sales operation in California and eliminated operating losses
- All four business sectors were profitable for second year in a row

1994

- First time in Company history that all four business segments were profitable
- Acquisition of Amana Colonies Telephone Company
- Initial service for Direct Broadcast Satellite television
- Approval of CLASS Service in Mankato
- Filed with MDPS for first rate increase in Mankato in 23 years
- British Telecom selected DTI products for distribution in the United Kingdom
- CSI's Sprint pay phone contract experienced lower volumes than 1993

OVERVIEW OF OPERATIONS

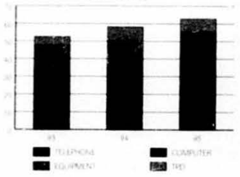
RESULTS OF OPERATIONS

In 1995, the Company experienced an 8.2% increase in consolidated net income while achieving an 8.0% overall increase in consolidated revenue. All four segments were substantially profitable in 1995 as well as 1994.

[illegible]	1995	1994	1993
Telephone Operations	$14,446	[illegible]	[illegible]
Computer Operations	721	[illegible]	[illegible]
Equipment Sales	587	[illegible]	[illegible]
Telecommunications Product Development	1,126	[illegible]	[illegible]

While all four business sectors are involved with telecommunications, their revenues, profits and operations are not influenced by similar factors. [illegible]

HTC OPERATING REVENUES (IN MILLIONS)



CONSOLIDATED REVENUES

The revenues of the Company are classified into major service categories in the following table. In 1995, Consolidated Operating Revenues increased $4,639,000 or 8.0%. The significant reasons for changes in 1995 and 1994 are discussed on pages 13, 14 and 15.

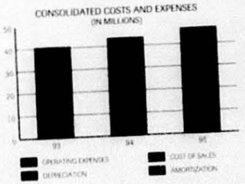
CONSOLIDATED OPERATING REVENUES AFTER ELIMINATIONS
(Dollars in Thousands)

	1995	% CHANGE	1994	% CHANGE	1993
TELEPHONE					
Local Exchange	$ 5,804	24%	$ 4,676	5%	$ 4,444
Network Access	20,204	9%	18,542	14%	16,242
Ancillary Service	1,208	10%	1,094	6%	1,161
Directory	2,220	5%	2,108	-7%	2,277
Other	773	72%	449	6%	423
COMPUTER					
Data Processing to LECs	3,381	6%	3,198	0%	3,206
Contracts with IXCs	6,456	62%	3,997	-9%	4,386
Turnkey and Other	568	-13%	651	-23%	850
EQUIPMENT SALES					
Installations	5,467	-8%	5,929	-6%	6,297
Moves, Adds and Changes	5,526	-11%	6,230	12%	5,551
Maintenance and Other	3,509	7%	3,271	25%	2,623
TELECOMMUNICATIONS PRODUCT DEVELOPMENT					
Standard Products	5,423	29%	4,203	19%	3,520
OEM Products	1,440	-53%	3,087	283%	807
Royalties and Custom Design	868	12%	773	3%	754
TOTAL REVENUES	$62,847	8%	$58,208	11%	$52,541

CONSOLIDATED COSTS AND EXPENSES

Consolidated Costs and Expenses other than Depreciation and Amortization were $39,880,000 in 1995, $37,072,000 in 1994, and $34,509,000 in 1993. The Company's 8.0% increase in Revenues coincided with 7.6% increase in costs. 1995 Costs and Expenses include the loss resulting from the sale of assets of the Collins' California division of $415,000. Without this loss Costs and Expenses would have increased 6.5% in 1995.

The Company continues to increase its non-cash expenses associated with depreciation and amortization as part of a planned process. The results of this aggressive plan to write-down assets were somewhat offset by the elimination of amortization either from the sale of some intangible assets or the complete amortization of other intangibles.



TELEPHONE OPERATIONS

(IN THOUSANDS)

TELEPHONE OPERATIONS	1995	1994	1993
Revenues before eliminations	$30,538	$26,987	$24,600
Net Operating Income	14,648	12,721	12,051
Cash flow from operations before changes in Assets and Liabilities	13,607	12,392	11,367
Capital Expenditures	5,438	5,317	4,469

Telephone Revenues represent 48% of 1995 Consolidated Operating Revenues. They are earned primarily by providing customers access to the Company's 43,000 access line local network, and in providing interexchange access for long-distance network carriers.

The Telephone Segment also earns revenue through use of its fiber optic transport network, operator assistance, network tandem switching, directory advertising, cellular communications, direct broadcast satellite and cable television.

Local service revenue increases of 24% for 1995 and 5% for 1994 in the Telephone Segment are significant considering that these increases exceeded the growth in access lines served. The Segment was able to achieve considerable growth in 1995 due to an increase in local rates in January, 1995. Additional growth resulted from the marketing efforts to sell its custom calling services, CLASS services, Centrex, voice mail and cellular equipment and agent fees.

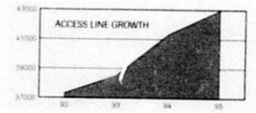
TELEPHONE OPERATIONS (cont.)

Mankato Citizens Telephone Company

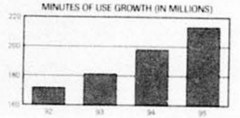
Mid-Communications, Inc.

Amana Colonies Telephone Company

Cable Network, Inc.



Network access revenues were positively affected by the continued growth in access minutes, offset by overall lower rates charged for access service. Competition for customer selection of dedicated trunklines over our switched access services (i.e. bypass) also caused reductions. Access minutes increased by 7.8% in 1995 compared to 9.2% in 1994, including the minutes added by Amana. Revenues would have increased 6.8% without Amana compared to 5.5% in 1994. Network access revenue growth was influenced by increased private line services.



Network access revenue growth in 1995 and 1994 was enhanced by the acquisition of Amana (1.5% in 1995 and 3.9% in 1994) and by changes we made to interstate access tariffs and their associated settlements out of National Exchange Carrier Association Pools.

Ancillary services to interexchange network carriers include the billing and collection function. Further reductions in 1994 occurred as more of these services were retained by interexchange carriers and no longer performed by this Segment. In 1995, revenue from these services improved due to increased volumes, in spite of lower prices and service reductions. Directory revenues increased in 1995 to nearly the same level as 1993 after a reduction in 1994. While directory advertising has gone down since 1993, revenue from directory listings and directory assistance has increased substantially. The Telephone Segment started charging for directory assistance in 1994. Revenue from directory assistance was 24.5% higher in 1995 than in 1994.

The primary reason for the 72% increase in Telephone Segment other revenue in 1995 was Direct Broadcast Satellite sales and service.

The Telephone Net Operating Income for 1995 grew 15%. This growth corresponds favorably to revenue growth of 12%.

COMPUTER OPERATIONS

Computoservice, Inc.

National Independent Billing, Inc.

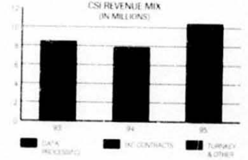
COMPUTER OPERATIONS	1995	1994	1993
Revenues before eliminations	$12,437	[illegible]	[illegible]
Net Operating Income	721	763	[illegible]
Cash flow from operations before changes in Assets and Liabilities	2,124	2,140	[illegible]
Capital Expenditures	328	668	[illegible]

Computer Revenues represent approximately 17% of Consolidated Operating Revenues in 1995. They are earned primarily by billing and software services to local exchange and municipal customers, and specialized contract services and software sales to interexchange carriers (IXCs).

Computer data processing, the core service of this Segment, is a dynamic business of standard programming services, with a base of existing customers comprised mostly of local telephone companies. However, there is turnover in this base. New customers and services to existing customers are continually being sought to offset the attrition of customers who establish in-house systems.

IXC contracts represent specialized services to long distance communications providers. The volume of monthly processing with these IXCs under the existing contracts has declined over the three year reporting period. In 1995, Computoservice and its national marketing affiliate, NIBI, entered into new contracts with large IXCs which provided for the sale and development of software as well as consulting and processing services. There is more volatility in this line of business because of the size and quantity of IXC contracts.

While turnkey sales of small systems are continuing to decline, Computoservice is actively seeking more midsize installations of its turnkey data processing systems. These proposals have very long customer acceptance cycles.



In 1995, Revenue for Computoservice increased 33% while Net Operating Income decreased 6%. This is primarily due to management's decision to aggressively amortize capitalized software development as well as expense current software development. Without the change in amortization policy, Computoservice's Net Operating Income would have increased 16% in 1995.

EQUIPMENT SALES OPERATIONS

Collins Communications Systems Co.

EQUIPMENT SALES	1995	1994	1993
Revenues before eliminations	$14,503	$15,430	$14,47[illegible]
Net Operating Income (Loss)	583	765	62
Cash flow from operations before changes in Assets and Liabilities	594	441	90
Capital Expenditures	120	58	200

Equipment sales and service represent approximately 23% of Consolidated Operating Revenues. They are earned primarily by sales, installation and service of business telephone systems in two geographic markets of the United States (metropolitan Minneapolis/St. Paul and southern Minnesota). The Company sold the assets of its California division in 1995. The revenue from the California division in 1995 (for seven months of operations) was $1,619,000 or 70% lower than the full year 1994. This contributed to an overall reduction in Operating Revenues of 6%. Revenue in the other markets increased 5%. The customers in this Segment's market are the individual end users of telecommunications service. The products for the Segment's business are telecommunication platforms such as Nortel and Centigram.

St. Paul is the base of operation for Collins. This subsidiary, acquired by the Company in October, 1990, has a very strong reputation and a competitive advantage in the Minneapolis/St. Paul market. Collins has a customer base of successful companies with ongoing telecommunications needs.

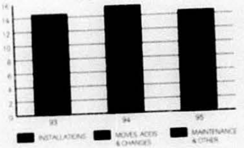
The southern Minnesota sales occur primarily in the area around Mankato. The small customer base makes sales in this area cyclical. There have been two successive years of growth in this market.

The Equipment Sales Segment produced Net Operating Income which was $182,000 lower than 1994. This was primarily due to operations in California which resulted in a loss of $266,000. St. Paul operations experienced an 8.5% increase in Net Operating Income in 1995.

The 8% decrease in overall installation revenues and 11% decrease in moves, adds and changes for 1995 was primarily the result of the sale of the California operation.

Collins entered into a sales and installation contract in December, 1995, with Anoka-Hennepin County School District, a major metropolitan school system, which will provide approximately $1,000,000 of revenue in 1996.

EQUIPMENT SALES REVENUE MIX (IN MILLIONS)



TELECOMMUNICATIONS PRODUCT DEVELOPMENT OPERATIONS

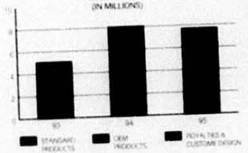
Digital Techniques, Inc.

TELECOMMUNICATIONS PRODUCT DEVELOPMENT	1995	1994	1993
Revenues before eliminations	$7,751	$8,063	$5,097
Net Operating Income (Loss)	1,129	845	(214)
Cash flow from operations before changes in Assets and Liabilities	756	583	(284)
Capital Expenditures	123	88	21

Telecommunications Product Development Segment's (TPD) revenues represent approximately 12% of Consolidated Operating Revenues in 1995. They are earned by sales of unique business system interface devices throughout North America and the United Kingdom. The subsidiary, Digital Techniques, Inc. (DTI) of Allen, Texas, designs, assembles and distributes components for business systems such as Northern Telecom. DTI was acquired by the Company in July, 1990. The customers of this market are national distributors of large telecommunications systems.

As a new product developer, DTI made deliberate steps to change its product mix in 1993. It experienced a reduction of $621,000 in the revenues it obtained from custom product development. Custom product development in the prior five years was the source for the majority of DTI's standard products. In 1994, DTI experienced an extraordinary demand for its products through Original Equipment Manufacturing (OEM) contracts and royalty agreements. The receipt of royalty income on certain OEM contracts offsets the decline in custom work in 1994 and 1995. In 1995, DTI experienced a 29% growth in sales of its standard products while it experienced a 53% decrease in OEM sales.

TELECOMMUNICATIONS PRODUCT DEVELOPMENT REVENUE MIX (IN MILLIONS)



DTI's standard products earn a much higher gross margin than OEM sales. Consequently while Operating Revenue went down 4% in 1995, gross margin increased 11%. The result of this and management's emphasis on controlling expenses resulted in an increase in Net Operating Income of 34%. DTI's growth in standard product sales results from its decision to use a distributor network to distribute its products.

The TPD Segment has focused its emphasis on a narrower array of core products for 1996, and is at the beginning of some new product cycles which should provide growth for 1996 and 1997.

OTHER INCOME AND INTEREST EXPENSE

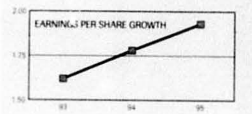
Other income (primarily interest and equity in partnership income) was higher than 1994 because of good performance of partnership investments. Additionally, interest income in 1994 was lower due to reduced balances of cash and temporary cash investments. Cash was used in 1994 for the purchase of assets for Amana Colonies Telephone Company. In 1993 there was a nonrecurring gain from the sale of marketable securities of $220,000. The Company's interest expense was reduced on an ongoing basis by debt reduction in 1993.

