

ADTRAN INC

FORM 10-K (Annual Report)

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2000

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 Number)

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)

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

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01
par value**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No__

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

The aggregate market value of the registrant's outstanding common stock held by non-affiliates of the registrant on March 1, 2001 was \$526,569,673 based on a closing market price of \$24.625 as quoted on the Nasdaq National Market. There were 39,451,088 shares of common stock outstanding as of March 1, 2001.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on April 20, 2001 are incorporated herein by reference in Part III.

ADTRAN, Inc.
Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2000

Table of Contents

Item Number		Page Number
PART I		
1.	Business.....	3
2.	Properties.....	11
3.	Legal Proceedings.....	11
4.	Submission of Matters to a Vote of Security Holders.....	11
PART II		
5.	Market for the Registrant's Common Equity and Related Stockholder Matters.....	14
6.	Selected Financial Data.....	15
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	16
7A.	Quantitative and Qualitative Disclosures About Market Risk.....	20
8.	Financial Statements and Supplementary Data.....	20
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....	34
PART III		
10.	Directors and Executive Officers of the Registrant.....	34
11.	Executive Compensation.....	35
12.	Security Ownership of Certain Beneficial Owners and Management.....	35
13.	Certain Relationships and Related Transactions.....	35
PART IV		
14.	Exhibits, Financial Statements, Financial Statement Schedules, and Reports on Form 8-K....	35
	SIGNATURES.....	38
	INDEX OF EXHIBITS.....	40

PART I

ITEM 1. BUSINESS

Overview

ADTRAN, Inc. designs, develops, and manufactures high-speed digital transmission equipment for use in today's widespread telecommunications networks. The two primary consumers of our products are telecommunications services providers (served by our Carrier Networks division, or CN) and public and private enterprises (served by our Enterprise Networks division, or EN). These customers use ADTRAN products to implement high-speed voice and data communications over copper and fiber network infrastructures. ADTRAN was incorporated under the laws of Delaware in November 1985 and commenced operations in January 1986.

Customers

Our service provider, or carrier, customer base includes all of the major domestic Incumbent Local Exchange Carriers (ILECs); large independent carriers; a growing number of successful Competitive Service Providers (CSPs); as well as primary telecom service providers and competitive carriers in other regions of the world, including Hong Kong, China, Europe, Central America and Australia. Our enterprise customer base includes private and public enterprises worldwide in numerous vertical industries. We market our products and services using a direct sales force complemented by an extensive network of technology distributors and resellers.

Products

ADTRAN offers more than 500 different products built around a set of core technologies, and developed to address high-speed digital communications over the last mile of the local loop ("Local Loop"). The Local Loop is the large existing infrastructure of the telephone network that connects end users to a service provider's central office, the facility that provides the local switching and distribution functions ("Central Office"). Our technologies support over two million Local Loops worldwide.

ADTRAN's products address two market segments: (i) CN products for use in the service provider's Local Loop, including Central Office, remote terminal and customer premises, and (ii) EN products for use at enterprise headquarters, remote offices and telecommuting locations. In 2000, sales of CN and EN products accounted for 68% and 32%, respectively, of ADTRAN's sales.

ADTRAN's main product lines for carrier networks include the Total Access(TM) System and HDSL/HDSL2 transport technologies. The Total Access System is a distributed access solution that includes broadband and narrowband access platforms, Time Division Multiplex ("TDM") and Asynchronous Transfer Mode ("ATM") integrated access devices, voice concentrators, and system management and professional services. Our HDSL/HDSL2 products offer four-wire and two-wire transport of voice and data over T1 facilities at extended distances with less engineering. These products are in addition to a comprehensive line of plug-in transmission, repeater, extension and termination devices for T1, Frame Relay, Integrated Services Digital Network ("ISDN"), and Digital Data Service ("DDS") services.

ADTRAN's enterprise networks product line includes solutions for wide area connectivity across most of today's diverse communications networks and technologies. We sell a broad range of products for voice, data, video, and Internet applications across fiber, T3, T1/E1, wireless T1/E1, FT1, Digital Subscriber Line ("DSL"), ATM, Frame Relay, ISDN, and DDS. Key product lines include the ATLAS series of Integrated Access Devices, the ADVANTA series of Virtual Private Network ("VPN") networking devices, the TSU series of T1 Services Units, the IQ series of Frame Relay Performance Monitoring devices, the ISU series of ISDN Service Units, and the DSU series of DDS Service Units.

Market Trends

Demand for digital transmission technologies is being driven by Internet access, small office/home office ("SOHO") users, video delivery, on-line data services, and other applications, all of which require and benefit from the speed, reliability and low cost of digital transmission. While most service providers have replaced the copper wireline transmission network between Central Offices with fiber-optic and digital microwave links (which allow for high-speed digital transmission), the Local Loop remains predominantly copper wireline. Widespread replacement of this copper infrastructure remains prohibitively expensive; therefore, service providers have turned to manufacturers such as ADTRAN for technologies that upgrade the Local Loop to handle digital transmission in a cost effective manner.

Many digital delivery technologies are experiencing rapid growth, including High-Bit-Rate Digital Subscriber Line ("HDSL"), Symmetrical High-Bit-Rate Digital Subscriber Line ("SHDSL"), also known as G.shdsl, Asymmetrical High-Bit-Rate Digital Subscriber Line ("ADSL"), and ATM. Numerous higher speed digital technologies are under development, including additional versions of DSL technology, hybrid fiber coax, cable modems and other technologies.

Product Development Strategy

ADTRAN's expertise lies in the development of advanced transmission technologies for copper and fiber loops. We apply these technologies in various products designed to improve network performance by optimizing the capacity of the infrastructure, increasing

transmission speeds, and extending transmission distances. Our current research and product development activities include development of systems-based architectures that support new, higher speed technologies in comprehensive packaged solutions.

For example, we are now producing the Total Access(TM) System--a distributed access solution that includes carrier-class broadband and narrowband multiservice access platforms, TDM- and ATM-based Integrated Access Devices ("IADs"), and GR-303 concentrators, along with system management and professional services. Total Access promotes strategic network planning, breaking down barriers to profitability, overcoming logistical deployment issues, and expanding customer reach with the latest, copper-saving technologies.

In developing our product families, we have continuously improved our design, purchasing and production processes to lower product costs and have consistently offered improved products at lower prices to customers. As a result, we believe that we are a leading provider of Local Loop and Central Office digital transmission products to services providers. See "Business Strategy."

We pioneered the use of narrowband two-wire technologies in the mid-1990's with our Total Reach(R) DDS and ISDN range extension products. Still in high demand, Total Reach products contributed approximately 16% to 2000 revenue.

The innovative signaling technique used in Total Reach enabled ADTRAN to sustain a strong price and performance advantage for years. Now, that signaling technique has been modified and adopted for newer T1 two-wire transports, such as HDSL2, G.shdsl, and SDSL. HDSL2 is the first two-wire standard for T1 facilities, and ADTRAN was the first to market with a standards-compliant product in late 1999. That product began shipping in volume in 2000.

Now, ADTRAN is leading the industry's newest DSL technology, G.shdsl. We are the first to develop a standards-compliant G.shdsl chip, and the first to introduce a G.shdsl deployment solution using the Total Access System. G.shdsl has strong implications in international markets as well. Standardized by both U.S. and international committees, G.shdsl represents the first true global DSL standard, supporting both North American and European specifications.

ADTRAN is significantly diversifying its product lines to meet the changing requirements of traditional and emerging networks. We are currently developing products to satisfy emerging demand for Internet Protocol ("IP") and softswitch network architectures. IP-based networks transport information over the Internet backbone, as opposed to the Public Switched Telephone Network. New products under development include VPN tunneling devices and traffic shaping devices.

Business Strategy

Our business objective is to enhance our position as a leading provider of digital transmission products for the Local Loop. To achieve this objective, we have adopted the following strategies:

Expand Product Offerings. We are expanding our products in order to offer our customers more comprehensive systems solutions and a viable migration path from traditional circuit-switched technologies to next-generation packet-switched technologies. We are also offering products focused specifically on the challenges brought about by a competitive service environment.

. We have developed, and are continuing to develop, the Total Access System--a series of interrelated products and platforms designed to address the needs of today's carriers. A complete solution ranging from network planning to professional services, Total Access enables carriers to work with a single vendor for integrated services. The systems approach offers advantages such as flexible services, more network interface options, increased bandwidth, centralized network management, voice and data convergence, single-vendor support and training, and easier technology migration.

. We have developed, and are continuing to develop, lines of products aimed at aiding carriers in transforming the Local Loop from a primarily analog, circuit-switched architecture to a digital, packet-switched architecture. These products are designed to carry both types of traffic so that carriers can buy them today to handle their circuit-switched traffic, then, in the future, simply reconfigure them to handle packet-switched traffic, instead of having to buy completely new equipment. These new products will also allow our customers to deploy new services to their customers, such as Voice over DSL, many of which had not been available in the past, or had been prohibitively expensive or complex to deploy.

. We are also continuing to develop new products that address the needs of a competitive service environment. As deregulation occurs, and new players continually enter the arena, service providers must manage ever-increasing network traffic, while keeping associated costs in check. Our solutions in this area include products to converge voice and data onto common circuits, such as IADs and Digital Subscriber Line Access Multiplexers (DSLAMs). Both of these devices play an important part in the deployment of Voice over DSL and other next-generation voice and data transports. Other products address the migration from four-wire to two-wire networks--a technique many carriers are using to capitalize on existing copper in both narrowband and broadband applications.

Adapt Product Technologies to Address Emerging Markets. We have a proven ability to adapt product technologies from one market to another. For example, we adapted many of the product technologies developed for carrier network products for use in our enterprise networking product lines. We are currently leveraging this capability in order to address the needs of today's emerging networks.

Products that support network convergence and other cost-reducing measures, especially over packet-based networks, are becoming increasingly critical. ADTRAN has responded with a series of IADs and DSLAMs that help consolidate voice and data traffic onto common circuits in applications such as Voice over DSL and Voice over ATM. Many of these products allow carriers to migrate from traditional circuit-switched technologies to emerging packet-switched technologies with a software upgrade.

ADTRAN was a pioneer in transmission technologies that allowed voice and data transport over two wires instead of four. This cost-effective technology remains in high demand today in both narrowband and broadband networks. The innovative signaling technique originally developed in our two-wire Total Reach(R) technology has sustained its price and performance advantage for years. Now, that signaling technique has been modified and adopted for newer T1 single-pair transports, such as HDSL2, SHDSL, and SDSL.

Capitalize on Existing Market Leadership Positions. We intend to maintain our market leadership positions in both carrier and enterprise markets. Our dedicated engineering organization focuses on applying successful technologies to new applications, and on developing new technologies to meet emerging market trends. Through in-house silicon development and engineering efficiency, ADTRAN has consistently improved product performance while reducing costs, leading to gains in market share. We will continue to develop innovative new products, and redesign existing products in order to reduce costs and cycle times. By focusing on these efforts, we believe we will continue to be a leading low-cost provider to the industry. We believe that maintaining our leadership in technology for high-speed digital transmission over copper wire is critical to our ability to build and maintain strong relationships with incumbent and competitive carriers, as well as enterprise users, and to achieve leadership in new markets.

Expand Sales Channels to Drive Market Penetration. We are working to increase customer adoption of our products by expanding our sales operations and distribution channels. We are working to expand our sales channel both through the internal creation of new sales divisions and through the addition of international sales partners, who will sell our products to customers around the world. We believe these additions to and expansion of our sales channels will help us drive increased market penetration in our existing markets, as well as help us to develop new markets.

Products

ADTRAN is concentrating significant resources on the development of products to support the migration from TDM to packet technologies such as ATM or Frame Relay. Packet technologies reduce costs by consolidating multiple users onto shared circuits, eliminating the idle bandwidth associated with dedicated circuits. This concept is especially important where carriers are offering converged voice and data services over DSL to small- and medium-sized business customers. We offer a comprehensive line of enterprise and carrier-class Frame Relay products and are building ATM technology into our newest integrated access systems.

Our product lines, comprised of over 500 products, are built around core technologies that we developed to address the Central Office and Local Loop digital communications marketplaces. Our product lines consist of two groups of inter-related products: (1) CN products and (2) EN products.

CN Products. Systems solutions and DSL technologies make up the core of our CN product offering. We are the industry's leading HDSL/HDSL2 product supplier, with equipment in use by a majority of ILECs and numerous other service providers. We are also a leader in the development of the next generation of two-wire DSL transport products, SHDSL, also known as G.shdsl. Having assumed a leadership role with the governing standards bodies that defined this important advancement, our in-depth understanding of the technology enabled us to produce the industry's first SHDSL chip set in a joint development effort with Infineon Technologies AG. These products are vital to carriers who deploy them widely to service business users needing broadband connectivity.

We are the only equipment provider that has developed its own low-cost chip sets implementing HDSL, HDSL2 and SHDSL, and we believe that provides a sustainable competitive advantage moving forward. Our engineers continue to provide timely technical advances through their effective development process, and our in-house integrated circuit expertise allows us to deliver highly competitive products with industry-leading cost positions.

ADTRAN's Total Access(TM) System provides a powerful broadband solution for carrier networks. It is critical equipment that connects expensive network infrastructure to the revenue source. CN's Total Access system product line was strengthened in 2000 by the

announcement of significant additions. Each addition plays a strategic role in the deployment of today's efficient distributed access business mode. Together with announcements scheduled for 2001, they address strong demand for new capabilities in Local Loop access platforms, serving as Next-Generation Distributed Loop Carrier (NGDLC) systems, DSLAM, voice concentrators, fiber distribution platforms, Voice over Digital Subscriber Line deployment systems, and centralized network management systems. These and other high-growth applications will continue to drive sales of the Total Access System. Installed at the Central Office or in a remote terminal, Total Access connects to network backbones ranging from T1 to fiber, and enables deployment of the widest range of voice and data services.

The Total Reach(R) family of products uses one of our technological breakthroughs to extend digital services over one twisted pair of copper wires. Total Reach addresses some of the major challenges associated with 64 kilobits per second Frame Relay service deployment such as multiple copper pair availability, extensive engineering for repeaters and apparatus cases required for lengthy installs, bridged tap determination and removal efforts, and power requirements.

We are the industry's primary supplier of U-BR1TEs, which are required to extend ISDN service from an ISDN capable switch at a hub Central Office to a serving Central Office. We also supply a substantial portion of the industry's ISDN mid-span repeaters and interface units.

EN Products. Many of our original EN products evolved from technologies developed for our CN product lines. Today, some of the technologies being developed by our EN division have application in CN markets as well. Frequently, we are able to realize a competitive advantage in the marketplace by leveraging product development efforts and expertise across our two divisions.

The ATLAS series, introduced in late 1997, has proven effective as a central site solution for the enterprise dealing with remote connectivity issues involving one or more different types of service technologies. A single ATLAS device can handle voice, data and video signals, and is often used to consolidate traffic and reduce monthly telecommunications pay outs. An ATLAS unit, combined with the appropriate ADTRAN access devices at the remote end, provides a complete connectivity solution for virtually any enterprise network.

