ADTRAN INC

FORM 10-Q
(Quarterly Report)

Filed 11/13/1996 For Period Ending 9/30/1996

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

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 1996

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)

(205) 971-8000
(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 x 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 October 31, 1996
Common Stock, $.01 Par Value	38,760,494 shares

ADTRAN, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 1996

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADTRAN, INC.

CONDENSED BALANCE SHEETS

ASSETS	December 31, 1995	September 30, 1996
		(Unaudited)
Current assets:		
Cash and cash equivalents	$ 35,027,609	$ 33,819,943
Short-term investments	24,652,689	27,525,080
Accounts receivable, less allowance for doubtful accounts of $544,526 and $673,965 in 1995 and 1996, respectively	29,234,803	33,903,289
Other receivables	857,303	279,565
Inventory	44,997,195	43,046,156
Prepaid expenses	683,594	3,770,457
Deferred tax assets	1,068,861	1,068,861
Total current assets	136,522,054	143,413,351
Property, plant, and equipment, less accumulated depreciation of $8,877,504 and $10,196,709 in 1995 and 1996, respectively	29,245,252	49,933,398
	$165,767,306	$193,346,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,740,587	$ 8,178,164
Accrued salaries	1,332,141	1,475,731
Accrued income taxes	1,310,841	0
Accrued taxes other than income taxes	586,150	426,248
Accrued interest payable	74,305	56,089
Warranty liability	523,027	648,027
Accrued vacation	489,278	689,352
Total current liabilities	14,056,329	11,473,611
Long term liabilities:		
Long term debt	20,000,000	20,000,000
Deferred income taxes	967,666	967,666
Total liabilities	35,023,995	32,441,277
Stockholders' equity:		
Common stock, par value $.01 per share 60,000,000 shares authorized; 37,462,275 and 38,716,844 shares issued in 1995 and 1996, respectively	374,623	387,168
Additional paid-in capital	89,404,177	90,086,912
Retained earnings	40,964,511	70,431,392
Total stockholders' equity	130,743,311	160,905,472
	$165,767,306	$193,346,749

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF INCOME

UNAUDITED

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
Sales	$48,002,263	$62,634,637	$131,560,833	$180,484,338
Cost of sales	24,554,375	32,930,249	67,714,515	95,352,361
Gross profit	23,447,888	29,704,388	63,846,318	85,131,977
Selling, general and administrative expenses	7,071,049	8,472,083	19,087,212	23,494,632
Research and development expenses	5,127,080	6,269,711	13,995,328	17,897,106
Income from operations	11,249,759	14,962,594	30,763,778	43,740,239
Interest expense	(210,290)	(219,597)	(857,785)	(666,467)
Other income (expense)	882,696	643,159	2,151,370	1,722,446
Income before income taxes	11,922,165	15,386,156	32,057,363	44,796,218
Provision for income taxes	(4,152,490)	(5,980,599)	(11,165,579)	(16,427,053)
Net income	$ 7,769,675	$ 9,405,557	$ 20,891,784	$ 28,369,165
Net income per common and common equivalent share	$ .20	$ .24	$ .53	$ .72
Weighted average common and common equivalent shares outstanding	39,518,679	39,579,894	39,179,784	39,568,602