INCOME TAXES

Income taxes in 1994 were reduced by prior year tax adjustments. Income taxes in 1993 were reduced by $190,000 because of the Company's adoption of Statement of Financial Accounting Standards No. 109 on a one time adjustment basis. Use of unitary state income taxes and the Company's growing diversification out of Minnesota help to keep state income taxes lower. The effective tax rate in 1995 is a more representative tax rate than experienced in 1994 or 1993.

CONSOLIDATED NET INCOME

Net income increased $753,000, or 8.2%, which is $.15 per share higher in 1995 than 1994, due to significant increases in the profitability of the Telephone Segment and the Telecommunications Product Development Segment (TPD). These increases were offset by a modest reduction in profitability of the Computer Segment, the impact on the Equipment Sales Segment of operating its California division and the impact on corporate operations from selling the California division. Net income increased $806,000 or 9.7% in 1994 over 1993, which is $.16 per share higher, mostly due to improvement in the Equipment Sales and TPD Segments.



INFLATION

Inflation did not have a material effect in 1995 or 1994 on the operations of the Company. Management believes that inflation affects its business to no greater extent than it affects the general economy. The Company continually attempts to minimize the impact from inflation through greater productivity and cost reduction programs.

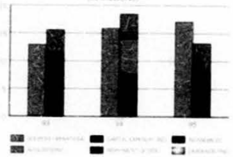
WORKING CAPITAL

FINANCIAL CONDITION, RESOURCES AND COMMITMENTS

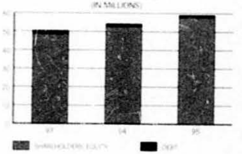
The Company's financial position continues to be strong, with net working capital of $16,993,000 at December 31, 1995 and $11,231,000 at December 31, 1994. The Company and its subsidiaries operate in capital intensive businesses. Additions to Property, Plant and Equipment are the Company's largest investing activity using $17,871,000 of working capital in the three years ended 1995. Another $13,000,000 has been planned for the next two years. The Company's primary source of working capital has been its operations, primarily the Telephone Sector.

The Company has achieved modernization of its core business technology, added diversification through acquisition and new business start-up, while still improving its shareholders' capital position. The debt portion of total Company capitalization is 1.8%, down from 26.5% in 1985.

SOURCES AND USE OF CASH (IN MILLIONS)



CAPITAL STRUCTURE (IN MILLIONS)



CAPITAL STRUCTURE (cont.)

Shareholders' equity has grown from $21,400,000 or $4.17 per share in 1985, to $57,907,000 or $11.28 per share in 1995.

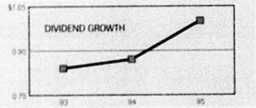
SHAREHOLDERS' EQUITY	1995		1994		1993	
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
Balance at Beginning of Year	5,124,291	$52,841,934	5,143,829	$48,824,046	5,136,756	$44,601,058
Employee Stock Purchase Plan	8,205	242,048	8,181	231,113	5,939	161,838
Director Stock Purchase Plan	1,525	50,032	1,281	47,046	1,134	35,800
Retirement of Stock	-		(29,000)	(942,200)	-	
Net Income Less Dividends Paid	-	4,772,861	-	4,686,829	-	4,025,350
Balance at End of Year	5,134,021	$57,906,773	5,124,291	$52,841,934	5,143,829	$48,824,046

CORPORATE DEVELOPMENT

In 1993, the Company acquired the exclusive license to distribute Direct Broadcast Satellite television programming in seven counties in southern Minnesota for $1 million in cash. In 1994, the Company acquired the assets of the Amana Colonies Telephone Company in east central Iowa for $6.5 million in cash. In 1995, the Company entered into agreements to purchase the assets of eleven rural telephone exchanges in Iowa from US WEST Communications, Inc. for $35,271,000. It is anticipated that the Iowa - US WEST acquisition will be completed in the fourth quarter of 1996.

DIVIDENDS

The Company's reinvested growth in equity has come about while increasing dividends to shareholders from $2,148,000 in 1985 to $5,127,000 in 1995, a 9.1% compound annual growth rate over 10 years. The Company has announced a dividend increase of 10% for 1996. This increase is not expected to affect the liquidity of the Company, as discussed below.



LIQUIDITY

Management believes the Company will generate sufficient working capital internally from operations to meet its operating needs and sustain its historical dividend, debt service, and equipment addition levels. The Company purchased its DBS license and Amana Colonies Telephone Company assets with cash. The Company has a $7 million line of credit arrangement with a local bank at prime interest rates. The Company is anticipating utilizing new long-term debt instruments of various maturities to fund the majority of the $35 million acquisition of the Iowa - US WEST telephone property in 1996. Negotiations are presently taking place to obtain such funding. No difficulty is anticipated in obtaining this funding.

REGULATORY

In December 1994, the Company's largest telephone subsidiary, Mankato Citizens Telephone Company (MCTC), filed its first local rate increase in 23 years. The rate increase, effective January 1, 1995, increased operating revenues by $600,000 in 1995. The Minnesota Department of Public Service (MDPS) has the authority to investigate rates and profits of telephone companies in Minnesota. No action has been initiated by MDPS against MCTC.

The Minnesota state telephone industry mobilized efforts to change the regulatory legislation in Minnesota in 1995. The main point of the initiative was to change the law so that companies with less then 50,000 customers would have their prices regulated instead of their profits. The Company actively participated in the effort to promote legislative change in Minnesota to prepare the industry for competition in all phases of telecommunications. This legislation passed in 1995.

In 1994, all independent telephone companies in Minnesota agreed on a three year intrastate access charge settlement which required all companies to limit their composite access rate to a target level. The Company's two Minnesota telephone subsidiaries did not incur any material adjustment resulting from this settlement since their rates were already at the target level.

In 1994, the Company received approval to offer Custom Local Area Signaling Services (CLASS) in Mankato and surrounding exchanges. The new CLASS services were initiated in Mankato in April 1995. The Company was one of the first to test the services and helped the Minnesota Public Utilities Commission develop safeguards for these Caller ID Services.

Management of the Company expects to see continued movement toward a fully competitive telecommunications marketplace. The Company's ability to compete is dependent on a level playing field with similar regulations for similar services and with reduced regulation to reflect an emerging competitive marketplace. Recent Federal Communications legislation appears to have opened the doors to larger telecommunications markets. Management does not expect State or Federal regulation to materially impact the Company's future operations.

ACCOUNTING PRONOUNCEMENTS

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Stock-Based Compensation" (SFAS 123). This new standard, effective for calendar year 1996 financial statements, encourages entities to adopt a fair value method of measuring compensation cost for employee stock option plans. Under the prescribed method, compensation cost would be measured at the grant date based on the fair value of the award and would be recognized over the related service period. An entity that does not adopt the fair value method of accounting will be required to include in its financial statements pro forma disclosures of net income and earnings per share as if the fair value method of accounting had been applied. The Company is evaluating the alternatives available under SFAS 123. If the fair value method is not elected, management does not expect the pro forma net income and earnings per share disclosures to be materially different from the actual 1996 operating results reported by the Company.

The Company presently gives accounting recognition to the actions of regulators where appropriate, as prescribed by Financial Accounting Standards Board Statement No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation". Significant examples include the amount charged as depreciation expense, which reflects estimated lives and methods prescribed by regulators rather than those that might otherwise apply to unregulated enterprises. Certain criteria, such as increasing competition, or a change from cost-based regulation to another form of regulation, has caused many regulated companies to reconsider the application of SFAS 71. The Company reviews these criteria to ensure that continuing application of SFAS 71 is appropriate.

In March 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of." This new standard, effective for calendar year 1996 financial statements, requires impairment losses on long-lived assets to be recognized when an asset's book value exceeds its expected future cash flows (undiscounted). The new standard also imposes stricter criteria for retention of regulatory-created assets by requiring that such assets be probable for future recovery at each balance sheet date. The impact of implementing this standard, given the regulatory uncertainties related to the Company's telephone operations and the continued application of SFAS 71 as previously discussed, cannot be determined at this time.

COMPETITION

Regulatory, legislative and judicial decisions, new technologies and the convergence of other industries with the telecommunications industry are causes of increasing competition in the telecommunications industry. The range of communications services, the equipment available to provide and access these services and the number of competitors offering such services continue to increase.

Federal and state regulators are encouraging changes that promote competition in the industry. The impacts are expected to make it difficult to maintain and grow traditional telephone revenues. The telephone subsidiaries of the Company have already begun to respond with active programs to market products and engineer its infrastructure to be an active participant in the new environment.

NEW SERVICES

In December 1994, the Company received approval of its CLASS offering in Mankato. This service was initiated in 1995.

In June 1994, the Company installed its first Direct Broadcast Satellite television service. By year end 1995, almost 1,200 customers had service installed.

In June 1994, the Company released a new telecommunications product, Qstar, from its subsidiary, DTI. Field testing and product introductions took place in 1995. Sales of this product began in December 1995.

In August 1994, the Company applied for its DTI telecommunications products to be distributed exclusively by British Telecom, Inc. The Company received acceptance by British Telecom, and its products were distributed in the United Kingdom and Europe in 1995.

ENVIRONMENTAL

Management is currently not aware of any environmental matters which in the aggregate would have a material adverse effect on the financial condition or results of operations of the Company.

BUSINESS OUTLOOK

The Company operates businesses in several different markets. Each of the businesses has fluctuations in revenues and operating earnings as the result of the overall level, timing and terms of many contracts.

The Company monitors the technological changes and competitive and regulatory environment of the telecommunications business and develops strategies to address these changes. The Company evaluates the way it conducts business in order to further improve customer responsiveness and quality. The Company promotes regulatory changes. Also, the Company evaluates productivity improvement programs that could involve retraining of employees, re-engineering of systems, restructure of its resource levels and operating costs.

The Company estimates that earnings for the first quarter 1996 will be higher than results for the first quarter 1995. The Company will continue to look carefully at its options in each of its businesses in order to improve shareholder value.

REPORT OF MANAGEMENT

The accompanying financial statements, which consolidate the accounts of Hickory Tech Corporation and its subsidiaries, have been prepared in conformity with generally accepted accounting principles, applied on a consistent basis. The integrity and objectivity of data in these financial statements, including estimates and judgments relating to them, are the responsibility of management - as is all other information included in the Annual Report.

The Company's financial statements have been examined by Olsen Thielen and Co., Ltd., independent certified public accountants, whose appointment was approved by the Company's shareholders. Management has made available to the independent accountants all Company financial records and related data, as well as the minutes of shareholders' and directors' meetings. Furthermore, management believes that all representations made to the independent accountants during its examination were valid and appropriate.

The Audit Committee of the Board of Directors, which is composed of directors who are not officers or employees, meets periodically with the independent accountants and management to review the scope of audit activities, the manner in which they perform their responsibilities, and the resolution of audit findings. The Audit Committee provides a direct method of access from the Board of Directors to the independent accountants and assures the objectivity of this report's financial information.

Robert D. Alton, Jr.
Chairman, President and Chief Executive Officer

David A. Christensen
Vice President and Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors
Hickory Tech Corporation

We have audited the consolidated balance sheet of Hickory Tech Corporation and subsidiaries as of December 31, 1995 and 1994, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hickory Tech Corporation and subsidiaries as of December 31, 1995 and 1994, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

St. Paul, Minnesota
February 2, 1996

Olsen Thielen & Co., Ltd.

CONSOLIDATED STATEMENT OF INCOME
Years Ended December 31

(Dollars in Thousands, Except Per Share Amounts)

	1995	1994	1993
OPERATING REVENUES:			
Telephone	$30,209	$26,869	$24,547
Computer	10,405	7,846	8,442
Equipment Sales	14,502	15,430	14,471
Telecommunications Product Development	7,731	8,063	5,081
TOTAL OPERATING REVENUES	62,847	58,208	52,541
COSTS AND EXPENSES:			
Cost of Sales	13,830	14,406	13,078
Operating Expenses	26,050	22,666	21,431
Depreciation	5,291	4,985	4,663
Amortization of Intangibles	1,897	1,645	1,263
TOTAL COSTS AND EXPENSES	47,068	43,702	40,435
OPERATING INCOME	15,779	14,506	12,106
OTHER INCOME	924	301	1,064
INTEREST EXPENSE	77	102	299
INCOME BEFORE INCOME TAXES	16,626	14,705	12,871
INCOME TAXES	6,726	5,558	4,530
NET INCOME	$ 9,900	$ 9,147	$ 8,341
EARNINGS PER SHARE	$ 1.93	$ 1.78	$ 1.62
DIVIDENDS PER SHARE	$ 1.00	$ .87	$ .84

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

CONSOLIDATED BALANCE SHEET
As of December 31

ASSETS

(Dollars in Thousands)

	1995	1994
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,517	$ 5,065
Temporary Cash Investments	7,176	1,887
Receivables, Net of Allowance for Doubtful Accounts of $167 and $92	9,381	7,258
Inventories	2,846	2,948
Deferred Tax Benefit and Other	985	1,029
TOTAL CURRENT ASSETS	24,905	18,187
INVESTMENTS	2,714	2,648
NET PROPERTY, PLANT AND EQUIPMENT	36,088	35,631
OTHER ASSETS		
Intangible Assets	9,457	10,649
Notes Receivable	340	252
Miscellaneous	433	413
TOTAL OTHER ASSETS	10,230	11,314
TOTAL ASSETS	$73,937	$67,780

