

# ADTRAN INC

## FORM 10-Q (Quarterly Report)

Filed 5/15/2000 For Period Ending 3/31/2000

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

# SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

## FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For the Quarterly Period Ended March 31, 2000

OR

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

*Commission File Number 0-24612*

## ADTRAN, INC.

(Exact name of Registrant as specified in its charter)

Delaware  
(State of Incorporation)

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

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

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

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

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

Class	Outstanding at April 30, 2000
-----	-----
Common Stock, \$.01 Par Value	38,665,448 shares

ADTRAN, INC.

For the Quarter Ended March 31, 2000

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ADTRAN, INC.**

**CONDENSED BALANCE SHEETS**

ASSETS		
	March 31, 2000 ----- (Unaudited)	December 31, 1999 -----
Current assets:		
Cash and cash equivalents.....	\$ 25,749,433	\$ 37,500,674
Short-term investments.....	68,756,490	41,080,776
Accounts receivable, less allowance for doubtful accounts of \$986,771 and \$1,018,400 in 2000 and 1999 respectively.....	61,985,268	60,036,876
Other receivables.....	5,036,297	4,458,525
Inventory.....	59,692,478	58,568,773
Prepaid expenses.....	3,547,094	1,410,286
Deferred income taxes.....	4,069,937	4,069,937
	-----	-----
Total current assets.....	228,836,997	207,125,847
Property, plant and equipment, less accumulated depreciation of \$43,370,061 and \$40,416,461 in 2000 and 1999, respectively.....	110,892,563	104,587,755
Other assets.....	220,000	220,000
Long-term investments.....	243,878,577	244,362,579
	-----	-----
	\$583,828,137	\$556,296,181
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 15,908,709	\$ 12,773,848
Accrued salaries.....	1,677,782	3,240,692
Accrued income taxes.....	9,615,585	6,096,459
Accrued taxes other than income taxes.....	741,068	728,077
Warranty liability.....	1,519,945	1,519,945
Interest payable.....	196,333	0
Compensated absences.....	1,841,227	1,619,534
	-----	-----
Total current liabilities.....	31,500,649	25,978,555
Long term liabilities:		
Bonds payable.....	50,000,000	50,000,000
Deferred income taxes.....	80,265,155	80,265,155
	-----	-----
Total liabilities.....	161,765,804	156,243,710
	-----	-----
Stockholders' equity:		
Common stock, par value \$.01 per share 200,000,000 shares authorized: 39,466,644 and 39,466,644 shares issued in 2000 and 1999, respectively	394,466	394,466
Additional paid-in capital.....	90,577,688	90,832,913
Accumulated other comprehensive income.....	116,000,000	116,000,000
Retained earnings.....	231,629,016	214,834,541
Less treasury stock at cost: 785,611 and 1,047,225 shares in 2000 and 1999, respectively.....	(16,538,837)	(22,009,449)
	-----	-----
Total stockholders' equity.....	422,062,333	400,052,471
	-----	-----
	\$583,828,137	\$556,296,181
	=====	=====

See notes to condensed financial statements

**ADTRAN, INC.**  
**CONDENSED STATEMENTS OF INCOME**

**Unaudited**

	Three Months Ended	
	March 31,	
	2000	1999
Sales.....	\$99,470,351	\$77,162,648
Cost of sales.....	45,065,863	37,668,543
	-----	-----
Gross profit.....	54,404,488	39,494,105
Selling, general and administrative expenses.....	18,672,699	16,594,352
Research and development expenses.....	11,261,968	9,673,687
	-----	-----
Income from operations.....	24,469,821	13,226,066
Interest expense.....	(576,333)	(570,000)
Other income, net.....	1,553,052	1,043,938
	-----	-----
Income before income taxes.....	25,446,540	13,700,004
Provision for income taxes.....	(8,652,065)	(4,589,501)
	-----	-----
Net income.....	\$16,794,475	\$ 9,110,503
	=====	=====
Weighted average shares outstanding assuming dilution (1).....	39,915,234	38,447,082
	=====	=====
Earnings per common share assuming dilution (1).....	\$ .42	\$ .24
	=====	=====
Earnings per common share - basic.....	\$ .44	\$ .24
	=====	=====