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	NINE MONTHS ENDED SEPTEMBER 30, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
Cash flows from operating activities:		
Net income	$ 20,891,784	$ 28,369,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,185,673	3,409,150
Provision for losses on accounts receivable	149,736	154,598
Provision for losses on inventory	2,141,686	2,733,676
Provision for losses on warranty claims		529,729
(Gain) loss on sale of property, plant and equipment	8,842	30,204
(Gain) loss on short term investments	54,056	405,789
Change in operating assets:		
Accounts receivable	(8,470,202)	(4,823,084)
Inventory	(12,751,038)	(782,637)
Other receivables	(628,345)	577,738
Prepaid expenses	(400,871)	(3,086,863)
Change in operating liabilities:		
Accounts payable	523,375	(1,562,423)
Accrued salaries	(202,677)	143,590
Accrued income taxes	1,635,755	(213,125)
Accrued taxes other than income taxes	75,032	(159,902)
Accrued interest payable	56,250	(18,216)
Accrued vacation	174,489	200,074
Warranty liabilities	50,000	(404,729)
Net cash provided by operating activities	5,493,545	25,502,734
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(8,453,509)	(24,132,103)
Proceeds from the disposition of property, plant and equipment	6,000	4,602
Net (purchase) sale of short-term investments	(23,241,831)	(3,278,180)
Net cash provided by (used in) investing activities	(31,689,340)	(27,405,681)
Cash flows from financing activities:		
Proceeds from bond issuance	20,000,000	
Proceeds from public offering	15,690,000	
Proceeds from issuance of common stock	302,026	695,281
Net cash provided by financing activities	35,992,026	695,281
Net increase (decrease) in cash and cash equivalents	9,796,231	(1,207,666)
Cash and cash equivalents, beginning of period	18,765,178	35,027,609
Cash and cash equivalents, end of period	$ 28,561,409	$ 33,819,943
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest, net of $136,251 and $298,775 of capitalized interest in 1995 and 1996, respectively	$ 1,054,036	$ 983,458
Cash paid during the period for taxes	$ 9,529,825	$ 18,835,818

See notes to condensed financial statements

ADTRAN, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed statements of ADTRAN, Inc. (the "Company") have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K.

Interim statements are subject to possible adjustments in connection with the annual audit of the Company's accounts for the full year 1996. 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 nine months ended September 30, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996.

2. INVENTORY

At December 31, 1995 and September 30, 1996, inventory consisted of the following:

	December 31, 1995	September 30, 1996
Raw materials....................	$27,390,750	$27,276,202
Work in progress.................	4,428,437	2,715,783
Finished goods...................	13,178,008	13,054,171
	$44,997,195	$43,046,156

3. THE ALABAMA STATE INDUSTRIAL DEVELOPMENT AUTHORITY

In conjunction with the expansion of its Huntsville, Alabama facility, the Company is participating in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). Pursuant to such program, in January 1995, the Authority issued $20,000,000 of its taxable revenue bonds and loaned the proceeds from the sale of the bonds to the Company. The bonds were purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the "Bank"), and the Company and the Bank have agreed to keep the proceeds from such bonds invested in short-term commercial paper until such time as the proceeds are needed by the Company to pay the costs of construction. Prior to the Company using the proceeds for construction costs, the Company, the Authority and the Bank would be required to enter into further documentation to allow such use of proceeds. The Company has agreed to make payments to the Authority in amounts necessary to pay the principal of and interest on such bonds. The bonds bear interest, payable monthly, at the rate of 87.5 basis points over the 30 day London inter- bank offered rate and mature on January 1, 2020. Construction on the project began in March 1995 and certain phases should be completed by the end of 1996.

4. RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, will require the Company, for the year ended December 31, 1996, to either account for the estimated fair value of stock options granted as compensation expense or continue to account for them under present rules. If the Company chooses to continue to account for stock options granted under present rules, as management believes is likely, disclosure will be required of the pro forma impact of accounting for the estimated fair value of stock options granted as compensation expense.

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

OF OPERATIONS

OVERVIEW

ADTRAN, Inc., (the "Company") designs, develops, manufactures, markets and services a broad range of high speed digital transmission products utilized by telephone companies ("Telcos") and corporate end-users to implement advanced digital data services over existing telephone networks. The Company currently sells its products to Telcos (including all of the Regional Bell Operating Companies), Original Equipment Manufacturers ("OEMs") and, since 1991, private end-users in the Customer Premises Equipment ("CPE") market.

The Company'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 the Company's 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 to the prior generation of a product and to the products of competitors. An important part of the Company'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, the Company seeks in most instances to be a low cost, high quality provider of products in its markets. The Company also strives to introduce forward looking designs which provide a technological and competitive advantage. In some cases this product advancement will make obsolete prior products of the Company. The Company's success to date is attributable in large measure to its ability to design its products with a view to their subsequent re-design, allowing efficient enhancements of the product in each succeeding product generation. This strategy has enabled the Company to sell succeeding generations of products to existing customers as well as to increase its market share by selling these enhanced products to new customers.