LIABILITIES AND SHAREHOLDERS' EQUITY

	1995	1994
CURRENT LIABILITIES		
Accounts Payable	$ 5,568	$ 4,275
Notes Payable	-	763
Accrued Taxes	459	404
Advance Billings and Deposits	1,679	1,295
Current Maturities of Long-Term Debt	206	219
TOTAL CURRENT LIABILITIES	7,912	6,956
LONG-TERM DEBT, Net of Current Maturities	1,087	1,295
DEFERRED CREDITS		
Investment Tax Credits	233	337
Income Taxes	3,735	4,395
Compensation, Benefits and Other	3,063	1,955
TOTAL DEFERRED CREDITS	7,031	6,687
SHAREHOLDERS' EQUITY		
Common Stock	2,294	2,002
Retained Earnings	55,613	50,840
TOTAL SHAREHOLDERS' EQUITY	57,907	52,842
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$73,937	$67,780

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

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
Years Ended December 31

(Dollars in Thousands)

	1995	1994	1993
COMMON STOCK			
Balance at Beginning of the Year	$ 2,002	$ 2,671	$ 2,473
Employee Stock Purchase Plan	242	231	162
Director Stock Purchase Plan	50	42	36
Retirement of Stock	-	(942)	-
Balance at End of the Year	$ 2,294	$ 2,002	$ 2,671
RETAINED EARNINGS			
Balance at Beginning of the Year	$50,840	$46,153	$42,128
Net Income	9,900	9,147	8,341
Dividends Paid	(5,127)	(4,460)	(4,316)
Balance at End of the Year	$55,613	$50,840	$46,153
TOTAL SHAREHOLDERS' EQUITY	$57,907	$52,842	$48,624

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

CONSOLIDATED STATEMENT OF CASH FLOWS

Years Ended December 31

(Dollars in Thousands)

	1995	1994	1993
CASH FLOWS FROM OPERATING ACTIVITIES			
Net Income	$ 9,900	$ 9,147	$ 8,341
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:			
Depreciation and Amortization	7,401	6,800	5,926
Loss Resulting from Disposition of Assets	415	-	-
Equity in Partnership Income	(597)	(273)	(168)
Cash Provided From Operations Before Changes in Assets and Liabilities	**17,119**	**15,674**	**14,099**
Changes in Assets and Liabilities Net of Effects of Acquisitions and Dispositions:			
(Increase) Decrease in:			
Receivables	(2,123)	(336)	758
Taxes Receivable	-	999	(620)
Inventories	1	(618)	421
Increase (Decrease) in:			
Accounts Payable	1,293	207	(1,598)
Accrued Taxes	55	276	14
Advance Billings and Deposits	384	76	(419)
Deferred Investment Tax Credits	(104)	(121)	(166)
Deferred Income Taxes	(572)	(665)	92
Other	1,043	577	353
Net Cash Provided By Operating Activities	17,096	16,069	12,934
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to Property, Plant and Equipment	(6,021)	(6,374)	(5,476)
Increase in Investments	(68)	(341)	(655)
Redemption of Investments	599	127	1,304
Change in Temporary Cash Investments	(5,289)	(186)	7,958
Issuance of Notes Receivable	(88)	(252)	-
Collection of Note Receivable	-	-	370
Purchase of Intangible Assets	(1,114)	(1,346)	(2,256)
Acquisitions, Net of Cash Acquired	-	(6,500)	-
Proceeds from Dispositions	155	4	14
Other	-	59	67
Net Cash Provided by (Used In) Investing Activities	(11,826)	(14,809)	1,326
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from Issuance of Debt	-	763	-
Repayments of Debt	(983)	(307)	(3,546)
Proceeds from Issuance of Common Stock	292	273	198
Retirement of Common Stock	-	(942)	-
Dividends Paid	(5,127)	(4,460)	(4,316)
Net Cash Used In Financing Activities	(5,816)	(4,673)	(7,664)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(548)	(3,413)	6,596
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,065	8,478	1,882
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 4,517	$ 5,065	$ 8,478

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

BUSINESS SEGMENT DATA

Years Ended December 31

(Dollars in Thousands)

	1995	1994	1993
IDENTIFIABLE ASSETS			
Telephone	$49,435	$46,967	$41,653
Computer	7,725	6,856	6,456
Equipment Sales	6,089	6,694	6,743
Telecommunications Product Development	3,417	3,634	2,681
Corporate	7,271	3,629	5,085
Total Assets	$73,937	$67,780	$62,618
REVENUES BEFORE INTERSEGMENT ELIMINATION			
Telephone	$30,538	$26,987	$24,600
Computer	12,437	9,817	10,231
Equipment Sales	14,503	15,430	14,471
Telecommunications Product Development	7,731	8,063	5,081
Intersegment Elimination	(2,362)	(2,089)	(1,842)
Total Revenue	$62,847	$58,208	$52,541
OPERATING INCOME			
Telephone	$14,648	$12,721	$12,051
Computer	721	763	1,501
Equipment Sales	583	765	62
Telecommunications Product Development	1,129	845	(274)
Corporate	(1,302)	(588)	(1,234)
Total Operating Income	$15,779	$14,506	$12,106
DEPRECIATION AND AMORTIZATION EXPENSE			
Telephone	$ 4,621	$ 4,143	$ 3,695
Computer	1,784	1,639	1,593
Equipment Sales	523	531	404
Telecommunications Product Development	138	130	119
Corporate	122	187	115
Total Depreciation and Amortization	$ 7,188	$ 6,630	$ 5,926
CAPITAL EXPENDITURES			
Telephone	$ 5,438	$ 5,317	$ 4,869
Computer	328	668	294
Equipment Sales	120	58	200
Telecommunications Product Development	123	88	23
Corporate	12	73	90
Total Capital Expenditures	$ 6,021	$ 6,204	$ 5,476

Refer to page 26 for additional information regarding Business Segments

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES

The accounting policies of Hickory Tech Corporation are in conformity with generally accepted accounting principles and, where applicable, conform to the accounting principles as prescribed by federal and state telephone utility regulatory authorities. The Company presently gives accounting recognition to the actions of regulators where appropriate, as prescribed by Financial Accounting Standards Board Statement No. 71 (SFAS 71), "Accounting for the Effects of Certain Types of Regulation." Significant examples include the amount charged as depreciation expense, which reflects estimated lives and methods prescribed by regulators rather than those that might otherwise apply to unregulated enterprises.

Basis of Consolidation - The consolidated financial statements of the Company include Hickory Tech Corporation, its subsidiaries, and majority owned partnerships. Investments in 20% to 50% owned entities and all unconsolidated partnerships are accounted for using the equity method. All intercompany transactions have been eliminated from the consolidated financial statements.

Financial Statement Presentation - Telephone revenues are derived from charges for network access to the Company's local exchange network, from subscriber line charges and from contractual arrangements for services such as billing and collection and directory advertising. Certain of these revenues are realized under pooling arrangements with other telephone companies and are divided among the companies based on respective costs and investments to provide the services. Management believes that recorded amounts represent reasonable estimates of the final distribution from these pools. Revenue in the Equipment Sales segment earned on major installation and change contracts is recognized on the percentage of completion method.

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying consolidated financial statements.

Property and Depreciation - Property, plant and equipment are recorded at original cost of acquisition or construction. When telephone assets are sold or retired, the assets and related accumulated depreciation are removed from the accounts and no gains or losses are recorded.

The components of Net Property, Plant and Equipment are summarized as follows:

(Dollars in Thousands)	1995	1994
Telephone Plant	$69,162	$63,645
Other Property and Equipment	11,433	10,222
Total	83,595	73,867
Less Accumulated Depreciation	44,507	38,236
Net Property, Plant and Equipment	$36,088	$35,631

Depreciation for financial statement purposes is determined using the straight-line method based on the lives of the various classes of depreciable assets. The composite depreciation rates on telephone plant for the three years ended December 31, 1995, were 6.6%, 6.6%, and 6.9%. Other equipment is depreciated over estimated useful lives of three to fifteen years, and the associated building is depreciated over its estimated useful life of thirty-five years.

Cash Investments - Cash and cash equivalents include general funds and short-term investments with original maturities of three months or less. Investments with original maturities of three months to twelve months are classified as temporary cash investments.

Investments - Other investments are carried at lower of cost or net realizable value.

Inventories - Inventories are stated at the lower of average cost or market and consist of the following:

(Dollars in Thousands)	1995	1994
Finished Goods	$ 344	$ 304
Work in Process	142	433
Materials and Supplies	2,360	2,211
Total	$ 2,846	$ 2,948

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ACCOUNTING POLICIES (Continued)

Income Taxes - The provision for income taxes consists of an amount for taxes currently payable and a provision for tax consequences deferred to future periods. Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. For financial statement purposes, deferred investment tax credits and excess deferred income taxes relating to depreciation of regulated assets are being amortized as a reduction of the provision for income taxes over the estimated useful or remaining lives of the related property, plant and equipment.

Intangible Assets - Intangible assets are shown net of accumulated amortization of $2,433,000 and $4,665,000. The excess of cost over fair value of net assets acquired relating to acquisitions is being amortized over forty years. As of December 31, 1995 and 1994, amortized excess costs over fair value of assets acquired were $5,565,000 and $6,015,000 respectively. Contract rights and covenants not to compete associated with acquisitions are being amortized over three to twenty years.

Capitalized Software Costs - Capitalized software costs consist of costs to develop software internally for the Company's Computer Segment. Capitalization of internally developed software begins upon the establishment of technological feasibility and continues until the product becomes available for general release to customers. Unamortized software costs at December 31, 1995 and 1994 were $1,991,000 and $2,692,000, respectively, and are included in Intangible Assets in the Consolidated Balance Sheets. Capitalized costs are amortized on a product-by-product basis over the remaining estimated economic life of the product.

Earnings Per Share - Earnings per share for 1993 is based on 5,140,003 weighted average number of shares of common stock and common stock equivalents outstanding during the year. Earnings per share for 1994 is based on 5,128,147 weighted average number of shares of common stock and common stock equivalents outstanding during the year. Earnings per share for 1995 is based on 5,127,470 weighted average number of shares of common stock and common stock equivalents outstanding during the year.

NOTE 2 - ACQUISITIONS

In 1994 the Company purchased the telephone exchange assets of Amana Society, Inc. in Amana, Iowa for $6,500,000. The acquisition was accounted for as a purchase and, accordingly, the acquired assets have been recorded at their estimated fair values at the date of acquisition. The purchase price exceeded the fair value of the assets by $4,400,000.

The Company's Consolidated Statement of Income includes the operating results of the acquisition from the date of purchase. The following table summarizes the unaudited consolidated pro forma results of operations, assuming the acquisition had occurred at the beginning of each of the following periods:

(Dollars in Thousands)	1994	1993
Total Revenues	$ 59,078	$ 53,614
Net Income	9,165	8,529
Earnings Per Share	1.79	1.66

NOTE 3 - BUSINESS SEGMENT DATA

The Company's operations are conducted in four business segments. The Telephone Segment provides telephone services to Mankato and adjacent areas of Blue Earth and Nicollet counties in southern Minnesota and to the Amana Colonies in east-central Iowa. The Telephone Segment also operates fiber optic cable transport facilities and DBS in southern Minnesota, participates in cellular partnerships across southern Minnesota, and operates cable television businesses in its service territory. The Computer Segment provides data processing and related services primarily to telecommunications companies. Its customers are local exchange telephone companies and interexchange network carriers with operations across the country. The Equipment Sales Segment sells, installs and services communications equipment in the retail market. It has many ongoing business contracts with large business customers in Minneapolis/St. Paul and southern Minnesota. The Telecommunications Product Development Segment designs, manufactures and distributes communications equipment through large distributors in North America and the United Kingdom. Refer to page 24 for a schedule of business segment information.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - FINANCIAL INSTRUMENTS AND INVESTMENT SECURITIES

The carrying value of cash and temporary cash investments approximates their fair value due to the short maturity of the instruments. The carrying value of Investments is $2,714,000 at December 31, 1995, and $2,648,000 at December 31, 1994. Investments include investments accounted for using the equity method of accounting and investments which do not have a readily determinable fair market value. The fair value of the Company's long-term debt, after deducting current maturities, is estimated to be $924,000 at December 31, 1995 and $1,054,000 at December 31, 1994, compared to carrying values of $1,087,000 and $1,295,000 respectively. The fair value estimates are based on the overall weighted rates and maturity compared to rates and terms currently available in the long-term financing markets.

NOTE 5 - COMMON STOCK

The Company's common stock has no par value. There are 25,000,000 shares authorized with 5,134,021 shares outstanding as of December 31, 1995, and 5,124,291 shares outstanding as of December 31, 1994.

Under the terms of an employee stock purchase plan, participating employees may acquire shares of common stock through payroll deductions of not more than 10% of compensation. The price at which the shares can be purchased is 85% of the fair market value for such shares on a specified date in each plan year. There were 300,000 common shares reserved for this plan.

Common Stock distributions as a result of this plan are summarized as follows:

1995		1994		1993	
No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
6,205	$ 242,048	8,181	$ 231,113	5,939	$ 161,838

At December 31, 1995, employees had subscribed to purchase approximately 10,300 shares in the current plan year ended August 31, 1996.