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

See notes to condensed financial statements

**ADTRAN, INC.**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
Unaudited

	Three Months Ended March 31,	
	2000	1999
Cash flows from operating activities:		
Net income.....	\$ 16,794,475	\$ 9,110,503
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	2,953,096	2,624,898
Provisions for losses on inventory.....	2,236,639	784,526
(Gain) loss on short-term investments.....	(3,999)	37,050
Change in operating assets:		
Accounts receivable.....	(1,948,392)	(2,055,016)
Inventory.....	(3,360,344)	9,766,614
Other receivables.....	(577,772)	(215,709)
Prepaid expenses.....	(2,136,808)	(472,382)
Change in operating liabilities:		
Accounts payable.....	3,134,861	(678,894)
Accrued salaries.....	(1,562,910)	1,127,980
Accrued income taxes.....	3,519,126	4,740,081
Accrued taxes other than income taxes.....	12,991	52,313
Accrued interest.....	196,333	0
Compensated absences.....	221,693	139,172
	19,478,989	24,961,136
Cash flows from investing activities:		
Expenditures for property, plant and equipment.....	(9,257,904)	(9,603,494)
(Purchase) Redemption of short-term investments.....	(27,671,715)	12,210,468
Purchase of long-term investments.....	484,002	(693,963)
	(36,445,617)	1,913,011
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	5,215,387	9,434
(Purchase) Redemption of treasury stock.....	0	(318,750)
	5,215,387	(309,316)
Net (decrease) increase in cash and cash equivalents.....	(11,751,241)	26,564,831
Cash and cash equivalents, beginning of period.....	37,500,674	10,009,320
Cash and cash equivalents, end of period.....	\$ 25,749,433	\$36,574,151

See notes to condensed financial statements

ADTRAN, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS  
(Unaudited)

1. BASIS OF PRESENTATION

The interim condensed balance sheet of ADTRAN, Inc. at December 31, 1999 has been derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. The accompanying unaudited condensed financial statements of ADTRAN have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected to occur for the year ending December 31, 2000. The interim statements should be read in conjunction with the financial statements and notes thereto included in ADTRAN'S latest Annual Report on Form 10-K.

2. INVENTORY

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

	March 31, 2000 -----	December 31, 1999 -----
Raw materials	\$32,305,769	\$30,143,435
Work in progress	12,173,245	15,763,155
Finished goods	15,213,464	12,662,183
	-----	-----
	\$59,692,478	\$58,568,773
	=====	=====

3. RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 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 to the extent the derivatives are not effective as hedges. SFAS No. 133 is effective for ADTRAN beginning January 1, 2001. ADTRAN does not currently hold any derivative financial instruments.

#### 4. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share for the three months ended March 31, 2000 and 1999 is as follows:

	For the Three Months Ended March 31, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$16,795,190	38,567,918	\$0.44
Effect of Dilutive Securities			
Stock Options		1,347,316	
Diluted EPS			
Income available to common stockholders + assumed conversions	\$16,795,190	39,915,234	\$0.42

  

	For the Three Months Ended March 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$9,110,503	38,326,332	\$0.24
Effect of Dilutive Securities			
Stock Options		120,750	
Diluted EPS			
Income available to common stockholders + assumed conversions	\$9,110,503	38,447,082	\$0.24



## 5. Segment Information

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

The table below presents information about the reported sales and gross profit of ADTRAN for the three months ended March 31, 2000 and 1999. We do not report Asset information by reportable segment because we do not produce that information internally.

	Three Months Ended March 31, 2000		Three Months Ended March 31, 1999	
	Sales	Gross Profit	Sales	Gross Profit
Carrier Network	\$67,535,789	\$36,108,258	\$47,651,669	\$24,407,357
Enterprise Network	31,934,562	18,296,230	29,510,979	15,086,748
Total	\$99,470,351	\$54,404,488	\$77,162,648	\$39,494,105

The following table presents sales information by geographic area for the three months ended March 31, 2000 and 1999.

Sales	Three Months Ended	
	March 31, 2000	March 31, 1999
United States	\$96,442,449	\$74,655,583
Foreign	3,027,902	2,507,065
Total	\$99,470,351	\$77,162,648

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

### OF OPERATIONS

#### Overview

ADTRAN, Inc. designs, develops, manufactures, markets and services a broad range of high speed digital transmission products utilized by providers of telecommunications services and corporate end-users to implement advanced digital data services over existing telephone networks. We currently sell our products to a large number of carriers (including all of the Regional Bell operating companies) and private end-users in the Enterprise Network market.