The ATLAS family now includes the 800, 800 PLUS, 550, 810 PLUS (multinational), and 890. Members of the ATLAS series are classified as IADs, and essentially function as bandwidth managers, ISDN access switches, remote access concentrators, digital cross-connect systems, wide area emulators, routers, dial backup solutions and Frame Relay switches, all in one. The ATLAS 550, a lower- cost, lower-capacity version of the ATLAS 800, is a mid-sized platform for migrating TDM-based networks to packet technologies such as voice over IP and ATM.

The IAD has become an essential component in converged network architectures, especially in Voice over DSL applications. To address this growing need, we have added the Total Access(TM) series of IADs to our EN product lineup. The typical Voice over DSL model requires interoperability between an IAD, voice gateway, and DSLAM. In 2000, we established interoperability with leading third-party voice gateways and DSLAMs, making Total Access IADs suitable for many network opportunities. Our Total Access IADs are suitable for existing circuit-switched networks and newer packet-based networks.

Many carriers and enterprise customers are updating the last-mile segment of their networks from narrowband technologies, such as DDS, ISDN, and T1, to broadband technologies such as T3 and fiber. We have enjoyed consistent success in the T3 enterprise market since the introduction of the T3SU 300(TM) termination device in 1998. Because its innovative design ended the limitations found in many T3 termination devices, the T3SU 300 gained rapid market acceptance. Another example of innovative engineering in T3 technology is the MX2800(TM), a T1/T3 multiplexer introduced in late 1999. The MX2800 provides intelligent redundancy and other downtime-prevention features at a competitive price.

In late 2000, we entered the enterprise fiber market with two new optical transport products. The OCU 45 (Optical Converter Unit) is for use in applications where the customer seeks to connect copper-based buildings to fiber. The OSU 300, also introduced late in 2000, is a competitively priced Optical Service Unit for terminating point-to-point fiber circuits. Built on the technologies of our highly successful T3SU 300, the OSU 300 handles both voice and data using a single device, eliminating excess equipment.

We continue to provide a strong, broad offering of products in the enterprise DSU/CSU marketplace. In 1997, we introduced our "IQ Series" of DSUs and CSUs, which allows network operators and service providers to monitor and ensure the quality of service delivered on Frame Relay circuits. These design changes substantially reduced the manufacturing cost while increasing the utility of the product to the marketplace.

International Markets

ADTRAN serves its international markets through a combination of direct sales and distribution arrangements. We have formed, and will continue to pursue, international distribution arrangements built upon core products and technologies developed by us in an effort to further our penetration into international markets.

While our complete line of international E1 and four-wire HDSL deployment products continue to constitute a large portion of our international sales, many of the domestic product advances made in 2000 have important implications for ADTRAN in global markets. Two-wire transport that stretches infrastructure, fiber optics that increase bandwidth, and converged voice/data applications, such as Voice over DSL, are in high demand in other countries, just as they are in the U.S.

The international version of the Total Access System offers global service providers many of the same powerful deployment options that U.S. carriers enjoy. The new two-wire SHDSL (G.shdsl) international transport standard is being rapidly accepted abroad, and business models for ATM and Voice over DSL are similar to those used domestically. With a single platform to support both international and U.S. business, we should see greater economy of scale in the future, resulting in improved price and performance for customers.

Although ADTRAN has not yet fully developed its potential in its international markets and related sales have been modest, we believe that international markets present a significant opportunity for growth.

Research and Product Development

The markets for our products are characterized by rapidly changing technology, evolving industry standards and continuing improvements in telecommunications service offerings of common carriers. If technologies or standards applicable to our products, or common carrier service offerings based on our products, become obsolete or fail to gain widespread commercial acceptance, ADTRAN's business may be adversely affected.

Moreover, the introduction of products embodying new technology, the emergence of new industry standards or changes in common carrier service offerings could adversely affect ADTRAN's ability to sell its products. For instance, a large number of our products have, to date, been designed to apply primarily to the delivery of digital communications over copper wireline in the Local Loop. While ADTRAN has competed favorably by developing a high performance line of products, we expect that the increasing deployment of fiber-optic cable, coaxial cable and wireless transmission in the Local Loop (each of which uses a significantly different process of delivery) will require that we develop new products to meet the demands of these markets when such markets are sufficiently established.

Our sales and profitability in the past have resulted to a significant extent from our ability to anticipate changes in technology, industry standards and common carrier service offerings, and to develop and introduce new and enhanced products. Our continued ability to adapt will be a significant factor in maintaining or improving our competitive position and our prospects for growth. Therefore, ADTRAN will continue to make significant investments in product development, although there can be no assurance that we will have the resources necessary to continue this strategy successfully or to otherwise respond appropriately to changing technology, industry standards and common carrier service offerings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

As of December 31, 2000, ADTRAN's product development programs were carried out by over 350 engineers and engineering support personnel, comprising approximately 21% of ADTRAN's employees. To date, all product development expenses have been charged to operations as incurred. From time to time, development programs are conducted by other firms under contract with us, and related costs are also charged to operations as incurred. During 2000, 1999 and 1998, product development expenditures totaled \$50,628,000, \$42,018,000, and \$37,222,000, respectively. Because our product development activities are an important part of our strategy and because of rapidly changing technology and evolving industry standards, we expect to spend more in product development activities in 2001 than we did in 2000.

ADTRAN's product development personnel are organized into teams, each of which is effectively dedicated to a specific product line or lines. However, because we service each of the CN and EN markets, and because all of the products in each of the markets share certain similarities, the benefits of ADTRAN's product development efforts generally are not confined to a particular market, but can be leveraged to our advantage in all of our markets.

As of December 31, 2000, product development teams were assigned to the following product lines: CN Loop Technologies (includes teams for Mechanical Systems; FT1, Total Reach, DDS, and ISDN; G.shdsl and ADSL; and HDSL, HDSL2); CN Access Platforms (includes teams for Total Access DSLAM; Total Access TDM Applications; Total Access EMS; Total Access Digital Loop Carrier; and Total Access IAD and M13 Multiplexers); and EN Connectivity (includes teams for IADs; Packet Access Products; TDM Access Products; Fixed Broadband Wireless Products; Fiber Optic Products; and International Products).

Engineering services and advanced technology groups provide support for all of the product development teams. Each product development team is generally responsible for sustaining technical support of existing products, improving the cost or manufacturing of

products, conceiving new products in cooperation with other groups within ADTRAN and adapting standard products or technology under supply contracts to other firms.

In particular, each product development team is charged with implementing ADTRAN's engineering strategy of reducing product costs for each succeeding generation of our products in an effort to be a low-cost, high-quality provider in the industry, without compromising functionality or serviceability. This strategy has involved setting a price point for the next generation of any given product with the aim of meeting that price point through innovative engineering.

The key to this strategy is choosing an initial architecture for each product that enables engineering innovations to result in future cost reductions. Successful execution of this strategy also requires that we continue to attract and recruit outstanding engineers, and the continued success of ADTRAN's recruiting program at Southeastern universities is critical to this effort.

The product development teams are supported by a research group that provides guidance in applicable digital signal processing technologies, computer simulation and modeling, CAD/CAM tool sets, custom semiconductor design and technological forecasting. As product and market opportunities arise, our organizational structure may be adjusted accordingly. ADTRAN's development process is conducted in accordance with ISO 9001 and TL 9000, which are the international standards for quality management systems for design, manufacturing and service.

We believe that our success in the past has been dependent upon the ability of our engineering team to establish and maintain a position of product and technological leadership, and our success in the future will be equally dependent upon the evolution of new forms of existing products and the development of new products fulfilling the needs of current and future customers. Therefore, we will continue to make significant investments in product development.

Customers

Our carrier customer base includes all of the major domestic ILECs; large independent carriers; a growing number of successful CSPs; as well as primary telecom service providers and competitive carriers in other regions of the world, including Hong Kong, China, Europe, Central America and Australia. Our enterprise customer base includes private and public enterprises worldwide in numerous vertical industries.

The major customers of ADTRAN include the following:

Alltel Corporation	Verizon Communications	Sprint Corporation
AT&T	Ingram Micro	Tech Data Corporation
Bell Atlantic	MCI WorldCom	
BellSouth Corporation	Qwest (US West)	
Cisco	SBC Communications, Inc.	

Historically, a large percentage of our sales have been made to the Regional Bell Operating Companies (RBOCs) and major independents (typically more than 50%). While these customers still comprise a large percent of our revenue source (56% in 2000), recent mergers and acquisitions have affected the mix. Verizon Communications (formerly GTE and Bell Atlantic) constituted approximately 14% of our revenue base in 2000. SBC Communications, Inc. and Sprint Corporation each accounted for at least 12% of our total sales in 2000. No other customer accounted for 10% or more of our sales in 2000.

In this industry, a supplier must first obtain product approvals from an RBOC or other carrier to sell its products to them. We are, therefore, involved in a constant process of submitting succeeding generations of products for approval, as well as products that deploy new technology or respond to a new technology demand from an RBOC or other carrier. We have been successful in the past in obtaining such approvals. However, we can not be certain that we will obtain such approvals in the future or that sales of such products will continue to occur. Further, any attempt by an RBOC or other carrier to seek out additional or alternative suppliers or to undertake, as permitted under applicable regulations, the production of such products internally could have a material adverse effect on our operating results.

Marketing, Sales and Distribution

As of December 31, 2000, ADTRAN's marketing and sales programs were conducted by over 280 employees. ADTRAN sells its CN products in the United States and Canada directly to the carriers through a field sales organization based in 38 locations (some of these locations are home offices) in the United States. ADTRAN sells its CN products internationally through field sales offices and various

distribution arrangements with a geographically dispersed set of distributors. ADTRAN sells its EN products, both domestically and internationally, through a two-tiered network of distributors and resellers.

We have formed, and will continue to pursue, international distribution arrangements built upon core products and technologies developed by us in an effort to further our penetration into international markets. Although the international market channel has not yet been fully developed and related revenue has been modest, ADTRAN believes that international markets present a significant opportunity for growth, and ADTRAN continues to focus effort on positioning itself to take advantage of such opportunity.

Sales to carriers involve protracted product qualification and standardization processes that can extend for several months or years. Subsequent orders, if any, are typically placed under single or multi-year supply agreements that are generally not subject to minimum volume commitments. Carriers generally prefer having two or more suppliers of most products, so individual orders are generally subject to competition based on some combination of price, delivery and other terms. EN products are sold under both exclusive and non-exclusive distribution arrangements.

ADTRAN's field sales organizations and distributors receive support from headquarters-based marketing, sales and customer support groups. Under certain circumstances, other headquarters personnel may become involved in sales and other activities. We believe that our success in the past has been dependent to a significant degree upon the ability of our sales and distribution teams to compete effectively in a highly competitive environment that includes firms with greater financial resources and more experience than us. Our success in the future will depend in part upon our ability to attract and retain qualified sales and marketing personnel who can compete and succeed in this environment.

Customer Service and Support

ADTRAN maintains 24-hour, 7 day-a-week telephone support for all of its customers, as customers often demand an immediate response to problems with installed products or with plans for new installations. We provide on-site support in those circumstances in which problems cannot otherwise be resolved. Our policy has generally been to follow through with problem resolutions even after it is established that our products are not the source of the difficulty. We provide direct installation and service of our products in North America utilizing our own resources or resources available under nationwide services contracts with IBM Corporation and Data General Corporation for installation and service.

Substantially all of our products carry a full ten year return-to-factory warranty. Warranty returns to date have been relatively insignificant (less than 1%). We believe that our low return rate is a direct result of our commitment to a rigorous product quality program that has garnered us special recognition by several key customers.

Manufacturing

The principal steps in the manufacturing process are the purchase and management of materials, assembly, testing, final inspection, packing and shipping. In 2000, ADTRAN continued to purchase parts and components for assembly of certain of our products from a large number of suppliers through a worldwide sourcing program. In addition, we have begun to shift to a process of allowing contract manufacturers to purchase the materials that they use in the assembly of our products. Certain key components used in our products are currently available from only one source, and other key components are available from only a limited number of sources. In the past, we have experienced delays in the receipt of certain of our key components, which have resulted in delays in related product deliveries. We attempt to manage such risks through developing alternative sources, through engineering efforts designed to obviate the necessity of certain components, and by maintaining quality relationships and close personal contact with each of our suppliers. However, we can make no assurance that delays in deliveries of key components, either to us or to our contract manufacturers, and consequent delays in product deliveries will not occur in the future. The inability to obtain sufficient key components as required, or to develop alternative sources if and as required in the future, could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our customer relationships and operating results.

We rely on subcontractors in the United States, Mexico and Taiwan for assembly of printed circuit board assemblies, sub-assemblies, chassis, enclosures and equipment shelves, and, more recently, also to purchase the raw materials used in and for such assembly. We plan to continue to transition the purchasing of materials for, assembly and final testing of a significant portion of our lower priced products to companies in Mexico with which we subcontract. Such assembly typically can be done by subcontractors at a lower cost than if we assembled such items internally, which furthers our goal of being a low cost, high quality provider in the industry. The transition to subcontractors whose core competency is the manufacture of electronic equipment furthers our goal of being a low cost, high quality provider in the industry. Subcontract assembly operations do, however, contribute significantly to production cycle times, but we believe we can respond more rapidly to uncertainties in incoming order rates by selecting assembly subcontractors having significant reserve capacity. This reliance on third-party subcontractors for the assembly of our products involves several risks, including the unavailability of or interruptions in access to certain process technologies and reduced control over product quality, delivery schedules, manufacturing yields and costs. These risks may be exacerbated by economic or political uncertainties or by natural disasters in foreign countries in which our subcontractors may be located. We currently have limited foreign exchange risks as we conduct the majority of all transactions with foreign vendors or customers in U.S. dollars.

We are heavily dependent on four subcontractors. To date, we believe that we have successfully managed the risks of such dependence on these subcontractors through a variety of efforts, which include seeking and developing alternative subcontractors while maintaining existing relationships. However, there can be no assurance that delays in product deliveries may not occur in the future because of shortages resulting from this limited number of subcontractors or from the financial or other difficulties of such parties. The inability to develop alternative subcontractors if and as required in the future could result in delays or reductions in product shipments which, in turn, could have a material adverse effect on our customer relationships and operating results. While we believe that alternative sources of supply or alternative subcontractors could be developed if necessary, material delays or interruption of supply might, nevertheless, arise as a consequence of required retraining and other activities related to establishing and developing a new supply or subcontractor relationship and such material delays may have a material adverse effect on our business and operating results.

Final testing, with the exception of certain lower priced products as discussed above, and shipment of products to customers occurs in our Huntsville, Alabama facilities. Our facilities are certified pursuant to ISO 9001, TL 9000 and certain other telephone company standards, including those relating to emission of electromagnetic energy and safety specifications.