A long-term incentive award plan for officers provides for the granting of incentive stock options, non-qualified stock options and restricted stock awards. The exercise price of any stock options or awards will be the fair market value of the shares on the date of the grant. Options may be exercised no later than ten years after the date of grant. All shares available for grant in any year which are not granted under the plan shall be available for grant in subsequent years. There were 250,000 common shares reserved for this plan.

A summary of stock options granted follows:

	1995	1994	1993
Number of Options Granted	6,645	7,534	7,899
Exercise Price of Options Granted	$31.625	$33.75	$30.75
Number of Options Exercisable	5,144	2,633	–

None of these options were exercised. The plan also has stock performance awards tied to Company growth in pre-tax net income. No awards will be determined under this portion of the plan until 1996.

Under the terms of a Corporate Retainer Stock Plan for Directors, participating directors may acquire shares of common stock in exchange for their quarterly retainers. The price at which the shares can be purchased is 100% of the fair market value for such shares on a specified date in each quarter. There were 100,000 common shares reserved for this plan.

Common stock distributions as a result of this plan are summarized as follows:

1995		1994		1993	
No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
1,525	$ 50,030	1,281	$ 42,046	1,134	$ 35,800

During 1994, 29,000 shares of common stock were retired at a total cost of $942,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 - LONG-TERM DEBT

Long-term debt consists of the following:

(Dollars in Thousands)	1995	1994
Notes Payable to Rural Utilities	$ 1,119	$ 1,330
Service, 2% Due November 2003		
Notes Payable to Rural Telephone Bank,	174	194
4% Due April 2007	–	20
Other	1,293	1,514
Total	206	219
Less Current Maturities	$ 1,087	$ 1,295
Long-Term Debt		

The collateral for the notes payable to the Rural Utilities Service (RUS) and the Rural Telephone Bank (RTB) is exclusively the property, plant and equipment of Mid-Communications, Inc.

The terms of the notes payable to RUS and RTB restrict payment of cash dividends or reacquisition of capital stock. Annual requirements for principal payments for the four years subsequent to 1996 are as follows: 1997 - $211,500, 1998 - $217,100, 1999 - $222,900, and 2000 - $229,800. Cash paid for interest was $134,000 in 1995, $103,000 in 1994, and $370,000 in 1993.

In September, 1995, the Company secured a $7 million line of credit arrangement with a local bank. This line of credit will be used for general corporate purposes including interim financing for acquisitions. The line of credit provides for borrowing at the prime interest rate. There are no material compensating balances or commitment fee requirements under this arrangement.

NOTE 7 - EMPLOYEE RETIREMENT BENEFITS

Employees in participating companies who meet certain service requirements are covered under defined contribution retirement savings plans which include IRS Section 401(k) provisions. The Company contributes up to 5.75% of the employees' basic compensation, based on the employees' voluntary contribution. Company contributions and costs for retirement plans were $588,000 in 1995, $446,000 in 1994, and $442,000 in 1993. In 1995, the Company adopted an employee profit sharing plan for all employees who are eligible to participate in the employee retirement savings plan and are not covered by other types of incentive pay plans. Under this plan, the Company will contribute up to 2.0% of the eligible employee group total base compensation into retirement savings plan accounts if the participating companies achieve specific earnings targets. The Company's contribution for this plan in 1995 was $186,000.

In addition to providing retirement savings benefits, the Company provides postretirement health care and life insurance benefits for certain employees. The Company is not currently funding these benefits.

Net periodic postretirement benefit expense was $334,000 in 1995, $290,000 in 1994 and $231,000 in 1993. Accrued postretirement benefit cost was $686,000 as of December 31, 1995 and $438,000 as of December 31, 1994. The unrecognized transition obligation is being amortized over 20 years. The unrecognized liability as of December 31, 1995 is $1,020,000 and was $1,080,000 as of December 31, 1994.

The health care cost trend used in determining the accumulated postretirement benefit obligation was 15% grading to 6% in year 10 and later.

Assumptions used to develop net periodic postretirement benefit cost and the actuarial present value of accumulated benefit obligations:

Weighted average discount rate	8.00%
Weighted average long term rate of return on plan assets	5.00%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - INCOME TAXES

The income tax provisions include the following components:

(Dollars in Thousands)	1995	1994	1993
Current Income Taxes:			
Federal	$ 5,769	$ 4,897	$ 3,645
State	1,633	1,447	960
Deferred Income Taxes:			
Federal	(446)	(498)	6
State	(126)	(167)	86
Investment Tax Credit Amortized	(104)	(121)	(167)
Total Income Tax Expense	$ 6,726	$ 5,558	$ 4,530

Cash paid for income taxes was $7,240,000 in 1995, $5,229,000 in 1994 and $5,234,000 in 1993.

Deferred tax liabilities and assets are comprised or the following:

(Dollars in Thousands)	1995	1994
Tax Liabilities Associated with:		
Depreciation and Fixed Assets	$ 3,650	$ 3,777
Software Development	842	1,110
Other	212	127
Gross Deferred Tax Liability	4,704	5,014
Tax Assets Associated with:		
Deferred Benefit Plans	845	738
Receivables and Inventory	209	211
Accrued Liabilities	412	309
Other	124	70
Gross Deferred Tax Assets	1,590	1,328
Net Deferred Tax Liability	3,114	3,686
Net Current Deferred Tax Asset	621	709
Net Non-Current Deferred Tax Liability	$ 3,735	$ 4,395

The differences which cause the effective tax rate to vary from the statutory federal income rates are as follows:

	1995	1994	1993
Statutory Tax Rate	35.0%	35.0%	35.0%
Effect of:			
State Income Taxes Net of Federal Tax Benefit	5.9	5.6	5.3
Amortization of Investment Tax Credit	(0.6)	(0.8)	(1.3)
Prior Year Tax Adjustment	-	(2.7)	(2.1)
Other, Net	0.2	0.4	(1.7)
Effective Tax Rate	40.5%	37.5%	35.2%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - CONSTRUCTION COMMITMENTS

The construction and facilities program for 1996 is approximately $8,500,000. Normal purchase commitments have or will be made for planned expenditures.

NOTE 10 - CORPORATE DEVELOPMENT

The Company has entered into agreements to purchase the assets of eleven rural telephone exchanges in the State of Iowa from US West Communications, Inc. ("US West") for $35,271,000. The eleven exchanges contain approximately 12,200 access lines. The acquisitions will be structured as a purchase of telephone assets from US West and must be approved by the Public Utilities Board of Iowa and the Federal Communications Commission. It is anticipated that the approvals for the purchase of the exchanges should be completed in the third quarter of 1996.

The Company is anticipating utilizing new long-term debt instruments to fund the majority of its $35,271,000 acquisition price for the US West property. Negotiations are presently taking place to secure such funding. No difficulty is anticipated in obtaining this financing.

NOTE 11 - QUARTERLY FINANCIAL INFORMATION (Unaudited)

(Dollars in Thousands, except per share amounts)

1995	Total	4th	3rd	2nd	1st
Operating Revenues	$ 62,847	$ 16,756	$ 15,871	$ 15,573	$ 14,647
Operating Income	15,779	4,553	3,697	3,914	3,615
Net Income	9,900	2,798	2,376	2,505	2,221
Earnings Per Share	$1.93	$.55	$.46	$.49	$.43
Dividends Per Share	$1.00	$.25	$.25	$.25	$.25

1994	Total	4th	3rd	2nd	1st
Operating Revenues	$ 58,208	$ 14,920	$ 14,604	$ 14,589	$ 14,095
Operating Income	14,506	4,161	3,521	3,531	3,293
Net Income	9,147	2,548	2,223	2,255	2,121
Earnings Per Share	$1.78	$.50	$.43	$.44	$.41
Dividends Per Share	$.87	$.22	$.22	$.215	$.215

SELECTED FINANCIAL AND OPERATING DATA

(Dollars in Thousands, Except Per Share Amounts)

	1995	1994	1993	1992	1991	1990	1989
FOR THE YEAR: (A)							
Operating Revenues							
Telephone	$30,209	$26,869	$24,547	$24,876	$23,565	$22,363	$21,307
Computer	10,405	7,846	8,442	8,953	8,242	6,961	7,133
Equipment	14,502	15,430	14,471	15,565	10,400	4,347	2,681
Telecommunications Product Developement	76,731	8,063	5,081	7,241	3,838	1,134	-
Total Operating Revenues	$62,847	$58,208	$52,541	$56,635	$46,045	$34,805	$31,121
Net Income	$9,900	$9,147	$8,341	$7,887	$7,558	$7,032	$6,879
PER SHARE (B)							
Earnings Per Share	$1.93	$1.78	$1.62	$1.54	$1.47	$1.37	$1.34
Dividends Per Share	$1.00	$0.87	$0.84	$0.80	$0.73	$0.70	$0.58
Book Value Per Share	$11.28	$10.31	$9.49	$8.68	$7.95	$7.21	$6.54
AT YEAR END:							
Total Assets	$73,937	$67,780	$67,618	$63,382	$58,863	$53,901	$47,043
Shareholders' Equity	$57,907	$52,842	$48,824	$44,601	$40,823	$37,016	$33,580
Long-term Debt	$1,087	$1,295	$1,524	$4,920	$5,362	$5,381	$5,644
Equity Ratio	98.2%	97.6%	97.0%	90.1%	88.4%	87.3%	85.6%
OTHER DATA:							
Employees	438	425	405	435	391	338	254
Return on Average Equity	17.9%	18.0%	17.9%	18.5%	19.4%	19.9%	21.7%
Capital Expenditures	$6,021	$6,204	$5,476	$4,876	$4,847	$5,269	$4,709
Telephone Plant	$69,162	$63,645	$56,931	$52,455	$49,898	$50,987	$47,150
Access Lines Served	42,954	41,326	38,519	37,319	36,438	35,792	34,663

(A) Acquisitions of Digital Techniques, Inc. and Collins Communications Systems Co. in 1990, National Independent Billing, Inc. in 1991, CoasTel - ICSI in 1992 and of Amana Colonies Telephone Company in 1994, have contributed to the Company's revenue growth for years after 1989.
(B) In 1990 a two for one stock distribution was approved. The 1989 earnings per share originally reported were $4.02. The 1989 dividends per share originally reported were $1.74. All per share amounts in this report have been restated to conform to the 1995 presentation.

BOARD OF DIRECTORS

Robert D. Alton, Jr.
Chairman, President and Chief Executive Officer
Hickory Tech Corporation

Lyle T. Bosacker
Management Consultant and President
CEO Advisors, Inc.
(Information Systems Planning)

Robert K. Else
President
EI Microcircuits, Inc.
(Manufacturer)

James H. Holdrege
General Manager
Auto Engineering Division
Reliance Electric Co.
(Manufacturer)

Lyle G. Jacobson
President and Chief Executive Officer
Katolight Corporation
(Manufacturer)

R. Wynn Kearney, Jr.
Orthopaedic Surgeon
Orthopaedic & Fracture Clinic, P.A. of Mankato
(Health Care)

Starr J. Kirklin
President
First Bank Mankato
(Banking)

Brett M. Taylor, Jr.
Retired Chairman of the Board
Brett's Department Stores Company

Other Officers of HTC (not pictured)

John E. Anderson – Vice President
Thomas R. Borchert – Vice President
David A. Christensen – Vice President, Chief Financial Officer, Treasurer and Secretary
Mary T. Jacobs – Vice President
Bruce H. Malmgren – Vice President
David H. Rowley – Vice President

Sector Presidents (not pictured)

Thomas R. Borchert – Telephone Sector
Bruce H. Malmgren – Computer Sector
John E. Anderson – Equipment Sales Sector
David H. Rowley – Telecommunications Product Development Sector

ANNUAL MEETING

The Annual Meeting of Hickory Tech Corporation shareholders is at 2:00 P.M. (CDT) on the second Monday in April (April 8, 1996) at the Holiday Inn in downtown Mankato, located at the intersection of Riverfront Drive and East Main Street, Mankato, Minnesota.

TRANSFER AGENT, REGISTRAR and DIVIDEND DISBURSING AGENT

Norwest Bank Minnesota, N.A., Shareowner Relations, 161 North Concord Exchange, P.O. Box 738, South St. Paul, MN 55075-0738. Telephone: 1-800-468-9716. For information about accounts, stock certificates or dividend checks, contact Norwest Bank Stock Transfer, Shareowner Relations.

NASDAQ LISTING

The Company's common stock is listed on NASDAQ in its National Market Trading System under the ticker symbol HTCO. Typical newspaper listings are "Hickry Tch" or "Hickory".

SHAREHOLDER RELATIONS

General Information about the Company or its reports may be directed to Shareholder Services at Corporate Headquarters.

INVESTOR RELATIONS

Information requests from members of the investment community and the news media should be addressed to Public Relations Services at Corporate Headquarters.

COMMON STOCK DIVIDENDS and PRICES

Prior to March, 1995, the Company's stock was traded by local brokers in over-the-counter trading. Due to the limited volume of trading, the Company is unable to conclusively determine the high and low price ranges for the stock for each quarter of 1994. In early 1995 the Company noted that its shares had traded at $31.625 per share. In March 1995, the Company listed its common stock on NASDAQ's National Market Trading System.

