

ADTRAN INC

FORM 10-Q (Quarterly Report)

Filed 5/14/2001 For Period Ending 3/31/2001

Address	901 EXPLORER BLVD HUNTSVILLE, Alabama 35806
Telephone	256-963-8000
CIK	0000926282
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Quarterly Period Ended March 31, 2001

OR

Transition Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Transition Period from _____ to _____

Commission File Number 0-24612

ADTRAN, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

63-0918200
(I.R.S. Employer
Identification No.)

901 Explorer Boulevard, Huntsville, Alabama 35806-2807
(Address of principal executive offices, including zip code)

(256) 963-8000
(Registrant's telephone number, including area code)

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date:

Class	Outstanding at April 30, 2001
----- Common Stock, \$.01 Par Value	----- 39,451,838 shares

ADTRAN, INC.
Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**ADTRAN, INC.
CONDENSED BALANCE SHEETS**

ASSETS	March 31, 2001 ----- (Unaudited)	December 31, 2000 ----- (Audited)
Current assets:		
Cash and cash equivalents.....	\$ 50,794,126	\$ 27,971,313
Short-term investments.....	62,024,071	60,286,332
Accounts receivable, less allowance for doubtful accounts of \$800,901 and \$813,003 in 2001 and 2000, respectively.....	69,879,921	82,133,831
Other receivables.....	13,275,608	35,862,774
Inventory.....	96,172,204	89,252,729
Prepaid expenses.....	4,234,551	4,032,438
Deferred income taxes.....	4,505,008	4,505,008
Total current assets.....	300,885,489	304,044,425
Property, plant and equipment, less accumulated depreciation of \$57,431,040 and \$53,422,304 in 2001 and 2000, respectively.....	125,295,582	123,713,176
Other assets.....	469,000	469,000
Long-term investments.....	94,051,596	118,109,404
	----- \$520,701,667 =====	----- \$546,336,005 =====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 20,528,711	\$ 34,113,832
Accrued expenses.....	9,839,468	8,560,073
Income taxes payable.....	2,868,204	3,734,234
Total current liabilities.....	33,236,383	46,408,139
Long term liabilities:		
Bonds payable.....	50,000,000	50,000,000
Deferred income taxes.....	9,374,880	15,342,435
Total liabilities.....	----- 92,611,263 -----	----- 111,750,574 -----
Minority interest in subsidiary	----- 160,000 -----	----- 160,000 -----
Stockholders' equity:		
Common stock, par value \$.01 per share, 200,000,000 shares authorized: 39,446,644 shares issued and outstanding in 2001 and 2000.....	394,466	394,466
Additional paid-in capital.....	96,638,253	96,707,263
Accumulated other comprehensive income.....	9,302,640	19,870,288
Retained earnings.....	336,864,146	332,905,389
Less treasury stock at cost: 724,492 and 733,192 shares in 2001 and 2000, respectively.....	(15,269,101)	(15,451,975)
Total stockholders' equity.....	----- 427,930,404 -----	----- 434,425,431 -----
	----- \$520,701,667 =====	----- \$546,336,005 =====

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended	
	March 31,	
	2001	2000
Sales.....	\$105,275,747	\$99,470,351
Cost of sales.....	59,841,309	45,065,863
	-----	-----
Gross profit.....	45,434,438	54,404,488
Selling, general and administrative expenses.....	26,064,836	18,672,699
Research and development expenses.....	14,848,714	11,261,968
	-----	-----
Income from operations.....	4,520,888	24,469,821
Interest expense.....	(503,556)	(576,333)
Other income, net.....	1,980,787	1,553,052
	-----	-----
Income before income taxes.....	5,998,119	25,446,540
Provision for income taxes.....	(2,039,362)	(8,652,065)
	-----	-----
Net income.....	\$ 3,958,757	\$16,794,475
	=====	=====
Weighted average shares outstanding.....	38,718,662	38,567,916
	=====	=====
Weighted average shares outstanding assuming dilution (1).....	38,863,521	39,915,234
	=====	=====
Earnings per common share - basic.....	\$.10	\$.44
	=====	=====
Earnings per common share assuming dilution (1).....	\$.10	\$.42
	=====	=====