Backlog and Inventory

A substantial portion of ADTRAN's shipments in any fiscal period relate to orders received in that period and firm purchase orders released in that fiscal period by customers under agreements containing non-binding purchase commitments. Further, a significant percentage of orders require delivery within 48 hours. These factors result in very little order backlog. We believe that because a substantial portion of customer orders are filled within the fiscal quarter of receipt, our backlog is not a meaningful indicator of actual sales for any succeeding period. To meet this demand, ADTRAN maintains a substantial finished goods inventory.

Our practice of maintaining sufficient inventory levels to assure prompt delivery of our products increases the amount of inventory which may become obsolete. The obsolescence of such inventory may have an adverse effect on ADTRAN's business and operating results.

Competition

The markets for ADTRAN's products are intensely competitive. With the development of the worldwide communications market and the growing demand for related equipment, additional manufacturers have entered the markets in recent years to offer products in competition with ADTRAN. Additionally, certain companies have, in recent years, developed the ability to deliver fiber-optic cable, coaxial cable and wireless transmission to certain office centers and other end-users. Competition would further increase if new companies enter the market or existing competitors expand their product lines. For instance, legislation has been enacted that lifts the restrictions that previously prevented the RBOCs from manufacturing telecommunications equipment. The RBOCs, which in the aggregate are our largest customers, may increasingly become our competitors in the markets that we share.

With respect to CN sales, product quality and availability and an established reputation for customer service are important competitive factors that can affect our ability to have our products accepted and approved by the individual carriers. Our CN market competitors include large established firms such as ADC Telecommunications, Inc. (includes Pairgain), Lucent Technologies, Inc., Nortel Networks Corporation, Tellabs, Inc., Westell Technologies, Inc. (includes Teltrend), as well as smaller, specialized firms.

In the EN market, among the significant competitors for subrate CSU/DSU market share are General DataComm Industries, Inc. and Motorola, Inc. Competitors for T1 service unit market share include ADC KENTROX, a subsidiary of ADC Telecommunications, Inc., Paradyne Corp., Quick Eagle Corporation, and Visual Networks, Inc. ADTRAN now holds a leading market share position in IADs, where we compete with ACT Networks and Zhone Technologies, Inc. (formerly Premisys). In broadband T3 and fiber markets, competition varies greatly by product, but includes Carrier Access Corporation, Quick Eagle Corporation, and Canoga Perkins Corporation. An increase in competition could reduce our gross profit margins, may require increased spending by us on product development and sales and marketing, and may otherwise adversely affect our business.

Proprietary Rights

The name "ADTRAN" and our corporate logo are registered trademarks of ADTRAN. A number of our product identifiers and names are also registered. We also claim rights to a number of unregistered trademarks. We have obtained patents on 13 inventions relating to our products and have several patent applications pending. We will seek additional patents from time to time related to our research and development activities. We protect our trademarks, patents, inventions, trade secrets, and other proprietary rights by contract, trademark, copyright and patent registration, and internal security. We believe, however, that our competitive success will not depend on the ownership of intellectual property rights, but primarily on the innovative skills, technical competence and marketing abilities of our personnel. The telecommunications industry, nevertheless, is characterized by the existence of an ever increasing number of patents and frequent litigation based on allegations of patent infringement. From time to time, third parties may assert exclusive patent, copyright and other intellectual property rights to technologies that are important to us. While there are no outstanding infringement lawsuits pending by or against ADTRAN, it is possible that third parties may assert litigation claims against us in the future, that assertions by such parties

may result in costly litigation, or that we may not prevail in any such litigation or be able to license any valid and infringed patents from third parties on commercially reasonable terms. Any infringement claim or other litigation against or by us could have a material adverse effect on our business and operating results.

Employees

As of December 31, 2000, ADTRAN had 1,707 full-time employees in the United States, six in Canada, five in Hong Kong, and four in Europe. Of ADTRAN's total employees, 280 were in sales, marketing, and service, 365 were in research and development, 907 were in manufacturing and quality, and 170 were in administration. None of ADTRAN's employees are represented by a collective bargaining agreement nor has ADTRAN ever experienced any work stoppage. We believe that our relationship with our employees is good.

ITEM 2. PROPERTIES

ADTRAN's headquarters and principal administrative, engineering and manufacturing facilities are located on a 22-acre campus in Cummings Research Park in Huntsville, Alabama. Two office buildings contain 440,000 and 600,000 square feet, respectively. These facilities are projected to accommodate a total of 3,000 employees. We also lease 65,480 additional square feet to accommodate manufacturing and engineering activities.

We also maintain 44 sales and service facilities, some of which are home based offices, 36 located within the United States, two in Canada, one in Hong Kong, one in Beijing, China, and one in Zurich, Switzerland. The U.S. facilities are in the following locations: Atlanta, GA, Boston, MA, Chicago, IL, Cleveland, OH, Columbus, OH, Concord, NH, Dallas, TX, Denver, CO, Detroit, MI, Harrisburg, PA, Houston, TX, Huntsville, AL, Indianapolis, IN, Las Vegas, NV, Lincoln, NE, Kansas City, KS, Los Angeles, CA, Minneapolis, MN, Nashville, TN, New York, NY, Orlando, FL, Philadelphia, PA, Phoenix, AZ, Pittsburgh, PA, Portland, OR, Providence, RI, Raleigh, NC, Richmond, VA, Sacramento, CA, San Antonio, TX, San Diego, CA, San Francisco, CA, San Jose, CA, Seattle, WA, St. Louis, MO, Trenton, NJ, Washington, D.C.

In addition to the home offices listed above, we lease additional office space in Huntsville, AL, Leawood, KS, Irvine, CA, Englewood, CO, Atlanta, GA, Irving, TX, Altamonte Springs, FL, Herndon, VA, Crystal Lake, IL, and Bainbridge Island, WA, which leases expire at various times between 2001 and 2003. See Note 7 of Notes to Financial Statements.

ITEM 3. LEGAL PROCEEDINGS

ADTRAN has been involved from time to time in litigation in the normal course of its business. We are not aware of any pending or threatened litigation matters that could have a material adverse effect on us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted by ADTRAN to vote of security holders during the fiscal quarter ended December 31, 2000.

ITEM 4(A). EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below, in accordance with General Instruction G(3) of Form 10-K and Instruction 3 of Item 401(b) of Regulation S-K, is certain information regarding the executive officers of ADTRAN. Unless otherwise indicated, the information set forth is as of December 31, 2000.

Mark C. Smith - Age 60	- Mr. Smith is one of the co-founders of ADTRAN.
1995 to present	Chairman of the Board and Chief Executive Officer
1986 - 1995	Chairman of the Board, Chief Executive Officer and President

Lonnie S. McMillian - Age 72 - Mr. McMillian is one of the co-founders of ADTRAN.
1996 to present Senior Vice President-Engineering, Secretary and Director
1986 - 1996 Vice President - Engineering, Secretary, Treasurer and Director

Howard A. Thrailkill - Age 62
1995 to present President, Chief Operating Officer and Director
1992 - 1995 Executive Vice President

John R. Cooper - Age 53
1996 to present Vice President - Finance and Chief Financial Officer
1995 - 1996 President, Sauty Group, Inc.
1991 - 1995 Partner, Coopers & Lybrand L.L.P.

Danny J. Windham - Age 41
1999 to present Vice President and General Manager- EN
1995 - 1999 Vice President-EN Marketing
1994 - 1995 Director of Marketing
1989 - 1994 Manager of Product Management

Thomas R. Stanton - Age 36
1999 to present Vice President and General Manager-CN
1995 - 1999 Vice President - CN Marketing
1995 VP - Marketing & Engineering, Transcrypt International, Inc.
1994 - 1995 Sr. Director, Marketing, E.F. Johnson Company
1993 - 1994 Director, Marketing, E.F. Johnson Company

P. Steven Locke - Age 52
2000 to present Vice President - CN Marketing
1999 - 2000 Vice President, Sprint Local Division Sales for Lucent Technologies
1997 - 1999 Senior Director of Sales, ADTRAN, Inc.
1993 - 1997 Vice President and Central Manager, Business Network Group, Sprint North Supply

M. Melvin Bruce - Age 60
1996 to present Vice President - CN Engineering
1989 - 1996 Vice President, Research and Design, Tel Control Inc.

James D. Butler - Age 42
1999 to present Vice President - EN Sales
1997 - 1999 Director, EN Sales
1995 - 1997 Area Vice President, Motorola Inc. Information Systems Group

Robert A. Fredrickson - Age 50
1996 to present Vice President - CN Sales
1996 Vice President, Broadband Business Development, DSC Communications Corp.
1991 - 1996 Senior Director, Access Products, DSC Communications Corp.

Steven L. Harvey - Age 40
1999 to present Vice President - Competitive Service Provider Sales
1996 - 1999 Vice President - EN Sales
1995 - 1996 Executive Vice President, Data Processing Sciences Corporation
1991 - 1995 Vice President, Data Processing Sciences Corporation

Charles A. O'Donnell - Age 45
1996 to present Vice President - Quality
1993 - 1996 Quality and Technical Resources Manager, Exide Electronics Corporation

Jude T. Panetta - Age 41
1994 to present Vice President - Operations
1989 - 1994 Director of Manufacturing, Exide Electronics Corporation

Everette R. Ramage - Age 53
1999 to present Vice President - EN Engineering
1993 - 1999 Engineering Manager, EN DDS Group

Kevin W. Schneider - Age 37
1999 to present Vice President - Technology
1996 - 1999 Chief Scientist
1992 - 1996 Staff Scientist

There are no family relationships among the directors or executive officers.

All officers are elected annually by and serve at the pleasure of the Board of Directors of ADTRAN.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

ADTRAN's common stock is traded on the NASDAQ National Market (NASDAQ) under the symbol "ADTN." As of January 31, 2001, ADTRAN had 422 shareholders of record and approximately 10,740 beneficial owners of shares held in street name. The following table shows the high and low sale prices per share for the common stock as reported by NASDAQ for the periods indicated:

2000 Quarters	High	Low
First	\$80-1/2	\$49-1/16
Second	\$ 73	\$44-3/8
Third	\$73-1/4	\$41-1/8
Fourth	\$48-3/16	\$16-9/16
1999 Quarters	High	Low
First	\$25-1/2	\$15-3/4
Second	\$36-7/8	\$16
Third	\$42-11/16	\$33-3/8
Fourth	\$55-1/2	\$33-3/8

ADTRAN has operated with a policy of retaining earnings, and presently intends to retain all future earnings for use in the development of its business and does not anticipate paying any cash dividends in the foreseeable future.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data concerning ADTRAN for and as of the end of each of the years in the five year period ended December 31, 2000, are derived from the financial statements of ADTRAN, which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected financial data are qualified in their entirety by the more detailed information and financial statements, including the notes thereto. The financial statements of ADTRAN as of December 31, 2000 and 1999 and for each of the years in the three year period ended December 31, 2000, and the report of PricewaterhouseCoopers LLP thereon, are included elsewhere in this report.

Year Ended December 31, (in thousands, except per share data)	2000	1999	1998	1997	1996
Sales					
CN (Carrier Networks Division)	\$315,228	\$230,967	\$167,500	\$171,838	\$171,902
EN (Enterprise Networks Division)	147,721	136,240	119,059	93,497	78,219
<hr/>					
Total Sales	462,949	367,207	286,559	265,335	250,121
Cost of Sales	233,430	178,629	130,010	130,254	129,953
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Gross profit	229,519	188,578	156,549	135,081	120,168
Selling, general and administrative expenses	87,116	71,735	62,061	44,973	34,308
Research and development expenses	50,628	42,018	37,222	30,055	24,648
<hr/>					
Operating income	91,775	74,825	57,266	60,053	61,212
Interest income	9,025	5,350	5,824	4,175	2,543
Interest expense	(1,802)	(2,312)	(2,287)	(1,839)	(895)
Other income (expense)	(4)	(673)	(188)	438	642
Net realized investment gains	84,040				
<hr/>					
Income before income taxes	183,034	77,190	60,615	62,827	63,502
Provision for income taxes	62,231	26,244	20,306	22,618	23,682
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Net income	\$120,803	\$ 50,946	\$ 40,309	\$ 40,209	\$ 39,820
Earnings per common share-basic	\$ 3.13	\$ 1.33	\$ 1.03	\$ 1.03	\$ 1.03
Earnings per common share assuming dilution (1)	\$ 3.04	\$ 1.31	\$ 1.03	\$ 1.02	\$ 1.01
<hr/>					
Weighted average shares outstanding-basic	38,647	38,335	38,982	39,202	39,566
Weighted average shares outstanding assuming dilution (1)	39,704	38,831	39,164	39,565	39,549
<hr/>					
At December 31, (in thousands, except per share data)	2000	1999	1998	1997	1996
Balance Sheet Data					
Working capital	\$257,636	\$181,147	\$150,535	\$149,184	\$140,510
Total assets	546,336	556,296	301,711	282,401	210,207
Total debt	50,000	50,000	50,000	50,000	20,000
Stockholders' equity	434,425	400,052	231,389	212,037	172,879

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method. See Notes 1 and 12 of Notes to Financial Statements.

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. See Note 13 of Notes to Financial Statements.

This 2000 Form 10-K contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which represent ADTRAN's expectations or 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 2000 Form 10-K, 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," "2000 Compared to 1999," 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

The following table presents selected financial information derived from ADTRAN's statements of income expressed as a percentage of sales for the years indicated.

Years Ended December 31, Percentage of Sales	2000	1999	1998
Sales:			
CN	68.1%	62.9%	58.5%
EN	31.9	37.1	41.5

Total sales	100.0	100.0	100.0
Cost of sales	50.4	48.7	45.4

Gross profit	49.6	51.3	54.6
Selling, general and administrative expenses	18.8	19.5	21.7
Research and development expenses	10.9	11.4	13.0

Operating income	19.9	20.4	19.9
Interest income	1.9	1.5	2.0
Interest expense	(0.4)	(0.6)	(0.8)
Other income (expense)	0.0	(0.2)	0.1
Net realized investment gains	18.1	0.0	0.0

Income before income taxes	39.5	21.0	21.2
Provision for income taxes	13.4	7.1	7.1

Net income	26.1%	13.9%	14.1%

2000 Compared to 1999

Sales

ADTRAN's sales increased 26.1% from \$367,207,000 in 1999 to \$462,949,000 in 2000. Sales for the CN division increased 36.4% from \$230,967,000 in 1999 to \$315,228,000 in 2000. CN sales, as a percentage of total sales, increased from 62.9% in 1999 to 68.1% in 2000. Sales of EN products increased 8.4% from \$136,240,000 in 1999 to \$147,721,000 in 2000. As a percentage of total sales, EN sales decreased from 37.1% in 1999 to 31.9% in 2000. In general, the increased sales resulted from increased sales volume to existing customers and from increased market penetration. The primary factors contributing to the increase in sales in 2000 were (1) additional market penetration for our HDSL products,

(2) continuing growth in demand for T1 products, (3) continuing growth in sales of the ATLAS integrated access device, and (4) continuing growth in sales of the Total Access(TM) product line (primarily directed to the CLEC market).