Quarterly market price information in 1995 was as follows:

Year	Qtr.	High	Low	End of Qtr.
1995	4th	$34.00	$30.50	$31.25
	3rd	$35.50	$31.00	$33.25
	2nd	$35.75	$28.00	$32.625
	1st	$35.50	$31.625	$34.25

Dividends in 1994 and 1993 were as follows:

DIVIDENDS DECLARED

	1995	1994
First Quarter	$ .25	$ .215
Second Quarter	$ .25	$ .215
Third Quarter	$ .25	$ .22
Fourth Quarter	$ .25	$ .22

Hickory Tech Corporation

Corporate Headquarters:
221 East Hickory Street
Mankato, Minnesota

Mailing Address:
P.O. Box 3248
Mankato, Minnesota 56002-3248

Telephone:
(507) 387-3355
(800) 326-5789
FAX (507) 625-9191

Hickory Tech Corporation

221 East Hickory Street · P.O. Box 3248 · Mankato, Minnesota 56002

HTC

1996

THIRD QUARTER INTERIM REPORT

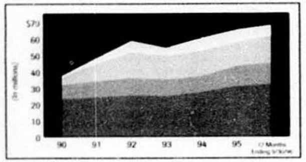
FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share amounts)

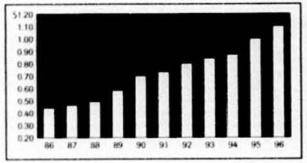
	Quarter Ended September 30		Nine Months Ended September 30	
	1996	1995	1996	1995
Operating Revenues	$16,639	$15,871	$48,122	$46,091
Net Income	$2,633	$2,376	$7,220	$7,102
Earnings Before Interest, Taxes, Depreciation & Amortization	$6,074	$5,960	$17,710	$17,606
Net Income per Share	$0.54	$0.46	$1.43	$1.39
Dividend per Share	$0.275	$0.25	$0.825	$0.75

SEGMENT GROSS REVENUES

(Before Intersegment Eliminations)



HTC DIVIDENDS PER SHARE



(All years adjusted for stock splits in 1987, 1989 and 1990)

CHAIRMAN'S MESSAGE

To HTC Shareholders

Hickory Tech Corporation's third quarter resulted in an increase in Net Income of 10.8% over 1995's third quarter. The complete financial results are noted in the enclosed financial statement. Net income for the nine months ending September 30, of $7,220,000 was $118,000, or 1.7% higher than the $7,102,000 net income for nine months in 1995. Earnings per share of 54 cents in the third quarter was 17.4% higher than last year's third quarter. On a year-to-date basis, earnings per share were $1.43 for the first nine months, a 2.9% increase over 1995. These "per share" figures reflect the benefits of higher earnings and the reduced number of outstanding shares as a result of our share repurchase program. Our accumulated dividend payout has been 82.5 cents per share for three quarters of 1996. Overall I am pleased with the results and would like to take this opportunity to share some of the things that are happening behind the numbers here at HTC.

TELEPHONE SECTOR

(Mankato Citizens Telephone Co., Mid-Communications, Inc., The Amana Colonies Telephone Co.) This sector continues to invest in state-of-the-art technology, ensuring that our customers have access to the best communications services available. To our residential customers that may simply mean reliable telephone service. To a business it may mean high speed data connections, work at home capabilities, or the latest Integrated Services Digital Network (ISDN) capabilities. The telephone sector prides itself on offering a cutting-edge infrastructure built to provide the latest services for the ever-changing needs of our customers. All of the telephone sector's exchanges have local calling access to the Internet, a service with educational, business and personal applications. The services this sector provides enable companies to do business around the nation and the world.

The above mentioned technology plus a strong marketing and sales effort leads to a 4.9% growth in net income for the telephone sector this quarter. During the third quarter, this sector celebrated signing up customer number 2000 for Direct Vision, our DBS franchise. Nationally, this alternative to cable TV now has 5 million subscribers. Media analysts expect DBS will have 19 million subscribers by the year 2000. Direct Vision service is especially attractive in the rural areas of our exchanges.

Our acquisition of the eleven telephone exchanges in Iowa from US WEST is working its way through the Federal Communications Commission for final approval. We have obtained approval from the Public Utilities Commissions in Iowa, South Dakota, and Minnesota. These State approvals had to be obtained before the FCC filing could be made. The process should be completed in the spring of 1997. We are eager to add the 12,000 additional lines the purchase will bring to this sector, increasing our geographical footprint and immediately enhancing the profits of HTC.

EQUIPMENT SALES SECTOR

Collins Communications Systems Co. had another outstanding quarter. Our net income increased from $71,000 for the third quarter of 1995 to $292,000 for the same quarter of 1996. Our maintenance business supporting both Nortel and Rolm equipment continues to be very strong. The most dramatic increase in revenues for Collins came from some very large sales of Nortel PBXs and related equipment. Some of the large sales include Sheldahl, Anoka Hennepin County School District, and American Express Financial Services. Included in the American Express sale is a provision that Collins be the national supplier of Nortel equipment for our offices nationwide. In addition to a strong sales year, Collins has benefited from the 1995 divestiture of its West Coast operation. We are extremely proud of the results of this sector.

DATA PROCESSING SECTOR

Computoservice, Inc. / National Independent Billing, Inc. turned in very good quarterly results. Profits of $217,000 for the third quarter of 1996 compared favorably with its 1995 third quarter of $61,000. This comes on the heels of our previously announced second quarter writedown of capitalized software development costs of $573,000 (pre-tax). The positive current quarter's results are attributed to the continuation of a contract with a major telecommunications company to develop a billing system supporting their entry into the local exchange telephone business. CSI/NIB is also developing a service bureau capability for wireless telephone providers. Management sees much fluctuation in revenues and business levels over the next several years, brought about by rapid changes in the telecommunications marketplace. This sector is expanding its capabilities in response to those changes.

TELECOMMUNICATIONS PRODUCT DEVELOPMENT SECTOR

Digital Techniques, Inc. had a disappointing third quarter. It experienced a $76,000 loss for the third quarter, compared to profits of $150,000 in 1995. DTI's QStar and E911 products will not achieve the revenue projections first anticipated. However, DTI is proposing a relationship with a major telecommunications manufacturer to develop specialized hardware and software that would provide a steady revenue source for the future. Though this sector will finish 1996 much the same as it has so far this year, we believe 1997 will show positive returns.

Our stock repurchase program is going extremely well. To date we have repurchased in excess of 300,000 shares. Management and our Board decided on the repurchase program because we believe our stock is undervalued. This program will benefit remaining shareholders well into the future.

We continue our ten year trend of growing dividends at a compound annual rate of 9 to 10%. Our goal to grow the corporation, both internally and by selectively acquiring new assets, is designed to benefit you, our owners. We thank you for the confidence you place in our management team.

Respectfully submitted,

Robert D. Alton

Robert D. Alton, Jr.
Chairman, President and
Chief Executive Officer

October, 1996

HICKORY TECH CORPORATION - THIRD QUARTER, 1996 REPORT

CONSOLIDATED STATEMENT OF INCOME

(Unaudited)

(Dollars in thousands except per share amounts)

	Quarter Ended September 30 1996	Quarter Ended September 30 1995	Nine Months Ended September 30 1996	Nine Months Ended September 30 1995
OPERATING REVENUES:				
Telephone	$ 7,675	$ 7,421	$ 23,586	$ 22,592
Data Processing	2,256	2,585	7,052	6,833
Equipment Sales	5,056	4,064	12,542	10,874
Telecommunications Product Development	1,652	1,801	4,942	5,792
TOTAL OPERATING REVENUES	16,639	15,871	48,122	46,091
COSTS AND EXPENSES:				
Cost of Sales	4,260	3,543	10,705	9,900
Operating Expenses	6,572	6,656	20,514	19,275
Depreciation	1,315	1,509	4,063	4,208
Amortization of Intangibles	310	466	1,494	1,482
TOTAL COSTS AND EXPENSES	12,457	12,174	36,776	34,865
OPERATING INCOME	4,182	3,697	11,346	11,226
OTHER INCOME	267	288	807	692
INTEREST EXPENSE	(7)	(18)	(144)	(64)
INCOME BEFORE INCOME TAXES	4,442	3,967	12,009	11,854
INCOME TAXES	1,809	1,591	4,789	4,752
NET INCOME	$ 2,623	$ 2,376	$ 7,220	$ 7,102
EARNINGS PER SHARE	$0.54	$0.46	$1.43	$1.39
DIVIDENDS PER SHARE	$0.275	$0.25	$0.825	$0.75

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(Dollars in thousands)

	September 30 1996	December 31 1995
ASSETS:		
Current Assets	$ 18,721	$ 24,905
Investments	2,940	2,714
Telephone Plant	73,148	69,162
Other Property and Equipment	10,705	11,433
Total	83,853	80,595
Less Accumulated Depreciation	48,056	44,507
Net Property, Plant and Equipment	35,797	36,088
Intangible Assets	9,034	9,457
Other Assets	633	773
TOTAL ASSETS	$ 67,125	$ 73,937
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current Liabilities	$ 6,501	$ 7,912
Long-term Debt	930	1,087
Deferred Income Taxes and Unamortized Investment Tax Credits	4,028	3,968
Other Deferred Credits	2,955	3,063
Shareholders' Equity	52,711	57,907
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 67,125	$ 73,937

HTC

Hickory Tech Corporation

Corporate Headquarters
221 Hickory Street
Mankato, Minnesota

Mailing Address
P.O. Box 3248
Mankato, Minnesota 56002

Telephone
(507) 387-3355
(800) 326-5789
FAX (507) 625-9191

Home Page
http://www.hickorytech.com

AT A GLANCE

Hickory Tech Corporation is a diversified communications company headquartered in Mankato, Minnesota. Established as Mankato Citizens Telephone Company in 1898 and reorganized as Hickory Tech Corporation in 1985, the Company has evolved into four main business sectors.

BUSINESS SECTOR	COMPANY	SERVICES / PRODUCTS / LOCATIONS
TELEPHONE	*Mankato Citizens Telephone Company* *Mid-Communications, Inc.* *Amana Colonies Telephone Company* *Cable Network, Inc.*	This sector provides local telephone service and interexchange network services in south central Minnesota, specifically Mankato (population 42,000) and eleven rural communities surrounding Mankato. In addition, the Telephone sector provides local service for the seven communities of the Amana Colonies in east central Iowa. This sector also has ownership interest in cellular telephone partnerships, a direct broadcast satellite television operation known as DirectVision and cable television properties, all of which cover a broad portion of southern Minnesota. Additionally, this sector will gain eleven new exchanges in northern Iowa when the pending acquisition of US WEST rural exchanges is completed.
DATA PROCESSING	*Computoservice, Inc. (CSI)* *National Independent Billing, Inc. (NIBI)*	This sector provides data processing service to local telephone companies, interexchange long distance companies and enhanced service providers throughout the United States. CSI also provides standard batch processing of telephone billing and rating in large volume applications, as well as specialized contract data processing services, through sales of its unique software applications to interexchange network carriers and enhanced service providers. CSI/NIBI's expertise is customer billing applications in a data processing environment.
EQUIPMENT SALES	*Collins Communications Systems Co.*	This sector sells and services telecommunications equipment in the Minneapolis/St. Paul metropolitan area and southern Minnesota. It primarily installs and maintains Nortel PBX and key system equipment and integrated software. Its expertise is very high quality telephone system installation and maintenance.
TELECOMMUNICATIONS PRODUCT DEVELOPMENT	*Digital Techniques, Inc. (DTI)*	This sector designs, assembles, and distributes unique telecommunications components for business telephone systems throughout North America and the United Kingdom. DTI develops new products, responds to original equipment manufacturing assembly orders, and distributes or licenses patented products through large nationally recognized distributors. DTI's expertise is in engineering telephone system interface devices, using software and hardware solutions.

TRANSFER AGENT, REGISTRAR and DIVIDEND DISBURSING AGENT
Norwest Bank Minnesota, N.A., Shareowner Relations, 161 North Concord Exchange, P.O. Box 738, South St. Paul, MN 55075-0738. Telephone: 1-800-468-9716. For information about accounts, stock certificates or dividend checks, contact Norwest Bank Stock Transfer, Shareowner Relations.

NASDAQ LISTING
The Company's common stock is listed on NASDAQ in its National Market Trading System under the ticker symbol HTCO. Typical newspaper listings are "Hickry Tch" or "Hickory".

INVESTOR AND SHAREHOLDER RELATIONS
General information about the Company or its reports may be directed to Shareholder Services at Corporate Headquarters. Information requests from members of the investment community and the news media should be addressed to Public Relations Services at Corporate Headquarters.

State of Minnesota

SECRETARY OF STATE

Certificate of Good Standing

I, Joan Anderson Growe, Secretary of State of Minnesota, do certify that: The corporation listed below is a corporation formed under the laws of Minnesota; that the corporation was formed by the filing of Articles of Incorporation with the Office of the Secretary of State on the date listed below; that the corporation is governed by the chapter of Minnesota Statutes listed below; and that this corporation is authorized to do business as a corporation at the time this certificate is issued.

Name: Heartland Telecommunications Company of Iowa

Date Formed: 07/10/1995

Chapter Governed By: 302A

This certificate has been issued on 12/04/96.