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended	
	March 31,	
	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income.....	\$ 3,958,757	\$ 16,794,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	4,009,675	2,953,096
Loss (gain) on sale of short-term investments.....	17,134	(3,999)
Change in operating assets and liabilities:		
Accounts receivable.....	12,253,910	(1,948,392)
Inventory.....	(6,919,475)	(1,123,705)
Other receivables.....	22,586,228	(577,772)
Prepaid expenses.....	(202,113)	(2,136,808)
Accounts payable.....	(13,585,121)	3,810,056
Income taxes payable.....	(866,030)	3,519,126
Accrued expenses.....	1,279,395	(1,807,088)
	-----	-----
Net cash provided by operating activities.....	22,532,360	19,478,989
	-----	-----
Cash flows from investing activities:		
Expenditures for property, plant and equipment.....	(5,591,143)	(9,257,904)
Proceeds from sales of short-term investments.....	14,233,193	16,196,001
Purchases of short-term investments.....	(15,988,066)	(43,867,716)
Proceeds from sales of long-term investments.....	9,991,030	980,381
Purchases of long-term investments.....	(2,468,426)	(496,379)
	-----	-----
Net cash provided by (used in) investing activities.....	176,588	(36,445,617)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	113,865	5,215,387
	-----	-----
Net cash provided by financing activities.....	113,865	5,215,387
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	22,822,813	(11,751,241)
Cash and cash equivalents, beginning of period.....	27,971,313	37,500,674
	-----	-----
Cash and cash equivalents, end of period.....	\$ 50,794,126	\$ 25,749,433
	=====	=====

See notes to condensed financial statements

ADTRAN, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The interim condensed balance sheet of ADTRAN, Inc. ("ADTRAN") at December 31, 2000 has been derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The accompanying unaudited condensed financial statements of ADTRAN have been prepared pursuant to the rules and regulations for reporting on Quarterly Reports on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 2001 are not necessarily indicative of the results that may be expected to occur for the year ending December 31, 2001. The interim statements should be read in conjunction with the financial statements and notes thereto included in ADTRAN's latest Annual Report on Form 10-K.

2. INVENTORY

At March 31, 2001 and December 31, 2000, inventory consists of the following:

	March 31, 2001	December 31, 2000
	-----	-----
Raw materials	\$54,447,885	\$50,011,508
Work in progress	8,103,036	12,606,275
Finished goods	33,621,283	26,634,946
	-----	-----
	\$96,172,204	\$89,252,729
	=====	=====

3. COMPREHENSIVE INCOME

Comprehensive income consists of net income and unrealized gains and losses on marketable securities, net of deferred taxes. Comprehensive income of \$13,261,397 at March 31, 2001, consists of net income of \$3,958,757 and unrealized gains on marketable securities of \$9,302,640 (net of deferred tax of \$5,257,652).

4. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share (EPS) for the three months ended March 31, 2001 and 2000 is as follows:

	For the Three Months Ended March 31, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$3,958,757	38,718,662	\$.10
Effect of Dilutive Securities			
Stock Options		144,859	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$3,958,757	38,863,521	\$.10
	For the Three Months Ended March 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$16,794,475	38,567,916	\$.44
Effect of Dilutive Securities			
Stock Options		1,347,318	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$16,794,475	39,915,234	\$.42

5. Segment Information

ADTRAN operates two reportable segments - (1) the Carrier Network Division and (2) the Enterprise Network Division. We evaluate the performance of our segments based on gross profit; therefore, selling, general and administrative costs, as well as research and development, interest income/expense, and the provision for income taxes are reported on an entity wide basis only. There are no intersegment revenues.

The table below presents information about the reported sales and gross profit of ADTRAN's segments for the three months ended March 31, 2001 and 2000, respectively. Asset information by reportable segment is not reported, since ADTRAN does not produce such information internally.

	Three Months Ended March 31, 2001		Three Months Ended March 31, 2000	
	Sales	Gross Profit	Sales	Gross Profit
Carrier Network	\$ 69,217,660	\$26,172,558	\$67,535,789	\$36,108,258
Enterprise Network	36,058,087	19,261,880	31,934,562	18,296,230
Total	\$105,275,747	\$45,434,438	\$99,470,351	\$54,404,488

The following table presents sales information by geographic area for the three months ended March 31, 2001 and 2000, respectively.

	Three Months Ended	
	March 31, 2001	March 31, 2000
United States	\$101,626,918	\$96,442,449
Foreign	3,648,829	3,027,902
Total	\$105,275,747	\$99,470,351

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS

OF OPERATIONS

OVERVIEW

ADTRAN designs, develops, manufactures, markets and services a broad range of high-speed digital transmission products utilized by providers of telecommunications services (serviced by ADTRAN's Carrier Networks Division or CN) and corporate end-users (serviced by ADTRAN's Enterprise Networks Division or EN) to implement advanced digital data services over existing telephone networks. We currently sell our products to a large number of carriers, including all RBOCs, and to private and public enterprises worldwide.