Cost of Sales

Cost of sales increased from \$178,629,000 in 1999 to \$233,430,000 in 2000. As a percentage of sales, cost of sales increased from 48.7% in 1999 to 50.4% in 2000. This increase was due primarily to a rise in material cost as a percentage of sales. CN cost of sales increased from \$122,158,000 in 1999 to \$168,342,000 in 2000. CN cost of sales as a percentage of CN sales increased from 52.9% in 1999 to 53.4% in 2000. EN cost of sales increased from \$56,472,000 in 1999 to \$65,058,000 in 2000. As a percentage of EN sales, EN cost of sales increased from 41.5% in 1999 to 44.1% in 2000. 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 our 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 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 Expenses

Selling, general and administrative expenses increased 21.4% from \$71,735,000 in 1999 to \$87,116,000 in 2000. The net increase was due to expanding infrastructure on both sales and support personnel. However, as a percentage of sales, selling, general and administrative expenses decreased from 19.5% in 1999 to 18.8% in 2000. The decrease is due primarily to operating efficiencies realized as a result of a larger sales base.

Research and Development Expenses

Research and development expenses increased 20.5% from \$42,018,000 in 1999 to \$50,628,000 in 2000. This increase was due to increased engineering costs associated with new product introductions and feature enhancement activities. As a percentage of sales,

research and development expenses decreased from 11.4% in 1999 to 10.9% in 2000. ADTRAN continually evaluates new product opportunities and engages in intensive research and product development efforts. To date, we have expensed all product research and development costs as incurred. Additionally, ADTRAN frequently invests heavily in up-front market development efforts prior to the actual commencement of sales of a major new product. As a result, we may incur significant research and development expenses and selling, general and administrative expenses prior to the receipt of revenues from a major new product group. ADTRAN is presently incurring both research and development expenses and selling, general and administrative expenses in connection with its new products and its expansion into international markets.

Interest Expense

Interest expense decreased 22.0% from \$2,312,000 in 1999 to \$1,802,000 in 2000. ADTRAN currently pays interest on a \$50,000,000 revenue bond, the proceeds of which were used to expand our facilities in Huntsville, Alabama.

Net Realized Investment Gains

During July 2000, ADTRAN sold certain marketable equity securities (included in long-term investments in the accompanying condensed balance sheet) for \$91,900,000, net of transaction costs of \$4,706,000, resulting in a realized gain of \$85,368,000.

Net Income

As a result of the above factors, income before realized investment gains (net of income taxes) increased 28.2% from \$50,946,000 in 1999 to \$65,336,000 in 2000. As a percentage of sales, income before realized investment gains (net of income taxes) increased from 13.9% in 1999 to 14.1% in 2000. Net income increased from \$50,946,000 in 1999 to \$120,802,000 in 2000.

1999 Compared to 1998

Sales

ADTRAN's sales increased 28.1% from \$286,559,000 in 1998 to \$367,207,000 in 1999. The increased sales resulted from increased sales volume to existing customers and from increased market penetration. Sales for the CN division increased 37.9% from \$167,500,000 in 1998 to \$230,967,000 in 1999. CN sales as a percentage of total sales increased from 58.5% in 1998 to 62.9% in 1999. Sales of EN products increased 14.4% from \$119,059,000 in 1998 to \$136,240,000 in 1999. As a percentage of total sales, EN sales decreased from 41.5% in 1998 to 37.1% in 1999. The primary factors leading to the increase in sales in 1999 were

(1) additional market penetration for our HDSL products, (2) continuing growth in demand for T1 products, (3) continuing growth in sales of the ATLAS integrated access device, and (4) the introduction of the Total Access(TM) product line (primarily directed to the CLEC market).

Cost of Sales

Cost of sales increased from \$130,010,000 in 1998 to \$178,629,000 in 1999. As a percentage of sales, cost of sales increased from 45.4% in 1998 to 48.7% in 1999. This increase was due primarily to a rise in material cost as a percentage of sales. CN cost of sales increased from \$75,926,000 in 1998 to \$122,157,000 in 1999. CN cost of sales as a percentage of CN sales increased from 45.3% in 1998 to 52.9% in 1999. This increase resulted from an increase in the importance of sales of HDSL products which, for a portion of 1999, were at a lower margin due to a delay in the transition from one generation of HDSL products to the succeeding generation. EN cost of sales increased from \$54,084,000 in 1998 to \$56,472,000 in 1999. As a percentage of EN sales, EN cost of sales decreased from 45.4% in 1998 to 41.5% in 1999. 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 lowering of product selling prices and the realization of cost reductions. 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 Expenses

Selling, general and administrative expenses increased 15.6% from \$62,061,000 in 1998 to \$71,735,000 in 1999. Beginning in the first quarter of 1997, ADTRAN embarked on a program of expanding infrastructure in both sales and support personnel for its expanded customer base and for increased initiatives in the EN and international markets, as well as for the introduction and marketing of more technically enhanced products. This expansion program continued throughout 1997 and through the third quarter of 1998, at which point we determined that we had developed the sales and support capacity necessary to service our expanded revenue base. As a result, sales, general, and administrative expenses increased as a percentage of sales in 1998 compared to 1997 and decreased a percentage of sales in 1999 compared to 1998. As a percentage of sales, selling, general and administrative expenses decreased from 21.7% in 1998 to 19.5% in 1999 because of operating efficiencies due to the larger sales base.

Research and Development Expenses

Research and development expenses increased 12.9% from \$37,222,000 in 1998 to \$42,018,000 in 1999. This increase was due to increased engineering costs associated with new product introductions and feature enhancement activities. As a percentage of sales, research and development expenses decreased from 13.0% in 1998 to 11.4% in 1999. ADTRAN continually evaluates new product opportunities and engages in intensive research and product development efforts. To date, ADTRAN has expensed all product research and development costs as incurred. Additionally, ADTRAN frequently invests heavily in up-front market development efforts prior to the actual commencement of sales of a major new product. As a result, ADTRAN may incur significant research and development expenses and selling, general and administrative expenses prior to the receipt of revenues from a major new product group. ADTRAN is presently incurring both research and development expenses and selling, general and administrative expenses in connection with its new products and its expansion into international markets.

Interest Expense

Interest expense increased 1.1% from \$2,287,000 in 1998 to \$2,312,000 in 1999. ADTRAN pays interest on a \$50,000,000 revenue bond, the proceeds of which were used to expand our facilities in Huntsville, Alabama.

Net Income

As a result of the above factors, net income increased by 26.4% from \$40,309,000 in 1998 to \$50,946,000 in 1999. As a percentage of sales, net income decreased from 14.1% in 1998 to 13.9% in 1999.

Liquidity and Capital Resources

ADTRAN committed to spend approximately an additional \$1,500,000 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"). That 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 we therefore 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 bond to us. We are required to make payments to the Authority in 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 improved from \$181,147,000 as of December 31, 1999 to \$257,636,000 as of December 31, 2000 due to cash generated from operations and the sale of certain marketable equity securities, as discussed below. ADTRAN has used, and expects to continue to use, the cash generated from operations for working capital and other general corporate purposes, including: (1) product development activities to enhance our existing products and develop new products and (2) the expansion of sales and marketing activities. Inventory increased 52.3% from December 31, 1999 to December 31, 2000. The increase is attributable to two factors: (1) our expectations of increased shipments to existing customers and (2) increasing quantities of certain commodities in anticipation of marketwide allocations. Accounts receivables increased 36.8% from December 31, 1999 to December 31, 2000. The increase is a result of our continued sales growth and extended payment terms for some of our major customers. Other receivables have increased due to the sale of raw materials to our subcontractors.

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 December 31, 2000, 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, \$36,237,000 and \$23,096,000 in 2000, 1999 and 1998, respectively, were used to expand our headquarters and to purchase equipment.

At December 31, 2000, ADTRAN's cash on hand of \$27,971,000 and short-term investments of \$60,286,000 placed our potential cash availability at \$88,257,000.

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 7A. QUANTITATIVE 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-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are contained in this report.

	Page
Report of Independent Accountants	21
Financial Statements for Years Ended December 31, 2000, 1999 and 1998	
Balance Sheets	22
Statements of Income	23
Statements of Changes in Stockholders' Equity	24
Statements of Cash Flows	25
Schedule II - Valuation and Qualifying Accounts	39

Report of Independent Accountants

To the Board of Directors and Stockholders of ADTRAN, Inc.

In our opinion, the financial statements listed in the accompanying index present fairly, in all material respects, the financial position of ADTRAN, Inc. at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

/s/PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Birmingham, Alabama

January 25, 2001

Balance Sheets

December 31, 2000 and 1999

	2000	1999
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 27,971,313	\$ 37,522,337
Short-term investments	60,286,332	41,080,776
Accounts receivable, less allowance for doubtful accounts of \$813,003 and \$1,018,400 in 2000 and 1999, respectively	82,133,831	60,036,876
Other receivables	35,862,774	4,436,862
Inventory	89,252,729	58,568,773
Prepaid expenses	4,032,438	1,410,286
Deferred income taxes	4,505,008	4,069,937
Total current assets	304,044,425	207,125,847
Property, plant and equipment, net	123,713,176	104,587,755
Other assets	469,000	220,000
Long-term investments	118,109,404	244,362,579
Total assets	\$546,336,005	\$556,296,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 34,113,832	\$ 12,773,848
Accrued expenses	8,560,073	7,108,248
Income taxes payable	3,734,234	6,096,459
Total current liabilities	46,408,139	25,978,555
Bonds payable	50,000,000	50,000,000
Deferred income taxes	15,342,435	80,265,155
Total liabilities	111,750,574	156,243,710
Minority interest in subsidiary	160,000	
Stockholders' equity:		
Common stock, par value \$.01 per share; 200,000,000 shares authorized; 39,446,644 shares issued in 2000 and in 1999	394,466	394,466
Additional paid-in capital	96,707,263	93,564,326
Accumulated other comprehensive income	19,870,288	116,000,000
Retained earnings	332,905,389	212,103,128
	449,877,406	422,061,920
Less treasury stock at cost: 733,192 and 1,047,330 shares in 2000 and 1999, respectively	(15,451,975)	(22,009,449)
Total stockholders' equity	434,425,431	400,052,471
Total liabilities and stockholders' equity	\$546,336,005	\$556,296,181

The accompanying notes are an integral part of these financial statements.

Statements of Income

for the years ended December 31, 2000, 1999 and 1998

	2000	1999	1998
Sales	\$462,948,721	\$367,207,437	\$286,558,950
Cost of sales	233,429,280	178,629,643	130,009,879
Gross profit	229,519,441	188,577,794	156,549,071
Selling, general and administrative expenses	87,115,889	71,734,959	62,060,907
Research and development expenses	50,628,190	42,017,779	37,221,780
Operating income	91,775,362	74,825,056	57,266,384
Interest income	9,024,543	5,349,762	5,824,223
Interest expense	(1,802,158)	(2,311,667)	(2,286,821)
Other income (expense)	(4,125)	(672,920)	(188,530)
Net realized investment gains	84,040,126		
Income before income taxes	183,033,748	77,190,231	60,615,256
Provision for income taxes	62,231,487	26,244,677	20,305,606
Net income	\$120,802,261	\$ 50,945,554	\$ 40,309,650
Weighted average shares outstanding	38,647,288	38,334,507	38,981,558
Weighted average shares outstanding assuming dilution (1)	39,704,286	38,831,091	39,163,763
Earnings per common share - basic	\$ 3.13	\$ 1.33	\$ 1.03
Earnings per common share - assuming dilution (1)	\$ 3.04	\$ 1.31	\$ 1.03

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

The accompanying notes are an integral part of these financial statements.

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2000, 1999 and 1998

	Number of shares	Common Stock Par Value (\$.01 Per Share)	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unrealized Gain on Marketable Equity Securities	Total Stockholders' Equity
Balance, December 31, 1997	39,381,264	\$393,813	\$92,995,338	\$120,847,924	(\$2,200,000)	\$ 0	\$212,037,075
Net income				40,309,650			40,309,650
Stock options exercised							
Various prices per share	42,215	422	57,836				58,258
Purchase of treasury stock: 1,000,081 shares					(21,016,047)		(21,016,047)
Balance, December 31, 1998	39,423,479	\$394,235	\$93,053,174	\$161,157,574	(\$23,216,047)		\$231,388,936
Net Income				50,945,554			50,945,554
Unrealized gain on marketable equity securities (net of deferred tax of \$76,000,000)						116,000,000	116,000,000
Stock options exercised							
Various prices per share	23,165	231	192,462		1,532,589		1,725,282
Purchase of treasury stock: 20,160 shares					(325,991)		(325,991)
Income tax benefit from exercise of non-qualified stock options			318,690				318,690
Balance, December 31, 1999	39,446,644	\$394,466	\$93,564,326	\$212,103,128	(\$22,009,449)	\$116,000,000	\$400,052,471
Net Income				120,802,261			120,802,261
Change in unrealized gain on marketable securities (net of deferred tax of \$14,695,744)						(40,719,712)	(40,719,712)
Reclassification adjustment for amounts included in net income, (net of income tax of \$29,954,217)							
Stock options exercised						(55,410,000)	(55,410,000)
Various prices per share			140,217		6,627,900		6,768,117
Purchase of treasury stock: 1,176 shares					(70,426)		(70,426)
Income tax benefit from exercise of non-qualified stock options			3,002,720				3,002,720
Balance, December 31, 2000	39,446,644	\$394,466	\$96,707,263	\$332,905,389	(\$15,451,975)	\$ 19,870,288	\$434,425,431

During 2000 and 1999, ADTRAN issued 315,314 and 72,911 shares, respectively, of Treasury Stock to accommodate employee stock option exercise. Comprehensive income in 2000 of \$140,672,549 consists of net income of \$120,802,261 and unrealized gain on marketable securities of \$19,870,288 (net of deferred tax).

Comprehensive income in 1999 of \$166,945,554 consists of net income of \$50,945,554 and unrealized gain on marketable securities of \$116,000,000 (net of deferred tax).

The accompanying notes are an integral part of these financial statements.