Joan Anderson Growe

Secretary of State

SECRETARY OF STATE
STATE CAPITOL
500 E. CAPITOL
PIERRE, S.D. 57501-5077
605-773-4845
FAX (605) 773-4550

FILE NO. ____________
RECEIPT NO. ____________

APPLICATION FOR CERTIFICATE OF AUTHORITY

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is Heartland Telecommunications Company of Iowa
(Exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is ____________

(3) State where incorporated Minnesota Federal Taxpayer ID# 41-1834561

(4) The date of its incorporation is 6/28/95 and the period of its duration, which may be perpetual, is perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is
221 East Hickory Street; Mankato, MN Zip Code 56002

mailing address if different from above is:
P.O. Box 3248; Mankato, MN Zip Code 56002

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is 503 So. Pierre St.; P.O. Box 160; Pierre, SD Zip 57501-0160
and the name of its proposed registered agent in the State of South Dakota at that address is
May, Adam, Gerdes & Thompson, LLP

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose)
Provision of telephone/telecommunications service to end user customers over landline connections.

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
See Attached List					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
10,000	Common		One Cent Per Share Par Value

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
1,000	Common		One Cent Per Share Par Value

(11) The amount of its stated capital is $ 10.00
Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated December 2 19 96

David A. Christenson
(Signature) D. A. Christensen

V.P. CFO / Secretary
(Title) Secretary

State of Minnesota
County of Blue Earth

On this 2nd day of December 19 96, before me D.A. Christensen personally appeared before me, Anita L. Johnson, known to me, or proved to me, to be the Secretary of the corporation that is described in and that executed the within instrument and acknowledged to me that such corporation executed same.

My Commission Expires 1-31-00

Notarial Seal

ANITA L. JOHNSON
NOTARY PUBLIC—MINNESOTA
MY COMMISSION EXPIRES 1-31-00

Anita L. Johnson
(Notary Public)

****

The Consent of Appointment below must be signed by the registered agent listed in number six.

CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, ______________________________, hereby give my consent to serve as the
(name of registered agent)

registered agent for ______________________________
(corporate name)

Dated ______________ 19 ____

____
(signature of registered agent)

FEE SCHEDULE

Authorized capital stock of	$ 25,000	or less	$ 40
Over $25,000 and not exceeding	100,000		60
Over $100,000 and not exceeding	500,000		80
Over $500,000 and not exceeding	1,000,000		100
Over $1,000,000 and not exceeding	1,500,000		150
Over $1,500,000 and not exceeding	2,000,000		200
Over $2,000,000 and not exceeding	2,500,000		250
Over $2,500,000 and not exceeding	3,000,000		300
Over $3,000,000 and not exceeding	3,500,000		350
Over $3,500,000 and not exceeding	4,000,000		400
Over $4,000,000 and not exceeding	4,500,000		450
Over $4,500,000 and not exceeding	5,000,000		500

For each additional $500,000, $40 in addition to $500.

For purposes only of computing fees under this section, the dollar value of each authorized share having a par value shall be equal to such par value and the value of each authorized share having no par value shall be equal to one hundred dollars per share. The maximum amount charged under this subdivision may not exceed sixteen thousand dollars.

The proper filing fee must accompany the application. Make checks payable to the Secretary of State.

FILING INSTRUCTIONS

One original and one exact or conformed copy of the application must be submitted.

The application must be accompanied by a currently dated CERTIFICATE OF FACT by the secretary of state or other officer having custody of the corporate records in the state or country under whose laws it is incorporated.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or its president, or any other officer.

The Consent of Registered Agent must be signed by the registered agent.

Mail the application, certificate of fact and filing fee to the Secretary of State, State Capitol, 500 E. Capitol, Pierre, SD 57501

Line (8): Names and Addresses of Directors and Officers

Name	Officer Title	Street Address	City, State	Zip
Thomas R. Borchert	President, CEO	221 East Hickory Street	Mankato, MN	56001
Robert D. Alton, Jr	Vice President	221 East Hickory Street	Mankato, MN	56001
David A. Christensen	Vice President, CFO, Treasurer, Secretary	221 East Hickory Street	Mankato, MN	56001
Larry L. Morales	Vice President, Network	221 East Hickory Street	Mankato, MN	56001
Thomas G. Riley	Vice President, Marketing	221 East Hickory Street	Mankato, MN	56001
Dennis R. Kilburg	Vice President, Operations	221 East Hickory Street	Mankato, MN	56001
Lyle T. Bosacker	Director	221 East Hickory Street	Mankato, MN	56001
Robert K. Else	Director	221 East Hickory Street	Mankato, MN	56001
James H. Holdrege	Director	221 East Hickory Street	Mankato, MN	56001
Lyle G. Jacobson	Director	221 East Hickory Street	Mankato, MN	56001
R. Wynn Kearney, Jr	Director	221 East Hickory Street	Mankato, MN	56001
Starr J. Kirklin	Director	221 East Hickory Street	Mankato, MN	56001
Brett M. Taylor, Jr	Director	221 East Hickory Street	Mankato, MN	56001

2388

State of Minnesota

SECRETARY OF STATE

CERTIFICATE OF INCORPORATION

I, Joan Anderson Growe, Secretary of State of Minnesota, do certify that: Articles of Incorporation, duly signed and acknowledged under oath, have been filed on this date in the Office of the Secretary of State, for the incorporation of the following corporation, under and in accordance with the provisions of the chapter of Minnesota Statutes listed below.

This corporation is now legally organized under the laws of Minnesota.

Corporate Name: Heartland Telecommunications Company of Iowa

Corporate Charter Number: 8T-794

Chapter Formed Under: 302A

This certificate has been issued on 07/10/1995.

Joan Anderson Growe

Secretary of State.

80112.18 : 337

LAW OFFICE OF
MAY, ADAM, GERDES & THOMPSON
WARREN W. MAY -THOMAS C. ADAM
DAVID A. GERDES -CHARLES M. THOMPSON
ROBERT B. ANDERSON -BRENT A. WILBUR
PIERRE, SD 57501

109969

78-53/914

DATE Jan. 15, 1997

PAY TO THE ORDER OF S.D. Public Utilities Commission $ 250.00

250 DOLLARS

BankWest
Pierre, South Dakota 57501
605-224-0622

FOR

⑈109969⑈ ⑆091400538⑆006380487O⑈

TC97-006	Application by U S WEST Communications to introduce Smart Public Access Line (Smart PAL) on a flat and message rated monthly recurring and non-recurring basis to its Exchange and Network Services Tariff. (Staff: DJ/CH) "The introduction of Smart PAL is intended to meet the requirements in the FCC Order 96-388 (Paragraphs 146 and 147) as modified in FCC Order 96-439 (Paragraph 163) to provision a coin line for use by all Payphone Service Providers who wish to place a "dumb" payphone set on the line. The coin line has traditionally been used only by U S WEST Public Services. In addition, this filing proposed withdrawing language in the tariff which regulates the operational characteristics of Payphone Service Provider pay telephones. The effective date requested for this filing is April 15, 1997."	01/15/97	01/31/97
FULLY COMPETITIVE TELECOMMUNICATIONS FILINGS			
NA	IXC Long Distance, Inc. filed to reduce Switched Access rates and to revise Employee Concession language. The changes are effective January 15, 1997.	01/14/97	NA

Important Notice: The Commission is compiling a list of internet addresses. If you have an internet address please notify the Commission by: E-mailing it to Terry Norum at terryn@puc.state.sd.us; Faxing the address to the Commission at: 605-773-3809

South Dakota
Public Utilities Commission
State Capitol 500 E. Capitol
Pierre, SD 57501-5070
Phone: (800) 332-1782
Fax: (605) 773-3809

TELECOMMUNICATIONS SERVICE FILINGS

These are the telecommunications service filings that the Commission has received for the period of:

01/10/97 through 01/16/97

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five days of this filing.

DOCKET NUMBER	TITLE/STAFF/SYNOPSIS	DATE FILED	INTERVENTION DEADLINE
REQUEST FOR CERTIFICATE OF AUTHORITY			
TC97-003	Application by Sprint Spectrum L.P. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TH/KC) Applicant proposes to offer basic 1+ long distance services and eventually will expand its services offerings to include calling card, prepaid calling card and toll free service products.	01/13/97	01/31/97
TC97-004	Application by BellSouth Long Distance, Inc. for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: TH/CH) Applicant proposes to initially offer proprietary cards for calls made primarily by the Company's customer base residing outside South Dakota when they travel into South Dakota for business or pleasure. In the future, the Company plans to expand its customer base to include South Dakota residential and business customers.	01/13/97	01/31/97
TC97-007	Application by Heartland Telecommunications Company of Iowa for a Certificate of Authority to operate as a telecommunications company within the state of South Dakota. (Staff: HB/KC) Applicant has purchased two exchanges, the Hawarden exchange and the Akron exchange, from U S WEST Communications that extend into South Dakota.	01/16/97	01/31/97
THE TELECOMMUNICATIONS ACT OF 1996 FILINGS			
TC97-005	Application by U S WEST Communications, Inc. requesting the Commission to allow U S WEST to implement an Interconnection Cost Adjustment Mechanism (ICAM) for a defined 36-month period. The ICAM is limited to one time, extraordinary or start-up costs for systems modifications or development, network rearrangements and business office processes effectively mandated by The Act for the convenience and use by U S WEST's competitors, and to facilitate U S WEST's existing customers ability to choose a different local exchange service provider. Because no current or proposed rate or charge will provide an opportunity for U S WEST to recover all of these extraordinary, one-time or start-up costs, U S WEST proposes the ICAM to recover the totality of such costs. U S WEST requests expeditious Commission treatment of this application. (Staff: HB/KC)	01/14/97	01/31/97
NONCOMPETITIVE TELECOMMUNICATIONS FILINGS			

TC97-007

LAW OFFICES
MAY, ADAM, GERDES & THOMPSON LLP
503 SOUTH PIERRE STREET
P.O. BOX 160
PIERRE, SOUTH DAKOTA 57501-0160

GLENN W. MARTENS 1881-1963
KARL GOLDSMITH 1885-1966
WARREN W. MAY
THOMAS C. ADAM
DAVID A. GERDES
CHARLES M. THOMPSON
ROBERT B. ANDERSON
BRENT A. WILBUR
TIMOTHY M. ENGEL
MICHAEL F. SHAW

TELEPHONE
605 224-8803
TELECOPIER
605 224-6289

February 3, 1997

RECEIVED
FEB 03 1997
SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

HAND DELIVERED

Mr. Harlan Besc, Deputy Director
Fixed Utilities Division
Public Utilities Commission
State Capitol
500 East Capitol Avenue
Pierre, South Dakota 57501

RE: **HICKORY TECH CORPORATION/HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA; SUPPLEMENTAL RESPONSES TO APPLICATION FOR CERTIFICATE OF AUTHORITY**
Our file: 0220

Dear Mr. Bullard:

Accompanying this letter are the original and ten copies of the Supplemental Responses to the Application for a Certificate of Authority. I am also enclosing an extra copy of the first page of the application. Please date stamp it and return it to me in the enclosed stamped self-addressed envelope.

Thank you very much for your assistance. Please feel free to contact me if you have any questions.

Yours truly,

MAY, ADAM, GERDES & THOMPSON LLP

Robert K. Sahr

ROBERT K. SAHR

RKS:mw

Enclosures

cc: David Christensen

RECEIVED

FEB 03 1997

SOUTH DAKOTA PUBLIC
UTILITIES COMMISSION

SUPPLEMENTAL RESPONSES TO APPLICATION FOR CERTIFICATE OF AUTHORITY OF HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA TC97-007

1. Is Heartland's address and telephone number the same as Hickory Tech Corporation's? If not, please provide the address and telephone number for Heartland.

RESPONSE. Yes, Heartland's address and telephone are the same as Hickory Tech Corporation's.

Heartland Telecommunications Company of Iowa, using the corporate name of "Heartland Telecommunications Company of Iowa, d/b/a Hickory Tech Corporation" in South Dakota, not Hickory Tech Corporation, is the applicant for the Certificate of Authority with the SDPUC.

Originally, Heartland planned to use the corporate name of "Heartland Telecommunications Company of Iowa" in South Dakota. However, due to two other corporations transacting business in South Dakota with similar names, Heartland Telecommunications Company of Iowa will operate under the name of Heartland Telecommunications Company of Iowa, d/b/a Hickory Tech Corporation. Exhibit A contains the Secretary of State's Certificate of Authority and the supporting documentation.

2. Provide a copy of the Iowa Utilities Board's order granting a certificate of public convenience and necessity to Heartland.

RESPONSE. Attached as Exhibit B is a copy of the State of Iowa's Order Granting Motion to Strike, Approving Settlement, Approving Discontinuance, Approving Transfer of Certificates, and Terminating Docket, issued May 30, 1996. As the Docket details on page 10, the Iowa Utilities Board will not be considering Heartland's application for a certificate of public convenience and necessity until the transfer of the Akron and Hawarden, Iowa, exchanges from U S WEST. U S WEST is scheduled to transfer the exchanges and the certificate in early to mid-April of 1997 (tentatively April 10, 1997).

While the Docket refers to Hickory Tech Corporation, Heartland Telecommunications Company of Iowa will own the exchanges and will be the party named in the Iowa certificate. Heartland will become operational when it receives the exchanges from U S WEST.

3. Provide a copy of the Federal Communications Commission's order approving Heartland's request for study area waivers, price cap waivers and Section 214 waiver.

RESPONSE. The FCC order is pending at this time.