The Company intends to retain all earnings for use in the development of its business and does not anticipate paying any cash dividends in the foreseeable future.

RESULTS OF OPERATIONS - THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1995 COMPARED TO THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1996

SALES

The Company's sales increased 30.5% from $48,002,263 in the three months ended September 30, 1995 to $62,634,637 in the three months ended September 30, 1996. Similarly, sales increased 37.2% from $131,560,833 in the nine months ended September 30, 1995 to $180,484,338 in the nine months ended September 30, 1996. The increased sales resulted from increased sales volume to existing customers and from increased market penetration. Sales to Telcos increased 18.9% from $29,339,770 in the three months ended September 30, 1995 to $34,876,761 in the three months ended September 30, 1996 and increased 44.0% from $74,728,552 in the nine months ended September 30, 1995 to $107,595,394 in the nine months ended September 30, 1996. The increase in Telco sales in the 1996 periods resulted primarily from increased sales of Integrated Services Digital Network ("ISDN") products and increased sales of High bit-rate Digital Subscriber Line ("HDSL") products. Telco sales as a percentage of total sales decreased from 61.1% in the three months ended September 30, 1995 to 55.7% in the three months ended September 30, 1996 and increased from 56.8% in the nine months ended September 30, 1995 to 59.6% in the nine months ended September 30, 1996. The increase in Telco sales as a percentage of total sales was due to increased sales volume of ISDN and HDSL products during the 1996 periods to Telcos. Sales of CPE products increased 39.4% from $14,291,941 in the three months ended September 30, 1995 to $19,928,445 in the three months ended September 30, 1996 and increased CPE 37.8% from $36,766,237 in the nine months ended September 30, 1995 to $50,653,819 in the nine months ended September 30, 1996 as a result of increased CPE sales of ISDN products and T1 Service Unit ("TSU") products. OEM sales increased 79.1% from $4,370,552 in the three months ended September 30, 1995 to $7,829,431 in the three months ended September 30, 1996 and increased 10.8% from $20,066,044 in the nine months ended September 30, 1995 to $22,235,124 in the nine months ended September 30, 1996. This increase was due to new contracts for customer funded modifications of standard DDS, ISDN and HDSL designs. OEM products are generally customized versions of the Company's Telco and CPE products. The financial effect of the increase in overall unit volume was offset somewhat by lower unit selling prices for many of the Company's products.

COST OF SALES

Cost of sales increased 34.1% from $24,554,375 in the three months ended September 30, 1995 to $32,930,249 in the three months ended September 30, 1996 and increased 40.8% from $67,714,515 in the nine months ended September 30, 1995 to $95,352,361 in the nine months ended September 30, 1996, primarily as a result of the increase in sales. As a percentage of sales, cost of sales increased from 51.2% in the three months ended September 30, 1995 to 52.6% in the three months ended September 30, 1996 and increased from 51.5% in the nine months ended September 30, 1995 to 52.8% in the nine months ended September 30, 1996. An important part of the Company'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 sometimes results in variations in the Company's gross profit margin due to timing differences between the lowering of product selling prices and the full recognition of cost reductions. In view of the rapid pace of new product introductions by the Company, 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 EXPENSES