Statements of Cash Flows

For the years ended December 31, 2000, 1999 and 1998

	2000	1999	1998
Cash flows from operating activities:			
Net income	\$ 120,802,261	\$ 50,945,554	\$ 40,309,650
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	13,418,843	10,546,594	9,002,669
Provision for warranty claims			1,506,432
Gain on sale of property, plant and equipment		(5,050)	
Gain on sale of long-term investments	(84,040,126)		
Loss on sale of short-term investments	141,233	417,749	24,367
Deferred income taxes	(16,411)	(683,237)	1,188,956
Income tax benefit from exercise of non-qualified stock options	3,002,720	318,690	
Change in operating assets:			
Accounts receivable	(22,096,955)	(13,448,557)	(5,681,432)
Inventory	(30,683,956)	7,131,803	(26,331,473)
Other receivables	(31,430,079)	(3,743,198)	(353,611)
Prepaid expenses	(2,622,152)	(55,920)	(206,078)
Other assets	(249,000)		(20,000)
Change in operating liabilities:			
Accounts payable	21,339,984	1,793,751	1,858,827
Income taxes payable	(2,362,225)	5,035,664	(3,518,550)
Accrued expenses	1,451,825	2,122,491	(1,036,560)
Net cash provided by (used in) operating activities	(13,344,038)	60,376,334	16,743,197
Cash flows from investing activities:			
Expenditures for property, plant and equipment	(32,540,097)	(36,236,622)	(23,095,854)
Proceeds from the disposition of property, plant and equipment		5,050	
Proceeds from sale of long-term investments	86,009,950	3,893,832	
Purchase of long-term investments	(37,027,741)	(1,221,411)	(5,035,000)
Proceeds from sale of short-term investments	149,445,754	38,581,797	77,093,834
Purchase of short-term investments	(168,792,543)	(39,285,254)	(80,080,029)
Net cash used in investing activities	(2,904,677)	(34,262,608)	(31,117,049)
Cash flows from financing activities:			
Proceeds from issuance of common stock	6,768,117	1,725,282	58,258
Purchase of treasury stock	(70,426)	(325,991)	(21,016,047)
Net cash provided by (used in) financing activities	6,697,691	1,399,291	(20,957,789)
Net increase (decrease) in cash and cash equivalents	(9,551,024)	27,513,017	(35,331,641)
Cash and cash equivalents, beginning of year	37,522,337	10,009,320	45,340,961
Cash and cash equivalents, end of year	\$ 27,971,313	\$ 37,522,337	\$ 10,009,320
Supplemental disclosure of cash flow information:			
Cash paid during the year for interest, net of capitalized interest of \$0, \$0 and \$35,172 in 2000, 1999 and 1998, respectively	\$ 1,802,158	\$ 2,311,667	\$ 2,276,495
Cash paid during the year for income taxes	\$ 61,760,406	\$ 22,094,478	\$ 23,964,517

Non-Cash Transactions:

During 2000, ADTRAN recorded \$96,130,000 of unrealized losses related to its marketable equity securities.

During 1999, ADTRAN recorded \$116,000,000 of unrealized gains related to its marketable equity securities.

The accompanying notes are an integral part of these financial statements

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

ADTRAN, Inc. 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 also customize many of our products for private label distribution and for original equipment manufacturers to incorporate into their own products. Most of our CN and EN products are connected to the local loop, which is the largest existing infrastructure of the telephone network, predominantly consisting of copper wireline, which connects end-users to a Central Office, the facility that provides local switching and distribution functions. The balance of our products are used in the Central Office.

Cash and Cash Equivalents:

Cash and cash equivalents represent demand deposits, money market accounts, and short-term investments classified as held-to-maturity (see Note 2) with original maturities of three months or less.

Financial Instruments:

The carrying amount reported in the balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the immediate or short-term maturity of these financial instruments. The carrying amount reported for the bonds payable approximates fair value because the underlying instruments are at variable rates that re-price frequently.

Investments represent re-marketed preferred stocks, municipal bonds, and marketable equity securities. Re-marketed preferred stocks are designed to be marketed as money market instruments. These instruments' dividend rates reset on a short-term basis to maintain the price of the instruments at par. These instruments may be redeemed on the date the interest rate resets. The fair value of short-term investments is estimated based on quoted market prices (see Note 2). Realized gains or losses are computed under the specific identification method.

Long-term investments represent restricted money market funds (see Note 2), marketable equity securities, and other equity investments. The fair value of the restricted money market funds approximate fair value due to a variable interest rate. The marketable equity securities are reported at market value as determined by the most recently traded price of the securities at the balance sheet date, although the securities may not be readily marketable due to the size of the available market. Unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity. Realized gains and losses are computed under the specific identification method and are included in current income.

Inventory:

Inventory is carried at the lower of cost or market, with cost being determined using the first-in, first-out method.

Property, Plant and Equipment:

Property, plant and equipment, which is stated at cost, is depreciated using methods which approximate straight-line depreciation over the estimated useful lives of the assets. ADTRAN depreciates its building and land improvements from five to thirty-nine years, office machinery and equipment from three to seven years and its engineering machinery and equipment from three to seven years. Expenditures for repairs and maintenance are charged to expense as incurred; betterments which materially prolong the lives of the assets are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the gain or loss on such disposition is included in income.

Long-Lived Assets:

ADTRAN recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying values. There were no such losses recognized during 2000, 1999, and 1998.

Research and Development Costs:

Research and development costs are expensed as incurred.

Comprehensive Income:

Comprehensive Income consists of net income and unrealized gains and losses on marketable securities, net of deferred taxes, and is presented in the Statements of Changes in Stockholder's Equity.

Income Taxes:

ADTRAN utilizes the asset and liability method of accounting for income taxes which requires the establishment of deferred tax liabilities and assets, as measured by enacted tax rates, for all temporary differences caused when the tax bases of assets and liabilities differ from those reported in the financial statements.

Interest in Subsidiary:

ADTRAN currently consolidates ADTRAN AG, a Switzerland-based subsidiary, and reflects the 25% minority interest as minority interest in the accompanying balance sheet.

Revenue Recognition:

Revenue is generally recognized upon shipment of the product to the customer or, in the case of remote customer located warehouses, upon delivery to the customer. Shipping fees are recorded as revenue and the related cost is included in cost of sales.

Earnings Per Share:

Earnings per common share, and earnings per common share assuming dilution, are based on the weighted average number of common and, when dilutive, common equivalent shares outstanding during the year (see Note 12).

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent asset and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications:

Certain 1999 and 1998 amounts have been reclassified to conform to the 2000 financial statement presentation.

Recently Issued Accounting Standards:

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138, requires all derivatives to be measured at fair value and recognized as either assets or liabilities on the balance sheet. Changes in such fair value are required to be recognized immediately in net income (loss) to the extent the derivatives are not effective as hedges. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000 and is effective for interim periods in the initial year of adoption. ADTRAN does not currently hold any derivative financial instruments.

Note 2 - Investments

At December 31, 2000 and 1999, ADTRAN held the following securities as available-for-sale or held-to-maturity recorded at amortized cost which approximates market value, except certain long-term investments in marketable equity securities which are recorded at market value:

2000	

Short-term investments, available-for-sale:	
Municipal bonds	\$ 18,395,383
Money market funds	27,636,149
Commercial paper, US Government securities and preferred stock	14,254,800

Total short-term investments 2000	\$ 60,286,332
Long-term investments:	
Restricted money market funds (see Note 5)	\$ 50,000,000
Money market funds	5,141,267
Municipal bonds	15,045,137
Investment in Marketable Equity Securities	42,113,192
Other equity investments	5,809,808

Total long-term investments 2000	\$118,109,404

1999	

Short-term investments, available-for-sale:	
Municipal bonds	\$ 35,342,510
Commercial paper, US Government securities and preferred stock	5,738,266

Total short-term investments 1999	\$ 41,080,776
Long-term investments:	
Restricted money market funds (see Note 5)	\$ 50,000,000
Investment in Marketable Equity Securities	193,828,577
Other equity investments	534,002

Total long-term investments 1999	\$244,362,579

Note 3 - Inventory

At December 31, 2000 and 1999 inventory consisted of the following:

	2000	1999
	-----	-----
Raw materials	\$50,011,508	\$30,143,435
Work in process	12,606,275	15,763,155
Finished goods	26,634,946	12,662,183
	-----	-----
	\$89,252,729	\$58,568,773

Note 4 - Property, Plant and Equipment

Property, plant, and equipment was comprised of the following at December 31, 2000 and 1999:

	2000	1999
	-----	-----
Land	\$ 4,263,104	\$ 4,263,104
Building	81,676,034	26,389,365
Construction in progress		44,248,566
Land improvements	9,499,352	9,499,352
Office machinery and equipment	34,584,859	24,590,473
Engineering machinery and equipment	47,112,131	36,013,355
	-----	-----
	177,135,480	145,004,215
Less accumulated depreciation	(53,422,304)	(40,416,460)
	-----	-----
	\$123,713,176	\$104,587,755

Note 5 - Alabama State Industrial Development Authority Financing

In conjunction with an expansion of our Huntsville, Alabama facility, ADTRAN was approved for participation in an incentive program offered by the State of Alabama Industrial Development Authority (the "Authority"). Pursuant to the program, on January 13, 1995, the Authority issued \$20,000,000 of its taxable revenue bonds and loaned the proceeds from the sale of the bonds to ADTRAN. The bonds were originally purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the "Bank"). First Union National Bank of Tennessee, Nashville, Tennessee, (the "Bondholder") purchased the original bonds from the Bank and made further advances to the Authority bringing the total amount outstanding to \$50,000,000. An Amended and Restated Taxable Revenue Bond ("Amended and Restated Bond"), was issued and the original financing agreement was amended. The Amended and Restated Bond bears interest, payable monthly, at the rate of 45 basis points over the money market rate of the Bondholder and matures on January 1, 2020. ADTRAN is required to make payments to the Authority in amounts necessary to pay the principal of and interest on the Amended and Restated Bond. Included in long-term investments is \$50,000,000, which is restricted for payment of principal of this bond.

Note 6 - Income Taxes

A summary of the components of the provision (benefit) for income taxes as of December 31 is as follows:

	2000	1999	1998
Current:			
Federal	\$58,300,783	\$24,764,291	\$17,551,986
State	3,914,293	2,163,623	1,564,664
Total Current	62,215,076	26,927,916	19,116,650
Deferred tax provision (benefit)	16,411	(683,237)	1,188,956
Total provision for income taxes	\$62,231,487	\$26,244,677	\$20,305,606

The provision for income taxes differs from the amounts computed by applying the federal statutory rate due to the following:

	2000	1999	1998
Tax provision computed at the federal statutory rate (35% in 2000, 1999 and 1998)	\$64,061,831	\$27,016,582	\$21,215,340
State income tax provision, net of federal benefit	2,544,290	1,406,353	1,017,032
Federal research credits	(2,970,013)	(1,880,205)	(1,650,877)
Tax exempt income	(1,060,586)		
Other	(344,035)	(298,053)	(275,889)
	\$62,231,487	\$26,244,677	\$20,305,606

Temporary differences which create deferred tax assets and liabilities at December 31, 2000 and 1999 are detailed below.

	2000		1999	
	Current	Non-current	Current	Non-current
Property, plant and equipment		(\$4,611,379)		(\$4,265,155)
Investments		(10,731,056)		(76,000,000)
Accounts receivable	\$ 303,413		\$ 400,740	
Inventory	2,230,423		2,433,811	
Accruals	1,371,763		1,235,386	
Suspended research and development credit	599,409			
Deferred tax asset (liability)	\$4,505,008	(\$15,342,435)	\$4,069,937	(\$80,265,155)

No valuation allowance is deemed necessary by management as the realization of recorded deferred tax assets is considered more likely than not.

Note 7 - Operating Leases

ADTRAN leases office space and equipment under operating leases, which expire at various dates through 2003. As of December 31, 2000, future minimum rental payments under the non-cancellable operating leases are approximated as follows:

2001	\$454,000
2002	265,000
2003	108,000
	\$827,000

Rental expense was approximately \$846,000, \$988,000 and \$908,000, in 2000, 1999 and 1998, respectively.

Note 8 - Employee Incentive Stock Option Plan and Directors' Stock Option Plan

The Board of Directors of ADTRAN adopted the 1996 Employees Incentive Stock Option Plan (the "1996 Plan") effective February 14, 1996, as amended, under which 5,488,100 shares of common stock have been reserved for issuance to certain employees and officers through incentive stock options and non-qualified stock options. ADTRAN currently has options outstanding under its 1986 Employee Incentive Stock Option Plan (the "1986 Plan"), which expired on February 14, 1996. Options granted under the 1996 Plan or the 1986 Plan become exercisable after one year of continued employment after the date of grant or pursuant to a five year vesting schedule beginning on the first anniversary of the grant date. In 2000, the Board of Directors voted to reduce the vesting schedule to four years beginning on the first anniversary of the grant date for new grants effective January 2000. Expiration dates of options outstanding under the 1996 Plan and the 1986 Plan at December 31, 2000 range from 2001 to 2010.

The Board of Directors of ADTRAN adopted a Directors' Stock Option Plan ("Director's Plan") effective October 31, 1995, as amended, under which 200,000 shares of common stock have been reserved. The Director's Plan is a formula plan to provide options to non-employee directors of ADTRAN. At December 31, 2000, 92,000 options had been granted under the plan. Expiration dates of options outstanding under the Director's Stock Option Plan at December 31, 2000 range from 2005 to 2010.

Pertinent information regarding the stock plans is as follows:

	Number of Options	Range of Exercise Prices	Weighted Average Exercise Price	Vesting Provisions
Options outstanding, December 31, 1997	1,276,456	\$.17 - \$65.75	\$32.24	Various
Options granted	1,018,225	\$18.31 - \$26.25	\$21.46	Various
Options granted	10,250	\$30.50 - \$31.00	\$30.69	Various
Options cancelled	(45,370)	\$21.31 - \$65.75	\$35.61	Various
Options exercised	(42,215)	\$.17 - \$ 3.33	\$ 1.38	Various
Options outstanding, December 31, 1998	2,217,346	\$.50 - \$65.75	\$27.78	Various
Options granted	504,000	\$18.13 - \$39.69	\$35.75	Various
Options granted	642,000	\$18.88 - \$65.75	\$36.05	Various
Options cancelled	(166,875)	\$21.28 - \$65.75	\$32.52	Various
Options exercised	(96,076)	\$ 50 - \$31.75	\$17.96	Various
Options outstanding, December 31, 1999	3,100,395	\$ 1.50 - \$65.75	\$30.88	Various
Options granted	779,415	\$39.00 - \$69.81	\$67.82	Various
Options granted	616,185	\$21.25 - \$69.81	\$67.12	Various
Options cancelled	(130,840)	\$18.13 - \$69.81	\$37.36	Various
Options exercised	(315,314)	\$ 1.50 - \$65.75	\$21.47	Various
Options outstanding, December 31, 2000	4,049,841	\$ 1.67 - \$69.81	\$44.02	Various

The following table summarizes information about stock options outstanding at December 31, 2000:

Range of Exercise Prices	Number Outstanding 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable 12/31/00	Weighted Average Exercise Price
\$ 1.67 - \$ 3.33	30,070	2.10	\$ 2.70	30,070	\$ 2.70
\$12.53 - \$21.31	793,525	9.14	\$21.15	267,250	\$20.94
\$21.81 - \$27.50	533,526	6.55	\$24.64	272,678	\$24.51
\$30.38 - \$46.25	1,131,070	8.25	\$36.35	255,102	\$36.51
\$49.56 - \$69.81	1,561,650	8.81	\$68.39	206,200	\$64.03
	4,049,841			1,031,300	

The options above were issued at exercise prices which approximate fair market value at the date of grant. At December 31, 2000, 1,413,660 options were available for grant under the plans. ADTRAN applies APB Opinion 25 and related Interpretations in accounting for its stock plans. Accordingly, no compensation cost has been recognized related to stock options. Had compensation cost for ADTRAN's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, ADTRAN's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

	2000	1999	1998
Net income - as reported	\$120,802,261	\$50,945,554	\$40,309,650
Net income - pro forma	108,525,119	44,903,017	35,417,764
Earnings per share - as reported assuming dilution	\$ 3.04	\$ 1.31	\$ 1.03
Earnings per share - pro forma assuming dilution	\$ 2.73	\$ 1.16	\$.90

The pro forma amounts reflected above are not representative of the effects on reported net income in future years because, in general, the options granted typically do not vest for several years and additional awards are made each year. The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2000	1999	1998
Dividend yield	0%	0%	0%
Expected life (years)	5	6	5
Expected volatility	55.4%	59.4%	59.1%
Risk-free interest rate	6.18%	5.69%	4.67%

Note 9 - Employee Benefit Plan

In March 1990, ADTRAN adopted an incentive savings plan (the "Savings Plan") for all of its employees. The Savings Plan provides certain employment benefits to all eligible employees and qualifies as a deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended. ADTRAN matches one-half of a participant's contribution, limited to 5% of a participant's income. An employee's interest in ADTRAN's contributions becomes 100% vested at the date participation in the Savings Plan commenced. Charges to operations for the plan amounted to approximately \$1,368,000, \$1,288,000, \$928,000, in 2000, 1999 and 1998, respectively.