4. Provide answers to ARSD 20:10:24:02(3) for Heartland, not its parent.

(3) If the applicant is a corporation:

(a) The state in which it is incorporated, the date of incorporation, and a copy of its certificate of incorporation or, if it is an out-of-state corporation, a copy of its certificate of authority to transact business in South Dakota from the Secretary of State;

(b) The location of its principal office, if any, in this state and the name and address of its current registered agent;

(c) The names and addresses of any corporation, association, partnership, cooperative, or individual holding a 20 percent or greater ownership or management interest in the applicant corporation and the amount and character of the ownership or management interest;

(d) The names and addresses of subsidiaries owned or controlled by the applicant;

RESPONSE.

3(a) The state in which Heartland is incorporated is Minnesota, effective July 10, 1995. Exhibit A contains a copy of Heartland's Certificate of Authority to Transact Business in South Dakota from the Secretary of State.

3(b) Heartland does not have a principal office in this state; the location of its principal office is 221 East Hickory Street, Mankato, Minnesota, 56002. The registered agent in South Dakota is: Robert K. Sahr of May, Adam, Gerdes & Thompson LLP, 503 South Pierre Street, Pierre, South Dakota, 57501-0160, 605-224-8803.

3(c) Heartland Telecommunications Company of Iowa is a wholly-owned subsidiary of Hickory Tech Corporation. Because Heartland is not yet operational, no financial statements have been prepared. However, copies of Hickory Tech Corporation's financial statements appear in Heartland's January 16, 1997, Application for Certificate of Authority.

3(d) N/A

5. How does the applicant, Heartland, answer ARSD 20:10:24:02(11)?

(11) A detailed description of how the applicant intends to market its services, the qualifications of its marketing sales personnel, its target market, whether the applicant engages in any multilevel marketing, and copies of any company brochures used to assist in the sale of services.

RESPONSE. Heartland is firmly committed to providing the best quality telephone service possible in rural areas within the bounds of good business judgment. We believe that we can make improvements in the level of service provided to these customers.

The applicant will be using bill stuffers, newspaper and radio advertisements to market their services. The applicant is not planning to use multilevel marketing.

Heartland will use the name of "Heartland Telecommunications Company of Iowa, d/b/a Hickory Tech Corporation" when it transacts business in this state.

6. Enclosed is a map of the Hawarden exchange for the South Dakota area proposed to be served by Heartland. As you can see from the map there is a conflict between the present maps on file with the SDPUC and the map submitted by Heartland. Please work with U S WEST and submit a map for the Alcester and Hawarden exchanges that agree on a boundary.

RESPONSE. The present map on file with the SDPUC on behalf of U S WEST is the correct map. Please disregard the map that was included in Heartland's January 16, 1997, Application for Certificate of Authority. Enclosed as Exhibit C are the present maps on file with the SDPUC for the Akron and Hawarden exchanges.

AFFIDAVIT

State of Minnesota)
)ss
County of Blue Earth)

Thomas R. Borchert, being duly sworn on oath, deposes and says that he is the President of Mankato Citizens Telephone Company; that he has read the Application for Certificate of Authority and supplemental responses and knows the contents thereof, and that the same is true of his own knowledge.

Thomas R Borchert
Thomas R. Borchert, President
Mankato Citizens Telephone Company

Subscribed and sworn to before me this 23rd day of January, 1997.

Anita L Johnson
Notary Public

(SEAL)

Notary Print Name: Anita L. Johnson
My Commission Expires: 1-31-00

ANITA L. JOHNSON
NOTARY PUBLIC—
MY COMMISSION

State of South Dakota

OFFICE OF THE SECRETARY OF STATE

CERTIFICATE OF AUTHORITY

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA (MN) to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state under the name of HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA, D/B/A HICKORY TECH CORPORATION.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this January 31, 1997.

Joyce Hazeltine

JOYCE HAZELTINE
Secretary of State

EXHIBIT A

0142-10-45

SECRETARY OF STATE
STATE CAPITOL
500 E. CAPITOL
PIERRE, S.D. 57501-5077
605-773-4845
FAX (605) 773-4550

FILE NO. ______________
RECEIPT NO. ______________

RECEIVED
JAN 31 1997
S.D. SEC. OF STATE

Filed this 31st day of Jan., 1997
SECRETARY OF STATE

APPLICATION FOR CERTIFICATE OF AUTHORITY

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is Heartland Telecommunications Company of Iowa,
(Exact corporate name)
d/b/a Hickory Tech Corporation

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is
____

(3) State where incorporated Minnesota Federal Taxpayer ID# 41-1834561

(4) The date of its incorporation is ~~6/26/95~~ 7/10/95 and the period of its duration, which may be perpetual, is perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is
221 East Hickory Street; Mankato, MN Zip Code 56002

mailing address if different from above is:
P.O. Box 3248; Mankato, MN Zip Code 56002

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is 503 So. Pierre St.; P.O. Box 160; Pierre, SD Zip 57501-0160
and the name of its proposed registered agent in the State of South Dakota at that address is
Robert K. Sahr of May, Adam, Gerdes & Thompson LLP.

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose)
Provision of telephone/telecommunications service to end user customers over landline connections.

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
See Attached List					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
10,000	Common		One Cent Per Share Par Value

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
1,000	Common		One Cent Per Share Par Value

(11) The amount of its stated capital is $ 10.00
Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated December 2 19 96

David A. Christensen
(Signature) D. A. Christensen

V.P. CFO / Secretary
(Title) Secretary

State of Minnesota
County of Blue Earth

On this 2nd day of December, 19 96, before me D.A. Christensen personally appeared before me, Anita L. Johnson, known to me, or proved to me, to be the Secretary of the corporation that is described in and that executed the within instrument and acknowledged to me that such corporation executed same.

My Commission Expires 1-31-00

Notarial Seal

ANITA L. JOHNSON
NOTARY PUBLIC—MINNESOTA
MY COMMISSION EXPIRES 1-31-00

Anita L. Johnson
(Notary Public)

****

The Consent of Appointment below must be signed by the registered agent listed in number six.

CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, Robert K. Sahr, hereby give my consent to serve as the
(name of registered agent)

registered agent for Heartland Telecommunications Company of Iowa d/b/a Hickory Tech Corporation
(corporate name)

Dated January 31 19 97

Robert K. Sahr
(signature of registered agent)

Line (8): Names and Addresses of Directors and Officers

Name	Officer Title	Street Address	City, State	Zip
Thomas R. Borchert	President, CEO	221 East Hickory Street	Mankato, MN	56001
Robert D. Alton, Jr	Vice President	221 East Hickory Street	Mankato, MN	56001
David A. Christensen	Vice President, CFO, Treasurer, Secretary	221 East Hickory Street	Mankato, MN	56001
Larry L. Morales	Vice President, Network	221 East Hickory Street	Mankato, MN	56001
Thomas G. Riley	Vice President, Marketing	221 East Hickory Street	Mankato, MN	56001
Dennis R. Kilburg	Vice President, Operations	221 East Hickory Street	Mankato, MN	56001
Lyle T. Bosacker	Director	221 East Hickory Street	Mankato, MN	56001
Robert K. Else	Director	221 East Hickory Street	Mankato, MN	56001
James H. Holdrege	Director	221 East Hickory Street	Mankato, MN	56001
Lyle G. Jacobson	Director	221 East Hickory Street	Mankato, MN	56001
R. Wynn Kearney, Jr	Director	221 East Hickory Street	Mankato, MN	56001
Starr J. Kirklin	Director	221 East Hickory Street	Mankato, MN	56001
Brett M. Taylor, Jr	Director	221 East Hickory Street	Mankato, MN	56001

State of Minnesota

SECRETARY OF STATE

Certificate of Good Standing

I, Joan Anderson Growe, Secretary of State of Minnesota, do certify that: The corporation listed below is a corporation formed under the laws of Minnesota; that the corporation was formed by the filing of Articles of Incorporation with the Office of the Secretary of State on the date listed below; that the corporation is governed by the chapter of Minnesota Statutes listed below; and that this corporation is authorized to do business as a corporation at the time this certificate is issued.

Name: Heartland Telecommunications Company of Iowa

Date Formed: 07/10/1995

Chapter Governed By: 302A

This certificate has been issued on 12/04/96.

Joan Anderson Growe

Secretary of State

HEARTLAND TELECOMMUNICATIONS COMPANY
OF IOWA

BOARD OF DIRECTORS

RESOLUTION

The Board of Directors of Heartland Telecommunications Company of Iowa, a corporation incorporated under the law of Minnesota, hereby resolves as follows:

> That in order to comply with the provisions of SDCL §§ 47-2-38 and 47-8-7, Heartland Telecommunications Company of Iowa adopts the name of Heartland Telecommunications Company of Iowa d.b.a. Hickory Tech Corporation for the purpose of transacting business in the State of South Dakota.

This Resolution is adopted by the Heartland Telecommunications Company of Iowa Board of Directors this 29th day of January, 1997.

CERTIFICATE

I HEREBY CERTIFY That the foregoing is a true and correct copy of the Resolution and the Board of Directors passed unanimously such Resolution at a meeting held on January 29, 1997.

HEARTLAND TELECOMMUNICATIONS
COMPANY OF IOWA

By David A. Christensen
David A. Christensen, Secretary

HEARTLAND TELECOMMUNICATIONS COMPANY
OF IOWA

BOARD OF DIRECTORS

RESOLUTION

The Board of Directors of Heartland Telecommunications Company of Iowa, a corporation incorporated under the law of Minnesota, hereby resolves as follows:

> That in order to comply with the provisions of SDCL §§ 47-2-38 and 47-8-7, Heartland Telecommunications Company of Iowa adopts the name of Heartland Telecommunications Company of Iowa d.b.a. Hickory Tech Corporation for the purpose of transacting business in the State of South Dakota.

This Resolution is adopted by the Heartland Telecommunications Company of Iowa Board of Directors this 29th day of January, 1997.

STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: U S WEST COMMUNICATIONS, INC., HICKORY TECH CORPORATION, ALPINE COMMUNICATIONS, L.C., BUTLER-BREMER MUTUAL TELEPHONE CO., DUMONT TELEPHONE COMPANY, AND SOUTH CENTRAL COMMUNICATIONS, INC.	DOCKET NO. SPU-96-3

ORDER GRANTING MOTION TO STRIKE, APPROVING SETTLEMENT, APPROVING DISCONTINUANCE, APPROVING TRANSFER OF CERTIFICATES, AND TERMINATING DOCKET

(Issued May 30, 1996)

I. BACKGROUND

On March 1, 1996, U S West Communications, Inc. (U S West), Hickory Tech Corporation (Hickory Tech), Alpine Communications, L.C. (Alpine), Butler-Bremer Mutual Telephone Co., (Butler-Bremer), Dumont Telephone Company (Dumont), and South Central Communications, Inc. (South Central), filed a joint application for approval of a reorganization, a discontinuance of service, and the transfer of certificates. The applicants entered into agreements for the sale of exchanges, which provided for the transfer of all the physical assets of U S West and the transfer of its certificates of public convenience and necessity relating to

EXHIBIT B

these exchanges. Utilities Board (Board) review of the filing is pursuant to IOWA CODE §§ 476.77 (reorganization), 476.20(1) (discontinuance), and 476.29(3) (certificate transfer). Hickory Tech intends to purchase 11 exchanges with 11,894 access lines; Alpine, seven exchanges with 6,379 access lines; South Central, three exchanges with 2,309 access lines; Dumont, one exchange with 819 access lines; and Butler-Bremer, one exchange with 912 access lines.

The Board set the matter for hearing on April 17, 1996. In the same order, the Board granted the petition to intervene filed by AT&T Communications of the Midwest, Inc. (AT&T).

On April 25, 1996, the Consumer Advocate Division of the Department of Justice (Consumer Advocate), U S West, and the other applicants filed a joint motion for approval of a settlement agreement. The agreement provided the parties would agree to an increase in U S West's depreciation reserve for subsequent ratemaking and book purposes by $7.5 million and the purchasers would freeze local service rates for ratepayers in the purchased exchanges for 12 months. AT&T was not a signatory to the settlement.

AT&T and U S West filed a joint statement of issues on April 25, 1996. The hearing in this matter was held April 25, 1996. Initial briefs were filed on May 3, 1996, by the joint applicants, Consumer Advocate, and AT&T. On May 10, 1996, all filed reply briefs. The joint applicants also filed a motion to strike portions of AT&T's post hearing brief referring to evidence in Docket No. RPU-95-11, which is not included in the evidence in this docket. The motion to strike will be granted.

II. ISSUES

The issues contested in this docket focus upon whether the proposed transactions are detrimental to ratepayers or to the public generally. IOWA CODE § 476.77(3)"d" and "e" (1995). The other standards in IOWA CODE §§ 476.77(3) and 476.29(3), as well as in IOWA ADMIN. CODE 199-7.12(5) (1996), are satisfied in the joint applicants' filing.

A. TREATMENT OF THE GAIN

One issue in this proceeding involves the treatment of the gain that U S West will receive from the sale. AT&T argued that booking the entire gain below the line where it would benefit only shareholders would be detrimental to ratepayers. In addition, AT&T claimed the gain may be substantially more than the projected $15 million if U S West is able to take advantage of the like-kind exchange provisions of the Internal Revenue Code.

The joint applicants replied that the treatment of the gain is only relevant in a subsequent rate case. They also claimed that the like-kind exchange provisions in the Internal Revenue Code only allow deferment of the gain, not avoidance. Consumer Advocate argued the price was in line with similar sales of rural exchanges in other states and the gain does not provide grounds for disallowing a reorganization.