Selling, general and administrative expenses increased 19.8% from $7,071,049 in the three months ended September 30, 1995 to $8,472,083 in the three months ended September 30, 1996 and increased 23.1% from $19,087,212 in the nine months ended September 30, 1995 to $23,494,632 in the nine months ended September 30, 1996. The increases were due to additional sales and support expenditures necessary as a result of the Company's expanded sales base. However, the larger sales base caused selling, general and administrative expenses as a percentage of sales to decrease from 14.7% in the three months ended September 30, 1995 to 13.5% in the three months ended September 30, 1996 and to decrease from 14.5% in the nine months ended September 30, 1995 to 13.0% in the nine months ended September 30, 1996.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased 22.3% from $5,127,080 in the three months ended September 30, 1995 to $6,269,711 in the three months ended September 30, 1996 and increased 27.9% from $13,995,328 in the nine months ended September 30, 1995 to $17,897,106 in the nine months ended September 30, 1996. The increase was due to increased engineering costs associated with new product introductions and product cost and feature enhancement activities. As a percentage of sales, however, research and development expenses declined from 10.7% in the three months ended September 30, 1995 to 10.0% in the three months ended September 30, 1996 and declined from 10.6% in the nine months ended September 30, 1995 to 9.9% in the nine months ended September 30, 1996 due to the increased sales in the 1996 periods.

INTEREST EXPENSE

Interest expense increased 4.4% from $210,290 in the three months ended September 30, 1995 to $219,597 in the three months ended September 30, 1996 and decreased 22.3% from $857,785 in the nine months ended September 30, 1995 to $666,467 in the nine months ended September 30, 1996. This decrease was due to capitalization of the interest cost as a part of the cost of acquiring certain assets. The Company currently pays interest on $20,000,000 of revenue bond proceeds loaned to the Company in January 1995, which proceeds are being used to expand the Company's facilities in Huntsville, Alabama. See "Liquidity and Capital Resources" below.

NET INCOME

As a result of the above factors, net income increased 21.1% from $7,769,675 in the three months ended September 30, 1995 to $9,405,557 in the three months ended September 30, 1996 and increased 35.8% from $20,891,784 in the nine months ended September 30, 1995 to $28,369,165 in the nine months ended September 30, 1996. As a percentage of sales, net income decreased from 16.2% in the three months ended September 30, 1995 to 15.0% in the three months ended September 30, 1996 and decreased from 15.9% in the nine months ended September 30, 1995 to 15.7% in the nine months ended September 30, 1996.

LIQUIDITY AND CAPITAL RESOURCES

The Company's only long-term debt outstanding as of September 30, 1996 consisted of a loan in the amount of $20,000,000 related to the expansion of the Company's facilities in Huntsville, Alabama. The Company is continuing a project to expand its facilities in Huntsville in several phases over the next four years at an approximate cost of up to $68,200,000. Fifty million dollars of this project has been approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). That program enables participating companies such as the Company to generate Alabama corporate income tax credits that can be used to offset much of the amount of the debt and interest incurred to finance the project. In January 1995, the Authority issued $20,000,000 of its taxable revenue bonds pursuant to such program and loaned the proceeds from the sale of the bonds to the Company. The bonds were purchased by AmSouth Bank of Alabama, Birmingham, Alabama, (the "Bank"), and the Company and the Bank have agreed to keep the proceeds from such bonds invested in short-term commercial paper until such time as the proceeds are needed by the Company to pay the costs of construction. Prior to the Company using the proceeds for construction costs, the Company, the Authority and the Bank would be required to enter into further documentation to allow such use of proceeds. The Company has agreed to make payments to the Authority in amounts necessary to pay the principal of, and interest on, such bonds. The bonds bear interest, payable monthly, at the rate of 87.5 basis points over the 30 day London inter-bank offered rate and mature on January 1, 2020. Construction on the project began in March 1995 and certain phases should be completed by the end of 1996. The Company expects to use the proceeds of additional revenue bonds pursuant to such program to equip its expanded facilities over the next four years. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future.

The Company's working capital position improved from $122,465,725 as of December 31, 1995 to $131,939,740 as of September 30, 1996. This improvement in the Company's working capital position was due primarily to increased earnings. The Company has used, and expects to continue to use, the remaining proceeds of prior public offerings 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 decreased 4.3% in the nine months ended September 30, 1996, while sales for the three months ended September 30, 1996 increased 25.5% over sales for the three months ended December 31, 1995. The decrease in inventory reflects overall efficiencies in reducing inventory levels.