Note 10 - Segment Information and Major Customers

We operate two reportable segments - (1) Carrier Networks (CN) and (2) Enterprise Networks (EN). The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" (see Note 1) to the extent that such policies affect the reported segment information. ADTRAN evaluates the performance of its segments based on gross profit; therefore, selling, general and administrative costs, as well as research and development, interest income/expense, and provision for taxes, is 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 for each of the years in the three year period ended December 31, 2000. Asset information by reportable segment is not reported, since we do not produce such information internally.

	2000		1999		1998	
	Sales	Gross Profit	Sales	Gross Profit	Sales	Gross Profit
(in thousands)						
CN	\$315,228	\$146,886	\$230,967	\$108,809	\$167,500	\$ 91,574
EN	147,721	82,663	136,240	79,769	119,059	64,975
Total	\$462,949	\$229,519	\$367,207	\$188,578	\$286,559	\$156,549

The following is sales information by geographic area for the years ended December 31, 2000, 1999 and 1998:

Sales (in thousands)	2000	1999	1998
United States	\$448,810	\$357,699	\$277,062
Foreign	14,139	9,508	9,497
	\$462,949	\$367,207	\$286,559

Sales of ADTRAN's transmission and test equipment to the Regional Bell Operating Companies (RBOCs) and GTE, also known as Incumbent Local Exchange Carriers (ILECs), amounted to approximately 56%, 55% and 49% of total sales during the years ended December 31, 2000, 1999 and 1998, respectively. ADTRAN's EN Division sells a significant portion of our products to value added resellers through a multi-tier distribution system. Sales of this type amounting to 26%, 27%, and 25% of ADTRAN's revenue for each of the years ended December 31, 2000, 1999 and 1998, respectively, were routed through four fulfillment distributors.

Note 11 - Commitments and Contingencies

ADTRAN has certain contingent liabilities resulting from litigation arising in the normal course of business. Although the outcome of any litigation can never be certain, it is ADTRAN's opinion that the outcome of such contingencies will not materially affect our business, operations, financial condition or cash flows.

Note 12 - Earnings Per Share

A summary of the calculation of basic and diluted earnings per share (EPS) for the years ended December 31, 2000, 1999 and 1998 is as follows:

		For the Year Ended 2000	
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$120,802,261	38,647,288	\$3.13
Effect of Dilutive Securities			
Stock Options		1,056,997	
Diluted EPS			
Income available to common stockholders (with dilution) for assumed options exercised	\$120,802,261	39,704,286	\$3.04*
		For the Year Ended 1999	
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$ 50,945,554	38,334,507	\$1.33
Effect of Dilutive Securities			
Stock Options		496,584	
Diluted EPS			
Income available to common stockholders (with dilution) for assumed options exercised	\$ 50,945,554	38,831,091	\$1.31

		For the Year Ended 1998	
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$40,309,650	38,981,558	\$1.03
Effect of Dilutive Securities			
Stock Options		182,205	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$40,309,650	39,163,763	\$1.03

*ADTRAN reported a realized investment gain from the sale of certain marketable equity securities, resulting in an after tax gain of \$55,410,000 (\$1.39 per share assuming dilution). Earnings on a per share basis before the realized investment gain, assuming dilution, for the twelve months ended December 31, 2000 was \$1.65.

The following options were outstanding during the respective year, but were not included in the computation of that year's diluted EPS because the options' exercise price was greater than the average market price of the common shares in the respective year.

2000			1999			1998		
Options Granted	Exercise Price	Expiration	Options Granted	Exercise Price	Expiration	Options Granted	Exercise Price	Expiration
226,400	\$56.25-\$65.75	2006	46,000	\$31.75-\$46.25	2005	58,450	\$31.75-\$46.25	2005
4,000	\$ 65.75	2009	276,000	\$39.75-\$65.75	2006	307,400	\$30.50-\$65.75	2006
1,316,150	\$40.00-\$69.81	2010	23,100	\$37.88-\$42.72	2007	31,900	\$27.50-\$42.72	2007
			1,083,710	\$36.06-\$51.44	2009	28,500	\$26.25-\$30.38	2008

Note 13 - Summarized Quarterly Financial Data (Unaudited)

The following table presents unaudited quarterly operating results for each of ADTRAN's last eight fiscal quarters. This information has been prepared by ADTRAN on a basis consistent with our audited financial statements and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the data.

(In thousands, except for per share amounts)	March 31 2000	Three Months Ended		December 31 2000
		June 30 2000	September 30 2000	
Net sales	\$99,470	\$114,447	\$127,277	\$121,755
Gross profit	54,404	61,670	65,953	47,492
Operating income	24,470	27,249	30,219	9,837
(2)Net income	16,794	18,648	76,868	8,493
(1)Earnings per common share assuming dilution	\$.42	\$.47	\$ 1.93	\$.22
Earnings per common share	\$.44	\$.48	\$ 1.99	\$.22

(In thousands, except for per share amounts)	March 31 1999	Three Months Ended		December 31 1999
		June 30 1999	September 30 1999	
Net sales	\$77,163	\$ 88,507	\$ 97,067	\$104,470
Gross profit	39,494	43,356	50,463	55,265
Operating income	13,226	15,530	21,223	24,846
Net income	9,111	10,716	14,150	16,969
(1)Earnings per common share - assuming dilution	\$.24	\$.28	\$.36	\$.43
Earnings per common share	\$.24	\$.28	\$.37	\$.44

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

(2) Net Income for the third quarter of 2000 includes the realized gain from the sale of certain marketable equity securities, resulting in an after tax gain of \$55,410,000.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

No independent certified public accountant of ADTRAN has resigned, indicated any intent to resign or been dismissed as the independent certified public accountant of ADTRAN during the three fiscal years ended December 31, 2000 or subsequent thereto.

PART III**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information relating to nominees for director of ADTRAN and compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth under the captions "Proposal 1-Election of Directors-Information Regarding Nominees for Director" and "Section 16(a) Beneficial Ownership Reporting Compliance," respectively, in the Proxy Statement for the Annual Meeting of Stockholders to be held on April 20, 2001. Such information is incorporated herein by reference. The definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days after ADTRAN's fiscal year end. Information relating to the executive officers of ADTRAN, pursuant to Instruction 3 of Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K, is set forth at Part I, Item 4(A) of this report under the caption "Executive Officers of the Registrant." Such information is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

Information relating to executive compensation is set forth under the caption "Executive Compensation" in the Proxy Statement referred to in Item 10 above. Such information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information relating to ownership of common stock of ADTRAN by certain persons is set forth under the caption "Share Ownership of Principal Stockholders and Management" in the Proxy Statement referred to in Item 10 above. Such information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information relating to existing or proposed relationships or transactions between ADTRAN and any affiliate of ADTRAN is set forth under the caption "Compensation Committee Interlocks and Insider Participation" in the Proxy Statement referred to in Item 10 above. Such information is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents Filed as Part of This Report.

1. Financial Statements

The financial statements of ADTRAN and the related report of independent auditors thereon are set forth under Part II, Item 8 of this report.

Balance Sheets as of December 31, 2000 and 1999

Statements of Income for the years ended December 31, 2000, 1999 and 1998

Statements of Changes in Stockholders' Equity for the years ended December 31, 2000, 1999 and 1998.

Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998.

Notes to Financial Statements

2. Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

3. Exhibits

The following exhibits are filed with or incorporated by reference in this report. Where such filing is made by incorporation by reference to a previously filed registration statement or report, such registration statement or report is identified in parentheses. We will furnish any exhibit upon request to: ADTRAN, Inc., Attn: Investor Relations, P. O. Box 140000, 901 Explorer Boulevard, Huntsville, Alabama 35814. There is a charge of \$.50 per page to cover expenses for copying and mailing.

Exhibit Number -----	Description -----
3.1	Certificate of Statement on Form Incorporation, as S-1, No. 33-81062 amended (Exhibit 3.1 (the "Form S-1 to ADTRAN's Registration Statement"))).
*3.2	Bylaws, as amended.
10.1	Documents relative to (ADTRAN, Inc. consisting of the Form 10-K for the \$50,000,000 Project) issued by following (Exhibit year ended December Taxable Revenue Bond, the Alabama State 10.3 to ADTRAN's 31, 1994 (the "1994 Series 1995 Industrial Annual Report on Form 10-K")): Development Authority,
	(a) Financing Agreement Development of the State of of Alabama, a state of Alabama; dated January 1, 1995, Authority, a public Alabama (the banking corporation among the State corporation organized "Issuer"), ADTRAN under the laws of Industrial under the laws and AmSouth Bank the State
	(b) Loan Agreement dated between the Issuer January 1, 1995 (the and ADTRAN; "Loan Agreement"),
	(c) Resolution of the Taxable Revenue Bond, Issuer authorizing the Series 1995 (ADTRAN, issuance of the Inc. Project); \$50,000,000
	(d) Specimen Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project);
	(e) Resolution of ADTRAN authorizing Loan Agreement and the Note; the Financing Agreement, the
	(f) Specimen Note from ADTRAN to January 13, 1995; AmSouth Bank of Alabama, dated
	(g) Pledge Agreement dated January 13, Alabama and ADTRAN; 1995 between AmSouth Bank of
	(h) Eighth Amended and Restated and AmSouth Bank of Alabama dated January 13, 1995; and Closing Agreement between ADTRAN March 24, 1997 and effective
	(i) Preliminary Agreement dated and ADTRAN. November 16, 1994 between the Issuer
10.2	Master Note for Business and Commercial Loans, dated June 1, 1996 and in the original principal amount of \$10,000,000 by and between ADTRAN and AmSouth Bank of Alabama.
10.3	Tax Indemnification Agreement dated July 1, 1994 by and among ADTRAN and the stockholders of ADTRAN prior to ADTRAN's initial public offering of Common Stock (Exhibit 10.5 to the 1994 Form 10-K).
10.4	Management Contracts and Compensation Plans:

(a) 1996 Employees Stock Incentive Plan (Exhibit 10.4 to ADTRAN's Annual Report on Form 10-K for the year ended December 31, 1995 (the "1995 Form 10-K")).

(b) 1995 Directors Stock Incentive Plan (Exhibit 10.4 to 1995 Form 10-K).

*23 Consent of PricewaterhouseCoopers LLP

*24 Powers of Attorney

(b) Reports on Form 8-K. None

*Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on March 29, 2001.

ADTRAN, Inc. (Registrant)

By: /s/ John R. Cooper

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 29, 2001.

<i>Signature</i> -----	<i>Title</i> -----
/s/ Mark C. Smith ----- Mark C. Smith	Chairman of the Board, Chief Executive Officer and Director
/s/ Howard A. Thrailkill* ----- Howard A. Thrailkill	President, Chief Operating Officer and Director
/s/ Lonnie S. McMillian* ----- Lonnie S. McMillian	Senior Vice President, Secretary, and Director
/s/ W. Frank Blount* ----- W. Frank Blount	Director
/s/ William L. Marks* ----- William L. Marks	Director
/s/ Roy J. Nichols* ----- Roy J. Nichols	Director
/s/ James L. North* ----- James L. North	Director
/s/ John R. Cooper ----- John R. Cooper	Vice President-Finance, Chief Financial Officer, and Treasurer
*By: /s/ Mark C. Smith ----- Mark C. Smith as Attorney in Fact	

**SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS**

	Balance at Beginning of Period	Additions	Deductions	Balance at end of Period
Year ended December 31, 2000				
Allowance for Doubtful Accounts	\$1,018,400	\$ 20,578	\$ 225,975	\$ 813,003
Inventory Reserve	\$5,306,503	\$6,347,345	\$7,016,167	\$4,637,682
Warranty Liability	\$1,519,945	\$3,326,866	\$3,326,866	\$1,519,945
Year ended December 31, 1999				
Allowance for Doubtful Accounts	\$ 958,805	\$ 400,215	\$ 340,620	\$1,018,400
Inventory Reserve	\$1,148,731	\$6,006,173	\$1,848,401	\$5,306,503
Warranty Liability	\$1,519,945	\$2,501,073	\$2,501,073	\$1,519,945
Year ended December 31, 1998				
Allowance for Doubtful Accounts	\$ 893,389	\$ 275,025	\$ 209,609	\$ 958,805
Inventory Reserve	\$2,249,063	\$1,277,237	\$2,377,569	\$1,148,731
Warranty Liability	\$1,435,259	\$1,600,824	\$1,516,138	\$1,519,945

ADTRAN, INC.