The Board has already ruled in related Docket No. DRU-96-1, issued March 29, 1996, that the ultimate treatment of the gain in setting rates cannot be determined at this time. The effect of the gain on rates, if any, must wait until U S West's next rate case. The issue of the treatment of the gain does not provide a basis for rejection in this reorganization review. However, the Board will require U S West to maintain adequate records to be able to show the actual gain after tax in its next rate case filing.

B. ACCESS CHARGES

AT&T objected that the access charges in the sold exchanges would increase by approximately 70 percent in the first year. While the charges are proposed to decrease in succeeding years, it noted the initial increase is substantial. AT&T claimed the increase will be paid either by interexchange carriers or passed on to its customers.

The joint applicants claimed AT&T's objection concerning increased access charges would prevent U S West from selling any of its rural exchanges. Rural exchanges have higher costs than the average of all U S West exchanges, so they argued that a sale to any buyer would likely result in increased access rates. The joint applicants also noted U S West had negotiated the phase-down of access rates from the National Exchange Carriers Association (NECA) rates that similarly-situated rural independent companies typically charge. This was claimed to benefit all interexchange carriers. Consumer Advocate argued the increase in access rates will have only a de minimis effect in light of AT&T's Iowa jurisdictional revenue. It noted that the legislature has determined that small telephone companies should not be rate regulated and AT&T should seek a remedy with the legislature.

The Board would consider the increase in access rates, with no corresponding decrease to local service rates, undesirable if the higher NECA rates were scheduled to continue. However, with the projected downward adjustments from the NECA rates, the temporary increase in access rates does not provide a reason to reject the reorganization. The Board has no authority to prevent the sale of exchanges on the grounds the sale is by a rate-regulated utility to a nonrate-regulated utility, and the proposed rate policies of the buyers are reasonable.

C. HIGH-COST FUND

AT&T claimed the buyers may receive payments from the Federal high-cost fund, established to protect the affordability of telephone service in high-cost areas. Because the fund is paid for by interexchange carriers, AT&T argued such payments would increase its costs, which in turn would be passed through to its customers.

The Board considers this claim far too speculative to provide any basis to reject the reorganization. Not only is it unclear whether the buyers would ever receive payments from the fund under existing conditions, but also under § 254 of the Telecommunications Act of 1996, the entire universal service program is currently under review by a Federal/State joint board. No one can know at this time whether the reorganization will have any effect on the high-cost fund.

D. COST/BENEFIT ANALYSIS

AT&T argued that, with the sale, the relatively new remote switches of U S West will be replaced within 18 months. It claimed this is not an efficient use of resources. The joint applicants replied that updating of plant in rural areas without an increase in customer rates is a benefit to ratepayers and the public. Consumer Advocate noted that the Board has not limited its cost/benefit analysis under IOWA CODE § 476.77 to a dollar-for-dollar matching. The review requires a more generalized weighing of the value of the benefits to the ratepayers and the public.

The Board believes AT&T has failed in this docket to make a persuasive case that the benefits to the public do not outweigh the costs of the reorganization. The buyers appear to be ready, willing, and able to provide comparable service to customers. It is apparent from the details of the transactions that the buyers have a strong desire to provide quality service at reasonable rates to these rural exchanges. On the other hand, U S West, by its actions, has made it clear in Iowa and elsewhere that providing local service to certain rural exchanges is no longer a corporate priority. It remains to be seen whether the new management ultimately provides more efficient service than U S West. However, from the current perspective, both the concrete facts in this record and the intangibles associated with the buyers' desire to serve in rural exchanges favor the completion of the reorganization, the discontinuance of service, and the transfer of the certificates. The Board will not disapprove the reorganization.

III. SETTLEMENT

The Board has reviewed the settlement agreement filed by the joint applicants and Consumer Advocate. The first substantive point in the settlement involves the treatment of the gain from the sale by U S West, both for accounting purposes and also as a guide for the positions of the settlement parties in future U S West ratemaking proceedings. The second substantive point is the promise of the buyers not to raise local exchange rates for 12 months after the assumption of service. Both of the substantive agreements between the joint applicants and Consumer Advocate are benefieial to ratepayers and the public. The Board will approve the settlement agreement as reasonable in light of the whole record, consistent with law, and in the public interest.

The Board's approval of the settlement alters the ruling in U S West Communications, Inc., Docket No. DRU-96-1, to the extent that U S West, concurrently with the sale of the exchanges, will increase its depreciation reserve by $7.5 million in its regulatory accounts. Any additional gain will be treated for accounting purposes as below-the-line income. It is understood that U S West and Consumer Advocate have agreed to support that division of the gain from the sale in U S West's next rate case. However, the Board's ruling in Docket No. DRU-96-1 that the Board cannot determine at this time whether the gain (or any part of the gain) will be retained by the seller's shareholders is not altered by the Board's approval of the settlement. Parties other than those in this docket may support positions contrary to the settlement in any future rate case. The Board must retain complete discretion to make the appropriate decision regarding the ratemaking treatment of the gain based on the record in the next rate case. See Office of Consumer Advocate v. State Commerce Commission, 395 N.W.2d 1, 7 (Iowa 1986).

IV. FINDINGS OF FACT

1. The increases in switched access rates by the buyers in the first year to NECA rates, followed by subsequent decreases back to U S West's current rates, do not provide a basis for the Board to disapprove the sale of exchanges.

2. It is impossible to determine at this time whether the sale of exchanges will impact the Federal high-cost fund.

3. It is reasonable to find that the benefits to ratepayers and the public from the sale of these exchanges outweigh the costs of the sale.

4. The settlement agreement between the joint applicants and Consumer Advocate filed in this docket is reasonable in light of the entire record, consistent with law, and in the public interest.

V. CONCLUSIONS OF LAW

1. The Board has jurisdiction over the parties and the subject matter of this proceeding. IOWA CODE §§ 476.77, 476.20(1), and 476.29(3).

2. The ratemaking treatment of the gain from the sale of exchanges cannot be determined in this proceeding and must wait until U S West's next rate case. See Office of Consumer Advocate v. State Commerce Commission, 395 N.W.2d 1, 7 (Iowa 1986).

VI. ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Utilities Board will not disallow the proposed sale of 23 exchanges by U S West Communications, Inc., to the buyers listed in the caption.

2. Upon the completion of the transfer of ownership of the assets to the buyers, the Board approves the discontinuance of service by U S West to the 23 exchanges.

3. On or before 20 days after the transfer of ownership of the assets, the buyers shall file appropriate tariffs and service territory maps for the affected exchanges. During the Board review of these findings, the buyers will be allowed to provide service under the terms of the existing U S West tariffs and pursuant to U S West's certificate of public convenience and necessity. Upon approval of the tariffs and service territory maps, the portions of the certificate of U S West covering the affected exchanges will be transferred to the buyers.

4. U S West's shall maintain adequate records to be able to show the actual gain after tax from the sale reviewed in this docket. Its next rate case filing shall include an accurate and verifiable calculation of the actual gain after tax.

5. The settlement agreement filed on April 25, 1996, by the joint applicants and the Consumer Advocate Division of the Department of Justice is approved.

6. The motion to strike portions of AT&T's post-hearing brief filed by the joint applicants is granted.

7. Docket No. SPU-96-3 is terminated.

8. Motions and objections not previously granted or sustained are denied or overruled. Any argument not specifically addressed in this order is rejected either as

not supported by the evidence or as not being of sufficient persuasiveness to warrant comment.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Nancy S. Boyd

ATTEST:

/s/ Raymond K. Vawter, Jr.
Executive Secretary

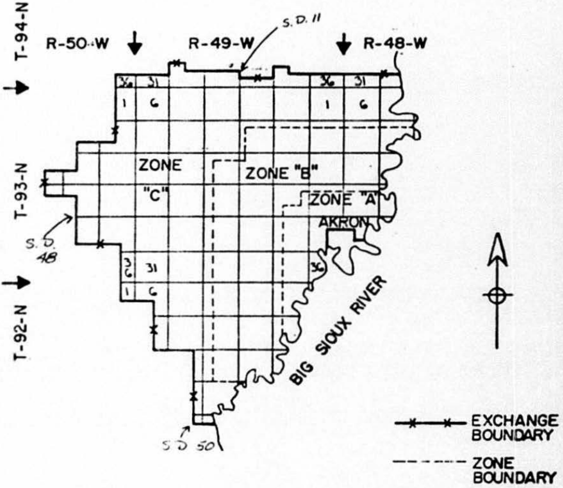
/s/ Emmit J. George, Jr.

Dated at Des Moines, Iowa, this 30th day of May, 1996.

NORTHWESTERN BELL
TELEPHONE COMPANY
STATE OF SOUTH DAKOTA

LOCALITY
SPECIAL RATE
AREA MAP

RURAL TERRITORY NEAR
AKRON, IOWA
ORIGINAL SHEET
CANCELS SHEET ISSUED



AKRON,
SO. DAK.

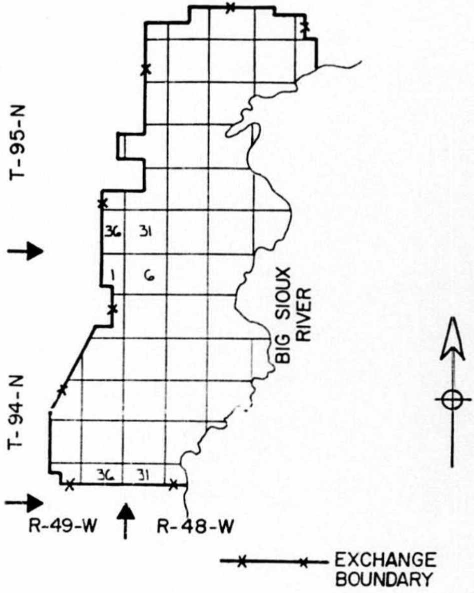
ISSUED March 14, 1978 EFFECTIVE ~~April 14, 1978~~

BY R. J. Callahan

ASSISTANT VICE PRESIDENT

EXHIBIT C

NORTHWESTERN BELL TELEPHONE COMPANY STATE OF SOUTH DAKOTA	**LOCALITY SPECIAL RATE AREA MAP**	RURAL TERRITORY NEAR HAWARDEN, IOWA ORIGINAL SHEET CANCELS SHEET ISSUED



HAWARDEN,
SO. DAK.

ISSUED March 14, 1978 EFFECTIVE April 14, 1978

BY R. J. Callahan

ASSISTANT VICE PRESIDENT

CK
RCB
4/13/78

8142.18.64

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF SOUTH DAKOTA

IN THE MATTER OF THE APPLICATION OF HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA D/B/A HICKORY TECH CORPORATION FOR A CERTIFICATE OF AUTHORITY TO PROVIDE TELECOMMUNICATIONS SERVICES IN SOUTH DAKOTA)

ORDER GRANTING CERTIFICATE OF AUTHORITY

TC97-007

On January 16, 1997, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from Heartland Telecommunications Company of Iowa d/b/a Hickory Tech Corporation (Heartland).

Heartland seeks authority to operate as a telecommunications company and provide local exchange service within the state of South Dakota. A proposed tariff was filed by Heartland. The geographic areas in which Heartland will offer these services are the portion of the Hawarden, Iowa, exchange and the portion of the Akron, Iowa, exchange located in South Dakota. Heartland purchased 11 exchanges from U S WEST Communications, Inc. (TC96-089), two of which extend into South Dakota. The purchase was approved by the Iowa Utilities Board on May 30, 1996.

On January 16, 1997, the Commission electronically transmitted notice of the filing and the intervention deadline of January 31, 1997, to interested individuals and entities. No petitions to intervene or comments were filed and at its regularly scheduled March 4, 1997, meeting, the Commission considered Heartland's request for a certificate of authority. Commission Staff recommended granting a certificate of authority.

The Commission finds that it has jurisdiction over this matter pursuant to Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that Heartland has met the legal requirements established for the granting of a certificate of authority. Heartland has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. The Commission approves Heartland's application for a certificate of authority. As the Commission's final decision in this matter, it is therefore

ORDERED, that Heartland's application for a certificate of authority is hereby granted, effective April 10, 1997, as requested by Heartland. It is

FURTHER ORDERED, that Heartland shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 11th day of March, 1997.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By Delaine Kolbo

Date 3/12/97

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg

JAMES A. BURG, Chairman

Pam Nelson

PAM NELSON, Commissioner

Laska Schoenfelder

LASKA SCHOENFELDER, Commissioner

NEXT

DOCUMENT (S)

DISREGARD

BACKGROUND

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company
Within The State Of South Dakota

Authority was Granted March 4, 1997, effective April 10, 1997
Docket No. TC97-007

This is to certify that

**HEARTLAND TELECOMMUNICATIONS COMPANY OF IOWA
D/B/A HICKORY TECH CORPORATION**

is authorized to provide telecommunications services in South Dakota.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, and is subject to all of the conditions and limitations contained in the rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 11th day of March, 1997.

SOUTH DAKOTA PUBLIC UTILITIES COMMISSION:

James A. Burg
JAMES A. BURG, Chairman

Pam Nelson
PAM NELSON, Commissioner

Laska Schoenfelder
LASKA SCHOENFELDER, Commissioner