ADTRAN's sales have increased each year due primarily to increases in the number of units sold to both new and existing customers. These annual sales increases reflect our strategy of increasing unit volume and market share through the introduction of succeeding generations of products having lower selling prices and increased functionality as compared both to the prior generation of a product and to the products of competitors. An important part of ADTRAN's strategy is to engineer the reduction of the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. As a part of this strategy, we seek in most instances to be a low-cost, high-quality provider of products in our markets. ADTRAN's success to-date is attributable in large measure to our ability to design our products initially with a view to their subsequent re-design, allowing both increased functionality and reduced manufacturing costs in each succeeding product generation. This strategy enables ADTRAN to sell succeeding generations of products to existing customers while increasing our market share by selling these enhanced products to new customers.

While ADTRAN has experienced increased sales in each year, our operating results have fluctuated on a quarterly basis in the past, and operating results may vary significantly in future periods due to a number of factors. We operate with very little order backlog. A substantial majority of our sales in each quarter results from orders booked in that quarter and firm purchase orders released in that quarter by customers under agreements containing non-binding purchase commitments. Furthermore, a majority of customers typically require prompt delivery of products. This results in a limited backlog of orders for these products and requires us to maintain sufficient inventory levels to satisfy anticipated customer demand. If near-term demand for ADTRAN's products declines, or if potential sales in any quarter do not occur as anticipated, our financial results will be adversely affected. Operating expenses are relatively fixed in the short term; therefore, a shortfall in quarterly revenues could impact ADTRAN's financial results significantly in a given quarter. Further, maintaining sufficient inventory levels to assure prompt delivery of our products increases the amount of inventory which may become obsolete and increases the risk that the obsolescence of such inventory may have an adverse effect on our business and operating results.

ADTRAN's operating results may also fluctuate as a result of a number of other factors, including increased competition, customer order patterns, changes in product mix, product warranty returns and announcements of new products by ADTRAN or our competitors. Accordingly, ADTRAN's historical financial performance is not necessarily a meaningful indicator of future results, and, in general, management expects that ADTRAN's financial results may vary from period to period.

This Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which represent ADTRAN's expectations of beliefs, including, but not limited to, statements concerning (i) the business and financial outlook, (ii) our business, financial condition or results of operations, and (iii) our business strategy. When used in this Form 10-Q, the words "believe," "anticipate," "think," "intend," "will be," and similar expressions identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements

which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures, including, but not limited to, the disclosures described under the captions "Management's Discussion and Analysis of financial Condition and Results of Operations" and "Liquidity and Capital Resources," and those discussed in ADTRAN's filings with the Securities and Exchange Commission, as well as the general economic conditions and industry trends which could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements.

RESULTS OF OPERATIONS - Three Months Ended March 31, 2001 Compared to Three Months Ended March 31, 2000

SALES

ADTRAN's sales increased 5.8% from \$99,470,351 in the three months ended March 31, 2000 to \$105,275,747 in the three months ended March 31, 2001. The increased sales resulted from an increase in sales volume to existing customers and from increased market penetration. Carrier Network sales increased from \$67,535,789 in the three months ended March 31, 2000 to \$69,217,660 in the three months ended March 31, 2001. Carrier Network sales as a percentage of total sales decreased from 67.9% in the three months ended March 31, 2000 to 65.7% in the three months ended March 31, 2001. Sales of Enterprise Network products increased from \$31,934,562 in the three months ended March 31, 2000 to \$36,058,087 in the three months ended March 31, 2001. The increase was due to strong growth in our Systems products. As a percentage of sales, Enterprise Network sales increased from 32.1% in the three months ended March 31, 2000 to 34.3% in the three months ended March 31, 2001. The financial effect of the increase in overall unit volume was offset somewhat by lower unit selling prices for many of ADTRAN's products.

COST OF SALES

Cost of sales increased 32.8% from \$45,065,863 in the three months ended March 31, 2000 to \$59,841,309 in the three months ended March 31, 2001. As a percentage of sales, cost of sales increased from 45.3% in the three months ended March 31, 2000 to 56.8% in the three months ended March 31, 2001. An important part of ADTRAN's strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This strategy sometimes results in variations in ADTRAN's gross profit margin due to timing differences between the recognition of cost reductions and the lowering of product selling prices. In view of the rapid pace of new product introductions by ADTRAN, this strategy may result in variations in gross profit margins that, for any particular financial period, can be difficult to predict.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased 39.6% from \$18,672,699 in the three months ended March 31, 2000 to \$26,064,836 in the three months ended March 31, 2001. The increase was due to additional sales and support expenditures necessary as a result of our expanded sales base. Selling, general and administrative expenses as a percentage of sales increased from 18.8% in the three months ended March 31, 2000 to 24.8% in the three months ended March 31, 2001. Sales and support organization expansion, which resulted in increased costs during the quarter, will continue because they are necessary to position ADTRAN to accumulate market share and maintain growth over the long-term.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased 31.8% from \$11,261,968 in the three months ended March 31, 2000 to \$14,848,714 in the three months ended March 31, 2001. The increase was due to increased investment