We have increased our sales in each year primarily by increasing 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 our 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. Our success to-date is attributable in large measure to our ability to initially design our products with a view to their subsequent re-design, allowing efficient enhancements of the product in each succeeding product generation. This strategy has enabled us to sell succeeding generations of products to existing customers as well as to increase our market share by selling these enhanced products to new customers.

While we have 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. A majority of our customers typically require prompt delivery of products within a short period of time after placing their orders. Consequently, we operate with very little order backlog and must maintain sufficient inventory levels to satisfy anticipated customer demand. A substantial majority of our sales in each quarter result from orders booked in that quarter and firm purchase orders released in that quarter by customers under agreements containing nonbinding purchase commitments. If near term demand for our products declines or if significant 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 our 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. Our 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 us or our competitors. Accordingly, our historical financial performance is not necessarily a meaningful indicator of future results, and, in general, we expect that our financial results may vary from period to period.

When used in this Form 10-Q, the words "believe," "anticipate," "think," "intend," "will be," and similar expressions identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures made by ADTRAN which attempt to advise interested parties of the factors which affect our business, including the disclosures made in other periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

### **SALES**

ADTRAN's sales increased 28.9% from \$77,162,648 in the three months ended March 31, 1999 to \$99,470,351 in the three months ended March 31, 2000. The increased sales resulted from an increase in sales volume to existing customers and from increased market penetration. The financial effect of the increase in overall unit volume was offset somewhat by lower unit selling prices for many of our products. Carrier Network sales increased from \$47,651,669 in the three months ended March 31, 1999 to \$67,535,789 in the three months ended March 31, 2000. The increase in Carrier Network sales for the 2000 period resulted from increased sales of Total Reach, and High bit-rate Digital Subscriber Line ("HDSL") products. Carrier Network sales as a percentage of total sales increased from 61.8% in the three months ended March 31, 1999 to 67.9% in the three months ended March 31, 2000. Enterprise Network sales increased from \$29,510,979 in the three months ended March 31, 1999 to \$31,934,562 in the three months ended March 31, 2000, as a result of increased sales of our ATLAS, and MX2800 products. As a percentage of total sales, Enterprise Network sales decreased from 38.2% in the three months ended March 31, 1999 to 32.1% in the three months ended March 31, 2000.

### **COST OF SALES**

Cost of sales increased 19.6% from \$37,668,543 in the three months ended March 31, 1999 to \$45,065,863 in the three months ended March 31, 2000. This is a direct result of our increased sales volume. As a percentage of sales, cost of sales decreased from 48.8% in the three months ended March 31, 1999 to 45.3% in the three months ended March 31, 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 ADTRAN's gross profit margin due to timing differences between the recognition of cost reductions and the lowering of product selling prices. In view of the rapid pace of new product introductions by ADTRAN, this strategy may result in variations in gross profit margins that, for any particular financial period, can be difficult to predict.

### **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**

Selling, general and administrative expenses increased 12.5% from \$16,594,352 in the three months ended March 31, 1999 to \$18,671,984 in the three months ended March 31, 2000. The increase was due to additional sales and support expenditures necessary as a result of ADTRAN's increased sales. Selling, general and administrative expenses as a percentage of sales decreased from 21.5% in the three months ended March 31, 1999 to 18.8% in the three months ended March 31, 2000.

### **RESEARCH AND DEVELOPMENT EXPENSES**

Research and development expenses increased 16.4% from \$9,673,687 in the three months ended March 31, 1999 to \$11,261,968 in the three months ended March 31, 2000. The increase was due to increased investment in product development and product cost reduction through engineering. As a percentage of sales, research and development expenses decreased from 12.5% in the three months ended March 31, 1999 to 11.3% in the three months ended March 31, 2000. ADTRAN will continue to invest in product development

activities because they are necessary to position us, to accumulate market share and maintain growth over the longer term.

### **INTEREST EXPENSE**

Interest expense increased 1.1% from \$570,000 for the three months ended March 31, 1999 to \$576,333 in the three months ended March 31, 2000.