INDEX OF EXHIBITS

Exhibit Number -----	Description -----
3.1	Certificate of Incorporation, as amended (Exhibit 3.1 to ADTRAN's Registration Statement on Form S-1, No. 33-81062 (the "Form S-1 Registration Statement")).
*3.2	Bylaws, as amended.
10.1	Documents relative to the \$50,000,000 Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) issued by the Alabama State Industrial Development Authority, consisting of the following (Exhibit 10.3 to ADTRAN's Annual Report on Form 10-K for the year ended December 31, 1994 (the "1994 Form 10-K")): <ul style="list-style-type: none">(a) Financing Agreement dated January 1, 1995, among the State Industrial Development Authority, a public corporation of the State of Alabama (the "Issuer"), ADTRAN organized under the laws and AmSouth Bank of Alabama, a state banking corporation under the laws of the State of Alabama;(b) Loan Agreement dated January 1, 1995 (the "Loan between the Issuer and ADTRAN; Agreement"),(c) Resolution of the Issuer authorizing the issuance Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. of the \$50,000,000 Project);(d) Specimen Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project);(e) Resolution of ADTRAN authorizing the Financing Loan Agreement and the Note; Agreement, the(f) Specimen Note from ADTRAN to AmSouth Bank of January 13, 1995; Alabama, dated(g) Pledge Agreement dated January 13, 1995 between Alabama and ADTRAN; AmSouth Bank of(h) Eighth Amended and Restated Closing Agreement and AmSouth Bank of Alabama dated March 24, 1997 between ADTRAN and effective January 13, 1995; and(i) Preliminary Agreement dated November 16, 1994 and ADTRAN. between the Issuer
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*23 Consent of PricewaterhouseCoopers LLP

*24 Powers of Attorney

*Filed herewith

Exhibit 3.2

BYLAWS, AS AMENDED OF

ADTRAN, INC.

ARTICLE I

OFFICES

Section 1.1 Location. The address of the registered office of the Corporation in the State of Delaware and the name of the registered agent at such address shall be as specified in the Certificate of Incorporation or, if subsequently changed, as specified in the most recent Certificate of Change filed pursuant to law. The Corporation may also have other offices at such places within or without the State of Delaware as the Board of Directors may from time to time designate or the business of the Corporation may require.

Section 1.2 Change of Location. In the manner permitted by law, the Board of Directors or the registered agent may change the address of the Corporation's registered office in the State of Delaware and the Board of Directors may make, revoke or change the designation of the registered agent.

ARTICLE II

MEETINGS OF STOCKHOLDERS

Section 2.1 Annual Meeting. The annual meeting of the stockholders of the Corporation for the election of Directors and for the transaction of such other business as may properly come before the meeting shall be held at the registered office of the Corporation, or at such other place within or without the State of Delaware as the Board of Directors may fix by resolution or as set forth in the notice of the meeting. In the event that the Board of Directors shall not otherwise fix the time, date and place of meeting, the annual meeting shall be held at the registered office of the Corporation at 10:00 a.m. on the first Wednesday in March of each year, commencing with the year 1988, but if such a date is a legal holiday, then on the next succeeding business day.

Section 2.2 Special Meetings. Special meetings of stockholders, unless otherwise prescribed by law, may be called at any time by the Chairman of the Board, by the Chief Executive Officer, by the President or by order of the Board of Directors. Special meetings of stockholders prescribed by law for the election of Directors shall be called by the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, or the Secretary whenever required to do so pursuant to applicable law. Special meetings of stockholders shall be held at such time and such place, within or without the State of Delaware, as shall be designated in the notice of meeting.

Section 2.3 List of Stockholders Entitled to Vote. The officer who has charge of the stock ledger of the Corporation shall prepare and make, or cause to be prepared and made, at least ten days before every meeting of stockholders, a complete list, based upon the record date for such meeting determined pursuant to Section 5.8, of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, for a period of at least ten days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if such place shall not be so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present.

The stock ledger shall be the only evidence as to who are the stockholders entitled to examine the stock ledger, the list of stockholders entitled to vote at any meeting, or the books of the Corporation, or to vote in person or by proxy at any meeting of stockholders.

Section 2.4 Notice of Meeting. Written notice of each annual and special meeting of stockholders, other than any meeting the giving of notice of which is otherwise prescribed by law, stating the place, date and hour of the meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called, shall be delivered or mailed, in writing, at least ten but not more than sixty days before the date of such meeting, to each stockholder entitled to vote thereat. If mailed, such notice shall be deposited in the United States mail, postage prepaid, directed to such stockholder at his address as the same appears on the records of the Corporation. An affidavit of the Secretary, an Assistant Secretary or the transfer agent of the Corporation that notice has been duly given shall be evidence of the facts stated therein.

Section 2.5 Adjourned Meetings and Notice Thereof. Any meeting of stockholders may be adjourned to another time or place, and the Corporation may transact at any adjourned meeting any business which might have been transacted at the original meeting. Notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournment is taken, unless (a) any adjournment or series of adjournments cause the original meeting to be adjourned for more than thirty days after the

date originally fixed therefor, or (b) a new record date is fixed for the adjourned meeting. If notice of an adjourned meeting is given, such notice shall be given to each stockholder of record entitled to vote at the adjourned meeting in the manner prescribed in Section 2.4 for the giving of notice of meetings.

Section 2.6 Quorum. At any meeting of stockholders, except as otherwise expressly required by law or by the Certificate of Incorporation, the holders of record of at least a majority of the outstanding shares of capital stock entitled to vote or act at such meeting shall be present or represented by proxy in order to constitute a quorum for the transaction of any business, but less than a quorum shall be present. When a quorum is once present to organize a meeting, the quorum cannot be destroyed by the subsequent withdrawal or revocation of the proxy of any stockholder. Shares of capital stock owned by the Corporation or by another corporation, if a majority of the shares of such other corporation entitled to vote in the election of Directors is held by the Corporation, shall not be counted for quorum purposes or entitled to vote.

Section 2.7 Voting. At any meeting of stockholders, each stockholder holding, as of the record date, shares of stock entitled to be voted on any matter at such meeting shall have one vote on each such matter submitted to vote at such meeting for each such share of stock held by such stockholder, as of the record date, as shown by the list of stockholders entitled to vote at the meeting, unless the Certificate of Incorporation provides for more or less than one vote for any share, on any matter, in which case every reference in these Bylaws to a majority or other proportion of stock shall refer to such majority or other proportion of the votes of such stock.

Each stockholder entitled to vote at a meeting of stockholders or to express consent or dissent to corporate action in writing without a meeting may authorize another person or persons to act for him by proxy, provided that no proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. A duly executed proxy shall be irrevocable if it states that it is irrevocable and if, and only so long as, it is coupled with an interest, whether in the stock itself or in the Corporation generally, sufficient in law to support an irrevocable power.

The Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, or the person presiding at a meeting of stockholders may appoint one or more persons to act as inspectors of voting at any meeting with respect to any matter to be submitted to a vote of stockholders at such meeting, with such powers and duties, not inconsistent with applicable law, as may be appropriate.

Section 2.8 Action by Consent of Stockholders. Unless otherwise provided in the Certificate of Incorporation, whenever any action by the stockholders at a meeting thereof is required or permitted by law, the Certificate of Incorporation, or these Bylaws, such action may be taken without a meeting, without prior notice and without a vote, if a consent in writing, setting forth the action so taken, shall be signed by the holders of the outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted. Prompt notice of the taking of such action without a meeting and by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

ARTICLE III

BOARD OF DIRECTORS

Section 3.1 General Powers. The property, business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors. The Board of Directors may exercise all such powers of the Corporation and have such authority and do all such lawful acts and things as are permitted by law, the Certificate of Incorporation or these Bylaws.

Section 3.2 Number of Directors. The Board of Directors of the Corporation shall consist of one or more members. The exact number of Directors which shall constitute the whole Board of Directors shall be fixed from time to time by resolution adopted by a majority of the whole Board of Directors. Until the number of Directors has been so fixed by the Board of Directors, the number of Directors constituting the whole Board of Directors shall be one. After fixing the number of Directors constituting the whole Board of Directors, the Board of Directors, by resolution adopted by a majority of the whole Board of Directors, from time to time change the number of Directors constituting the whole Board of Directors.

Section 3.3 Qualification. Directors need not be stockholders of the Corporation. Directors who willfully neglect or refuse to produce a list of stockholders entitled to vote at any meeting for the election of Directors shall be ineligible for election to any office at such meeting.

Section 3.4 Election. Except as otherwise provided by law, the Certificate of Incorporation or these Bylaws, after the first meeting of the Corporation at which Directors are elected, Directors of the Corporation shall be elected in each year at the annual meeting of stockholders, or at a special meeting in lieu of the annual meeting called for such purpose, by a plurality of votes cast at such meeting. The voting on Directors at any such meeting shall be by written ballot unless otherwise provided in the Certificate of Incorporation.

Section 3.5 Term. Each Director shall hold office until his successor is

duly elected and qualified, except in the event of the earlier termination of his term of office by reason of death, resignation, removal or other reason.

Section 3.6 Resignation and Removal. Any Director may resign at any time upon written notice to the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary. The resignation of any Director shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice, and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Any Director or the entire Board of Directors may be removed, with or without cause, by the holders of a majority of the shares of capital stock then entitled to vote at an election of Directors, except as otherwise provided by applicable law.

Section 3.7 Vacancies. Vacancies in the Board of Directors and newly created Directorships resulting from any increase in the authorized number of Directors shall be filled by a majority of the Directors then in office, though less than a quorum, or by a sole remaining Director.

If one or more Directors shall resign from the Board of Directors effective at a future date, a majority of the Directors then in office, including those who have so resigned at a future date, shall have power to fill such vacancy or vacancies, the vote thereon to take effect and the vacancy to be filled when such resignation or resignations shall become effective, and each Director so chosen shall hold office as provided in this Section 3.7 in the filling of other vacancies.

Each Director chosen to fill a vacancy on the Board of Directors shall hold office until the next annual election of Directors and until his successor shall be elected and qualified.

Section 3.8 Quorum and Voting. Unless the Certificate of Incorporation provides otherwise, at all meetings of the Board of Directors, a majority of the total number of Directors shall be present to constitute a quorum for the transaction of business. A Director interested in a contract or transaction may be counted in determining the presence of a quorum at a meeting of the Board of Directors which authorizes the contract or transaction. In the absence of a quorum, a majority of the Directors present may adjourn the meeting until a quorum shall be present.

Unless the Certificate of Incorporation provides otherwise, members of the Board of Directors or any committee designated by the Board of Directors may participate in a meeting of the Board of Directors or such committee by means of a conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in such a meeting shall constitute presence in person at such meeting.

The vote of the majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors unless the Certificate of Incorporation of these Bylaws shall require a vote of a greater number.

Section 3.9 Regulations. The Board of Directors may adopt such rules and regulations for the conduct of the business and management of the Corporation, not inconsistent with law or the Certificate of Incorporation or these Bylaws, as the Board of Directors may deem proper. The Board of Directors may hold its meetings and cause the books and records of the Corporation to be kept at such place or places within or without the State of Delaware as the Board of Directors may from time to time determine. A member of the Board of Directors, or a member of any committee designated by the Board of Directors shall, in the performance of his duties, be fully protected in relying in good faith upon the books of account or reports made to the Corporation by any of its officers, by an independent certified public accountant, or by an appraiser selected with reasonable care by the Board of Directors or any committee of the Board of Directors or in relying in good faith upon other records of the Corporation.

Section 3.10 Annual Meeting of Board of Directors. An annual meeting of the Board of Directors shall be called and held for the purpose of organization, election of officers and transaction of any other business. If such meeting is held promptly after and at the place specified for the annual meeting of stockholders, no notice of the annual meeting of the Board of Directors need be given. Otherwise, such annual meeting shall be held at such time (not more than thirty days after the annual meeting of stockholders) and place as may be specified in a notice of the meeting.

Section 3.11 Regular Meetings. Regular meetings of the Board of Directors shall be held at the time and place, within or without the State of Delaware, as shall from time to time be determined by the Board of Directors. After there has been such determination and notice thereof has been given to each member of the Board of Directors, no further notice shall be required for any such regular meeting. Except as otherwise provided by law, any business may be transacted at any regular meeting.

Section 3.12 Special Meetings. Special meetings of the Board of Directors may, unless otherwise prescribed by law, be called from time to time by the Chairman of the Board, the Chief Executive Officer or the President, and shall be called by the Chairman of the Board, the Chief Executive Officer, the President or the Secretary upon the written request of a majority of the whole Board of Directors directed to the Chairman of the Board, the Chief Executive Officer, the President or the Secretary. Except as provided below, notice of any special meeting of the Board of Directors, stating the time, place and purpose of such special meeting, shall be given to each Director.

Section 3.13 Notice of Meetings; Waiver of Notice. Notice of any meeting of the Board of Directors shall be deemed to be duly given to a Director (i) if mailed to such Director addressed to him at his address as it appears upon the books of the Corporation, or at the address last made known in writing to the Corporation by such Director as the address to which such notices are to be sent, at least five days before the day on which such meeting is to be held, or (ii) if sent to him at such address by telegraph, cable, radio or wireless not later than the day before the day on which such meeting is to be held, or (iii) if delivered to him personally or orally, by telephone or

otherwise, not later than the day before the day on which such meeting is to be held. Each such notice shall state the time and place of the meeting and the purposes thereof.

Notice of any meeting of the Board of Directors need not be given to any Director if waived by him in writing (or by telegram, cable, radio or wireless and confirmed in writing) whether before or after the holding of such meeting, or if such Director is present at such meeting. Any meeting of the Board of Directors shall be a duly constituted meeting without any notice thereof having been given if all Directors then in office shall be present thereat.

Section 3.14 Committees of Directors. The Board of Directors may, by resolution or resolutions passed by a majority of the whole Board of Directors, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation.

Except as herein provided, vacancies in membership of any committee shall be filled by the vote of a majority of the whole Board of Directors. The Board of Directors may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of any member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Members of a committee shall hold office for such period as may be fixed by a resolution adopted by a majority of the whole Board of Directors, subject, however, to removal at any time by the vote of a majority of the whole Board of Directors.

Section 3.15 Powers and Duties of Committees. Any committee, to the extent provided in the resolution or resolutions creating such committee, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it. No such committee shall have the power or authority with regard to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation's property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending the Bylaws. The Board of Directors may, in the resolution creating a committee, grant to such committee the power and authority to declare a dividend or authorize the issuance of stock.

Each committee may adopt its own rules of procedure and may meet at stated times or on such notice as such committee may determine. Except as otherwise permitted by these Bylaws, each committee shall keep regular minutes of its proceedings and report the same to the Board of Directors when required.

Section 3.16 Compensation of Directors. Each Director shall be entitled to receive for attendance at each meeting of the Board of Directors or any duly constituted committee thereof which he attends, such fee as is fixed by the Board and in connection therewith shall be reimbursed by the Corporation for travel expenses. The fees to such Directors may be fixed in unequal amounts among them, taking into account their respective relationship to the Corporation in another capacity. These provisions shall not be construed to preclude any Director from receiving compensation in serving the Corporation in any other capacity.

Section 3.17 Action Without Meeting. Unless otherwise restricted by the Certificate of Incorporation, any action required or permitted to be taken at any meeting of the Board of Directors or of any committee thereof may be taken without a meeting if a written consent thereto is signed by all members of the Board of Directors or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board of Directors or such committee.

ARTICLE IV

OFFICERS

Section 4.1 Principal Officers. The principal officers of the Corporation shall be elected by the Board of Directors and shall include a Chairman of the Board, a Chief Executive Officer, a President, a Secretary and a Treasurer and may, at the discretion of the Board of Directors, also include a Vice Chairman of the Board, one or more Vice Presidents, and a Chief Financial Officer. Except as otherwise provided in the Certificate of Incorporation or these Bylaws, one person may hold the offices and perform the duties of any two or more of said principal offices except the offices and duties of President and Vice President or of Chairman of the Board or President and Secretary. None of the principal officers need be Directors of the Corporation.