in product development and cost reduction through engineering. As a percentage of sales, research and development expenses increased from 11.3% in the three months ended March 31, 2000 to 14.1% in the three months ended March 31, 2001. ADTRAN will continue to invest in these product development activities because they are necessary to position us to accumulate market share and maintain growth over the long-term.

INTEREST EXPENSE

Interest expense decreased 12.6% from \$576,333 for the three months ended March 31, 2000 to \$503,556 in the three months ended March 31, 2001.

OTHER INCOME

Other income increased 27.5% from 1,553,052 for the three months ended March 31, 2000 to \$1,980,787 in the three months ended March 31, 2001.

NET INCOME

As a result of the above factors, net income decreased 76.4% from \$16,794,475 in the three months ended March 31, 2000 to \$3,958,759 in the three months ended March 31, 2001. As a percentage of sales, net income decreased from 16.9% in the three months ended March 31, 2000 to 3.8% in the three months ended March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

ADTRAN committed to spend approximately an additional \$250,000 for finalizing the construction of Phase IV of our corporate headquarters in Huntsville, Alabama, which was completed in October 2000. Over the next several years, we expect to spend approximately an additional \$35,000,000 to equip Phase IV. Fifty million dollars of ADTRAN's Phase III expansion was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). The incentive program enables participating companies to generate Alabama corporate income tax credits that can be used to reduce the amount of Alabama corporate income taxes that would otherwise be payable. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future, and therefore, ADTRAN may not realize the full benefit of these incentives. Through December 31, 2000, the Authority had issued \$50,000,000 of its taxable revenue bonds pursuant to the incentive program and loaned the proceeds from the sale of the bonds to ADTRAN. ADTRAN is required to make payments to the Authority in the amounts necessary to pay the principal of and interest on the Authority's Taxable Revenue Bond, Series 1995, as amended, currently outstanding in the aggregate principal amount of \$50,000,000. The bond matures on January 1, 2020, and bears interest at the rate of 45 basis points over the money market rate of First Union National Bank of Tennessee.

ADTRAN's working capital position increased 3.9% from \$257,636,000 as of December 31, 2000 to \$267,649,000 as of March 31, 2001 due to cash generated from operations as evident in our reduction of accounts receivable and other receivables. Accounts receivables and other receivables decreased 14.9% and 63.0%, respectively from December 31, 2000 to March 31, 2001. Accounts payable decreased 39.8% from December 31, 2000 to March 31, 2001. ADTRAN has used, and expects to continue to use, the cash generated from operations for working capital and other general corporate purposes, including (i) product development activities to enhance its existing products and develop new products and (ii) expansion of sales and marketing activities. Inventory increased 7.8% from December 31, 2000 to March 31, 2001. The increase is attributable to our expectations of increased shipments to existing customers.

On March 31, 1997, the Board of Directors authorized ADTRAN to re-purchase up to 1,000,000 shares of our outstanding common stock. In October 1998, the Board approved the re-purchase of an additional 2,000,000 shares. As of March 31, 2001, we had re-purchased 1,121,417 shares of our common stock at a total cost of \$23,612,000.

Capital expenditures totaling \$32,540,000 for the year ended December 31, 2000 and \$5,591,000 in the first three months of 2001 were used to expand our headquarters and to purchase equipment.

At March 31, 2001, ADTRAN's cash on hand of \$50,794,126 and short-term investments of \$62,024,071 placed our potential cash availability at \$112,818,197.

We intend to finance our operations in the future with cash flow from operations and remaining borrowed taxable revenue bond proceeds. We believe these available sources of funds to be adequate to meet our operating and capital needs for the foreseeable future.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ADTRAN has not conducted transactions, established commitments or entered into relationships requiring disclosures beyond those provided elsewhere in this Form 10-Q.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) No reports on Form 8-K were filed during the quarter ended March 31, 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADTRAN, INC.
(Registrant)

Date: May 10, 2001

/s/ John R. Cooper

John R. Cooper
Vice President - Finance and
Chief Financial Officer

End of Filing

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