### **NET INCOME**

As a result of the above factors, net income increased 84.3% from \$9,110,503 in the three months ended March 31, 1999 to \$16,795,190 in the three months ended March 31, 2000. As a percentage of sales, net income increased from 11.8% in the three months ended March 31, 1999 to 16.9% in the three months ended March 31, 2000.

### **Liquidity and Capital Resources**

ADTRAN is committed to spend approximately an additional \$8,000,000 completing the construction of Phase IV of our corporate headquarters in Huntsville, Alabama, with an expected completion date of June 30, 2000. Over the next several years, we expect to spend approximately an additional \$25,000,000 to equip Phase IV. Fifty million dollars of ADTRAN's Phase III expansion was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). The incentive program enables participating companies to generate Alabama corporate income tax credits that can be used to reduce the amount of Alabama corporate income taxes that would otherwise be payable. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future, and ADTRAN therefore may not realize the full benefit of these incentives. Through December 31, 1999, the Authority had issued \$50,000,000 of its taxable revenue bonds pursuant to the incentive program and loaned the proceeds from the sale of the bonds to ADTRAN. ADTRAN is required to make payments to the Authority in the amounts necessary to pay the principal of and interest on the Authority's Taxable Revenue Bond, Series 1995, as amended, currently outstanding in the aggregate principal amount of \$50,000,000. The bond matures on January 1, 2020, and bears interest at the rate of 45 basis points over the money market rate of First Union National Bank of Tennessee.

Our working capital position increased 9.1% from \$181,147,000 as of December 31, 1999 to \$197,556,000 as of March 31, 2000 due to cash generated from operations. We have used, and expect to continue to use, the cash generated from operations for working capital and other general corporate purposes, including (i) product development activities to enhance our existing products and develop new products and (ii) expansion of sales and marketing activities. Inventory increased 1.9% from December 31, 1999 to March 31, 2000, as a result of increased sales volume.

On March 31, 1997, the Board of Directors authorized ADTRAN to re-purchase up to 1,000,000 shares of our outstanding common stock. In October 1998, the Board approved the re-purchase of an additional 2,000,000 shares. As of March 31, 2000, ADTRAN had re-purchased 1,120,136 shares of its common stock at a total cost of \$23,573,000.

Capital expenditures totaling \$36,237,000 for the year ended December 31, 1999 and \$9,258,000 in the first three months of 2000 were used to expand our headquarters and to purchase equipment.

At March 31, 2000, ADTRAN's cash on hand of \$25,749,433 and short-term investments of \$68,756,490 placed our potential cash availability at \$94,505,923.00. ADTRAN has determined not to renew its \$10,000,000 bank line of credit, which expired on March 29, 2000.

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.

## PART II. OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

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

27 - Financial Data Schedule

(b) Reports on Form 8-K. None

**SIGNATURE**

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

**ADTRAN, INC.**  
(Registrant)

*Date: May 12, 2000*

*/s/ John R. Cooper*

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

## ARTICLE 5

This schedule contains summary financial information extracted from the condensed statement of income for the three months ended March 31, 2000 and the condensed balance sheet as of March 31, 2000 and is qualified in its entirety by reference to such financial statements.

CIK: 0000926282

NAME: ADTRAN, INC.

MULTIPLIER: 1

CURRENCY: U.S.DOLLAR

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 2000
PERIOD START	JAN 31 2000
PERIOD END	MAR 31 2000
EXCHANGE RATE	1
CASH	25,749,433
SECURITIES	68,756,490
RECEIVABLES	62,971,979
ALLOWANCES	986,771
INVENTORY	59,692,478
CURRENT ASSETS	229,056,997
PP&E	154,262,624
DEPRECIATION	43,370,061
TOTAL ASSETS	583,828,137
CURRENT LIABILITIES	31,500,649
BONDS	50,000,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	394,466
OTHER SE	421,667,867
TOTAL LIABILITY AND EQUITY	583,828,137
SALES	99,470,351
TOTAL REVENUES	99,470,351
CGS	45,065,863
TOTAL COSTS	45,065,863
OTHER EXPENSES	29,934,667
LOSS PROVISION	0
INTEREST EXPENSE	576,333
INCOME PRETAX	25,446,540
INCOME TAX	8,652,065
INCOME CONTINUING	16,794,475
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	16,795,190
EPS BASIC	.44
EPS DILUTED	.42

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**End of Filing**

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