Section 4.2 Election of Principal Officers; Term of Office. The principal officers of the Corporation shall be elected annually by the Board of Directors at such annual meeting of the Board of Directors. Failure to elect any principal officer annually shall not dissolve the Corporation.

If the Board of Directors shall fail to fill any principal office at an annual meeting, or if any vacancy in any principal office shall occur, or if any principal office shall be newly created, such principal office may be filled at any regular or special meeting of the Board of Directors.

Each principal officer shall hold office until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

Section 4.3 Subordinate Officers, Agents and Employees. In addition to the principal officers, the Corporation may have one or more Assistant Treasurers, Assistant Secretaries, Vice Presidents who are not principal officers pursuant to Section 4.1 and such other subordinate officers, agents and employees as the Board of Directors may deem advisable, each of whom shall hold office for such period and have such authority and perform such duties as the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President, or any officer designated by the Board of Directors, may from time to time determine. The Board of Directors at any time may appoint and remove, or may delegate to any principal officer the power to appoint and to remove, any subordinate officer, agent or employee of the Corporation.

Section 4.4 Delegation of Duties of Officers. The Board of Directors may delegate the duties and powers of any officer of the Corporation to any other officer or to any Director for a specified period of time for any reason that the Board of Directors may deem sufficient.

Section 4.5 Removal of Officers. Any officer of the Corporation may be removed, with or without cause, by resolution adopted by a majority of the Directors then in office at any regular or special meeting of the Board of Directors or by a written consent signed by all of the Directors then in office.

Section 4.6 Resignations. Any officer may resign at any time by giving written notice of resignation to the Board of Directors, to the Chairman of the Board, to the Chief Executive Officer, to the President or to the Secretary. Any such resignation shall take effect upon receipt of such notice or at any later time specified therein. Unless otherwise specified in the notice, the acceptance of a resignation shall not be necessary to make the resignation effective.

Section 4.7 Chairman of the Board. The Chairman of the Board shall preside at all meetings of stockholders and of the Board of Directors at which he is present. The Chairman of the Board shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors.

Section 4.8 Chief Executive Officer. The Chief Executive Officer shall, in the absence of the Chairman of the Board, preside at all meetings of the stockholders and of the Board of Directors at which he is present. The Chief Executive Officer of the Corporation shall be responsible for the administration of the Corporation, including general supervision of the policies of the Corporation and general and active management of the financial affairs of the Corporation. The Chief Executive Officer also shall have such powers and perform such duties as are specifically imposed on him by law and as may be assigned to him by the Board of Directors.

Section 4.9 President. The President shall, in the absence of the Chairman of the Board and of the Chief Executive Officer, preside at all meetings of the stockholders and of the Board of Directors at which he is present. The President shall have all powers and duties usually incident to the office of the President, except as specifically limited by a resolution of the Board of Directors. The President shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors. The President, in the absence or disability of the Chief Executive Officer and upon the direction of the Board of Directors, shall perform the duties and exercise the powers of the Chief Executive Officer.

Section 4.10 Vice President. Each Vice President, if any, shall have such powers and perform such duties as may be assigned to him from time to time by the Board of Directors, the Chief Executive Officer or the President. Any Vice President may have such additional designation in his title as the Board of Directors may determine.

Section 4.11 Secretary. The Secretary shall act as Secretary of all meetings of stockholders and of the Board of Directors at which he is present, shall record all the proceedings of all such meetings in a book to be kept for that purpose, shall have supervision over the giving and service of notices of the Corporation, and shall have supervision over the care and custody of the records and seal of the Corporation. The Secretary shall be empowered to affix the corporate seal to documents, the execution of which on behalf of the Corporation under its seal is duly authorized, and when so affixed may attest the same. The Secretary shall have all powers and duties usually incident to the office of Secretary, except as specifically limited by a resolution of the Board of Directors. The Secretary shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors, the Chief Executive Officer or the President.

Section 4.12 Treasurer. The Treasurer shall have general supervision over the care and custody of the funds and over the receipts and disbursements of the Corporation and shall cause the funds of the Corporation to be deposited in the name of the Corporation in such banks or other depositories as the Board of Directors may designate. The Treasurer shall have supervision over the care and safekeeping of the securities of the Corporation. The Treasurer shall have all powers and duties usually incident to the office of Treasurer, except as specifically limited by a resolution of the Board of Directors. The Treasurer shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors, the Chief Executive Officer or the President.

Section 4.13 Chief Financial Officer. The Chief Financial Officer shall be the chief accounting officer of the Corporation, unless all or a portion of such duties and responsibilities are assigned to another officer by the Board of Directors, and shall have supervision over the maintenance and custody of the accounting operations of the Corporation, including the keeping of accurate accounts of all receipts and disbursements and all other financial transactions. The Chief Financial Officer shall have all powers and duties usually incident to the office of Chief Financial Officer, except as specifically limited by a resolution of the Board of Directors. The Chief

Financial Officer shall have such other powers and perform such other duties as may be assigned to him from time to time by the Board of Directors, the Chief Executive Officer or the President.

Section 4.14 Bond. The Board of Directors shall have power, to the extent

permitted by law, to require any officer, agent or employee of the Corporation to give bond for the faithful discharge of his duties in such form and with such surety or sureties as the Board of Directors may determine.

ARTICLE V

CAPITAL STOCK

Section 5.1 Issuance of Certificates of Stock. Each stockholder of the Corporation shall be entitled to a certificate or certificates in such form as shall be approved by the Board of Directors, certifying the number of shares of capital stock of the Corporation owned by such stockholder.

Section 5.2 Signatures on Stock Certificates. Certificates for shares of capital stock of the Corporation shall be signed by, or in the name of the Corporation by, the Chairman of the Board, the President or a Vice President and by the Secretary, the Treasurer, an Assistant Secretary or an Assistant Treasurer. Any of or all the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may be issued by the Corporation with the same effect as if such signer were such officer, transfer agent or registrar at the date of issue.

Section 5.3 Stock Ledger. A record of all certificates for capital stock issued by the Corporation shall be kept by the Secretary or any other officer or employee of the Corporation designated by the Secretary or by any transfer clerk or transfer agent appointed pursuant to Section 5.4 hereof. Such record shall show the name and address of the person, firm or corporation in which certificates for capital stock are registered, the number of shares represented by each such certificate, the date of each such certificate, and in case of certificates which have been cancelled, the dates of cancellation thereof.

The Corporation shall be entitled to treat the holder of record of shares of capital stock as shown on the stock ledger as the owner thereof and as the person entitled to receive dividends thereon, to vote such shares and to receive notice of meetings, and for all other purposes. The Corporation shall not be bound to recognize any equitable or other claim to or interest in any share of capital stock on the part of any other person whether or not the Corporation shall have express or other notice thereof.

Section 5.4 Regulations Relating to Transfer. The Board of Directors may make such rules and regulations as it may deem expedient, not inconsistent with law, the Certificate of Incorporation or these Bylaws, concerning issuance, transfer and registration of certificates for shares of capital stock of the Corporation. The Board of Directors may appoint, or authorize any principal officer to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars and may require all certificates for capital stock to bear the signature or signatures of any of them.

Section 5.5 Transfers. Transfers of capital stock shall be made on the books of the Corporation only upon delivery to the Corporation or its transfer agent of (i) a written direction of the registered holder named in the certificate or such holder's attorney lawfully constituted in writing, (ii) the certificate for the shares of capital stock being transferred, and (iii) a written assignment of the shares of capital stock evidenced thereby.

Section 5.6 Cancellation. Each certificate for capital stock surrendered to the Corporation for exchange or transfer shall be cancelled and no new certificate or certificates shall be issued in exchange for any existing certificate (other than pursuant to Section 5.7) until such existing certificate shall have been cancelled.

Section 5.7 Lost, Destroyed, Stolen and Mutilated Certificates. In the event that any certificate for shares of capital stock of the Corporation shall be mutilated, the Corporation shall issue a new certificate in place of such mutilated certificate. In case any such certificate shall be lost, stolen or destroyed, the Corporation may, in the discretion of the Board of Directors or a committee designated thereby with power so to act, issue a new certificate for capital stock in the place of any such lost, stolen or destroyed certificate. The applicant for any substituted certificate or certificates shall surrender any mutilated certificate or, in the case of any lost, stolen or destroyed certificate, furnish satisfactory proof of such loss, theft or destruction of such certificate and of the ownership thereof. The Board of Directors or such committee may, in its discretion, require the owner of a lost or destroyed certificate, or his representatives, to furnish to the Corporation a bond with an acceptable surety or sureties and in such sum as will be sufficient to indemnify the Corporation against any claim that may be made against it on account of the lost, stolen or destroyed certificate or the issuance of such new certificate. A new certificate may be issued without requiring a bond when, in the judgment of the Board of Directors, it is proper to do so.

Section 5.8 Fixing of Record Dates.

(a) The Board of Directors may fix, in advance, a record date, which shall not be more than sixty nor less than ten days before the date of any meeting of stockholders, nor more than sixty days prior to any other action, for the purpose of determining stockholders entitled to notice of or to vote at such meeting of stockholders or any adjournment thereof, or to express consent to corporate

action in writing without a meeting, or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action.

(b) If no record is fixed by the Board of Directors:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held;

(ii) The record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first consent is expressed;

(iii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto.

(c) A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting, provided that the Board of Directors may fix a new record date for the adjourned meeting.

ARTICLE VI

INDEMNIFICATION

Section 6.1 Indemnification. The Corporation shall indemnify and advance expenses to any officer, Director, employee or agent to the full extent permitted by its Certificate of Incorporation, these bylaws or by law.

ARTICLE VII

MISCELLANEOUS PROVISIONS

Section 7.1 Corporate Seal. The seal of the Corporation shall be circular in form with the name of the Corporation in the circumference and the words "Corporate Seal, Delaware" in the center. The seal may be used by causing it to be affixed or impressed, or a facsimile thereof may be reproduced or otherwise used in such manner as the Board of Directors may determine.

Section 7.2 Fiscal Year. The fiscal year of the Corporation shall be from the 1st/ day of September to the 31st day of August, inclusive, in each year, or such other twelve consecutive months as the Board of Directors may designate.

Section 7.3 Waiver of Notice. Whenever any notice is required to be given under any provision of law, the Certificate of Incorporation, or these Bylaws, a written waiver thereof, signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to notice. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders, Directors, or members of a committee of Directors, need be specified in any written waiver of notice unless so required by the Certificate of Incorporation.

Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened.

Section 7.4 Execution of Instruments, Contracts, Etc.

(a) All checks, drafts, bills of exchange, notes or other obligations or orders for the payment of money shall be signed in the name of the Corporation by the President or such other officer or officers or person or persons, as the Board of Directors may from time to time designate.

(b) Except as otherwise provided by law, the Board of Directors, any committee given specific authority in the premises by the Board of Directors, or any committee given authority to exercise generally the powers of the Board of Directors during the intervals between meetings of the Board of Directors, may authorize any officer, employee or agent, in the name of and on behalf of the Corporation, to enter into or execute and deliver deeds, bonds, mortgages, contracts and other obligations or instruments, and such authority may be general or confined to specific instances.

(c) All applications, written instruments and papers required by or filed with any department of the United States Government or any state, county, municipal or other governmental official or authority, may, if permitted by applicable law, be executed in the name of the Corporation by any principal officer or subordinate officer of the Corporation, or, to the extent designated for such

purpose from time to time by the Board of Directors, by an employee or agent of the Corporation. Such designation may contain the power to substitute, in the discretion of the person named, one or more other persons.

ARTICLE VIII

AMENDMENTS

Section 8.1 By Stockholders. These Bylaws may be amended, altered or repealed, or new Bylaws may be adopted, at any meeting of stockholders by the vote of the holders of not less than a majority of the outstanding shares of stock entitled to vote thereat, provided that, in the case of a special meeting, notice that an amendment is to be considered and acted upon shall be inserted in the notice or waiver of notice of said meeting.

Section 8.2 By Directors. To the extent permitted by the Certificate of Incorporation, these Bylaws may be amended, altered or repealed, or new Bylaws may be adopted, at any regular or special meeting of the Board of Directors by the affirmative vote of a majority of the whole Board.

**AS AMENDED BY THE BOARD OF DIRECTORS
ON JUNE 27, 1994 AND OCTOBER 12, 2000.**

Exhibit 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-41458, 333-78417, 333-30375) of ADTRAN, Inc. of our report dated January 25, 2001, relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Birmingham, Alabama

March 23, 2001

Exhibit 24

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Mark C. Smith and John R. Cooper, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of ADTRAN, Inc. for the fiscal year ended December 31, 2000, and any and all amendments thereto, and other documents in connection therewith and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This 22nd day of March, 2001.

/s/ Mark C. Smith

Mark C. Smith

Chairman of the Board, Chief

Executive Officer and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Mark C. Smith and John R. Cooper, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of ADTRAN, Inc. for the fiscal year ended December 31, 2000, and any and all amendments thereto, and other documents in connection therewith and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This 22nd day of March, 2001.

/s/ Howard A. Thrailkill

*Howard A. Thrailkill
President, Chief Operating Officer,
and Director*

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Mark C. Smith and John R. Cooper, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of ADTRAN, Inc. for the fiscal year ended December 31, 2000, and any and all amendments thereto, and other documents in connection therewith and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This 22nd day of March, 2001.

/s/ Lonnie S. McMillian

Lonnie S. McMillian
Senior Vice President, Secretary,
and Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Mark C. Smith and John R. Cooper, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of ADTRAN, Inc. for the fiscal year ended December 31, 2000, and any and all amendments thereto, and other documents in connection therewith and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This 22nd day of March, 2001.

/s/ W. Frank Blount

W. Frank Blount
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Mark C. Smith and John R. Cooper, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of ADTRAN, Inc. for the fiscal year ended December 31, 2000, and any and all amendments thereto, and other documents in connection therewith and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This 22nd day of March, 2001.

/s/ William L. Marks

William L. Marks
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Mark C. Smith and John R. Cooper, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of ADTRAN, Inc. for the fiscal year ended December 31, 2000, and any and all amendments thereto, and other documents in connection therewith and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This 22nd day of March, 2001.

/s/ Roy J. Nichols

Roy J. Nichols
Director

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that the undersigned constitutes and appoints Mark C. Smith and John R. Cooper, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution, for him and in his name, place and stead, in any and all capacities, to sign the Annual Report on Form 10-K of ADTRAN, Inc. for the fiscal year ended December 31, 2000, and any and all amendments thereto, and other documents in connection therewith and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc., granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

This 22nd day of March, 2001.

/s/ James L. North

James L. North
Director

End of Filing

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