Capital expenditures totaling $12,790,517 in 1995 and $24,132,103 in the first nine months of 1996 were used to expand the Company's headquarters and to purchase equipment.

At September 30, 1996, the Company's cash on hand of $33,819,943, short-term investments of $27,525,080 and $10,000,000 available under a $10,000,000 bank line of credit placed the Company's potential cash availability at $71,345,023, of which a portion is being used to expand the Company's facilities under the incentive program described above. The Company's $10,000,000 bank line of credit bears interest at the rate of 87.5 basis points over the 30 day London inter- bank offered rate and expires in May 1997.

The Company intends to finance its operations in the future with cash flow from operations, the remaining net proceeds of the public offerings, amounts available under the bank line of credit, borrowed revenue bond proceeds, and possible additional public financings. These available sources of funds are expected to be adequate to meet the Company's operating and capital needs for the foreseeable future.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) The following exhibits are being filed with this report.

Exhibit No.	Description
11	Weighted Average Common and Common Equivalent Shares Outstanding
27	Financial Data Schedule

(b) The Company filed the following Current Report on Form 8-K during the quarter ended September 30, 1996.

Date of Report	Form 8-K Item Reported	Description	Financial Statements Included
9-11-96	Item 7	Press release dated August 12, 1996 announcing the appointment of Mr. John R. Cooper as Vice President and Chief Financial Officer of ADTRAN, Inc.	None
9-11-96	Item 7	Press release dated August 29, 1996 announcing the appointment of Dr. Melvin Bruce as Vice President of Engineering of ADTRAN, Inc.	None
9-11-96	Item 7	Press release dated September 9, 1996 announcing the appointment of Dr. Peter O. Brackett as Vice President of Technology of ADTRAN, Inc.	None

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: November 13, 1996

/s/ John R. Cooper

John R. Cooper
Vice President and CFO

INDEX OF EXHIBITS

EXHIBIT NO.	DESCRIPTION
11	Weighted Average Common and Common Equivalent Shares Outstanding
27	Financial Data Schedule

EXHIBIT 11

ADTRAN, INC

WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING FOR THE THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	1995	1996	1995	1996
Weighted average common shares outstanding.....	37,412,116	38,707,474	36,831,908	38,551,606
Net weighted average common stock options outstanding under the treasury stock method................................	2,106,563	872,420	2,347,876	1,016,996
Weighted average common and common equivalent shares outstanding..............	39,518,679	39,579,894	39,179,784	39,568,602
Net income....................................	$7,769,675	$9,405,557	$20,891,784	$28,369,165
Net income per common and common equivalent share.............................	$ .20	$ .24	$ .53	$ .72

ARTICLE 5

This Schedule contains summary financial information extracted from the interim Condensed Statement of Income for the Nine Months Ended September 30, 1996 and the Condensed Balance Sheet as of September 30, 1996, and is qualified in its entirety by reference to such financial statements.

PERIOD TYPE	9 MOS
FISCAL YEAR END	DEC 31 1995
PERIOD START	JAN 31 1996
PERIOD END	SEP 30 1996
CASH	33,819,943
SECURITIES	27,525,080
RECEIVABLES	34,577,253
ALLOWANCES	(673,965)
INVENTORY	43,046,156
CURRENT ASSETS	143,413,351
PP&E	62,094,729
DEPRECIATION	(12,161,331)
TOTAL ASSETS	193,346,749
CURRENT LIABILITIES	11,473,611
BONDS	20,000,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	387,168
OTHER SE	160,518,304
TOTAL LIABILITY AND EQUITY	193,346,749
SALES	180,484,338
TOTAL REVENUES	180,484,338
CGS	95,352,361
TOTAL COSTS	95,352,361
OTHER EXPENSES	23,494,632
LOSS PROVISION	154,598
INTEREST EXPENSE	666,467
INCOME PRETAX	44,796,218
INCOME TAX	16,427,053
INCOME CONTINUING	28,369,165
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	28,369,165
EPS PRIMARY	.72
EPS DILUTED	.72

End of Filing