

ADTRAN INC

FORM 10-Q (Quarterly Report)

Filed 5/15/2002 For Period Ending 3/31/2002

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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, 2002

OR

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

Commission File Number 0-24612

ADTRAN, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

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

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

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

Class	Outstanding at April 30, 2002
-----	-----
Common Stock, \$.01 Par Value	38,562,322 shares

ADTRAN, INC.

Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 2002

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**ADTRAN, INC.
CONDENSED BALANCE SHEETS**

ASSETS		
	March 31, 2002 ---- (Unaudited)	December 31, 2001 ---- (Audited)
Current assets:		
Cash and cash equivalents.....	\$83,388,445	\$ 81,280,409
Short-term investments.....	30,823,999	26,282,961
Accounts receivable, less allowance for doubtful accounts of \$3,533,447 and \$3,882,099 in 2002 and 2001, respectively.....	55,757,007	60,598,867
Other receivables.....	7,412,297	9,609,478
Inventory, net.....	47,204,889	56,849,470
Prepaid expenses.....	3,230,713	3,486,470
Deferred income taxes.....	5,904,755	5,904,755
	-----	-----
Total current assets.....	233,722,105	244,012,410
Property, plant and equipment, less accumulated depreciation of \$74,265,786 and \$70,092,383 in 2002 and 2001, respectively.....	116,254,421	120,133,445
Other assets.....	469,000	489,000
Long-term investments.....	173,789,118	157,901,718
	-----	-----
	\$524,234,644	\$522,536,573
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 17,032,758	\$ 15,551,685
Accrued expenses.....	9,577,472	7,721,682
Income taxes payable.....	4,067,670	3,352,049
	-----	-----
Total current liabilities.....	30,677,900	26,625,416
Long term liabilities:		
Bonds payable.....	50,000,000	50,000,000
Deferred income taxes.....	5,696,732	8,283,601
	-----	-----
Total liabilities.....	86,374,632	84,909,017
	-----	-----
Stockholders' equity:		
Common stock, par value \$.01 per share, 200,000,000 shares authorized: 39,445,198 shares issued in 2002 and 2001.....	394,452	394,452
Additional paid-in capital.....	96,292,937	96,384,091
Accumulated other comprehensive income.....	4,793,431	9,374,389
Retained earnings.....	354,574,610	350,233,932
Less treasury stock at cost: 882,876 and 910,236 shares in 2002 and 2001, respectively.....	(18,195,418)	(18,759,308)
	-----	-----
Total stockholders' equity.....	437,860,012	437,627,556
	-----	-----
	\$524,234,644	\$522,536,573
	=====	=====

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended	
	March 31,	
	2002	2001
	----	----
Sales.....	\$83,341,983	\$105,275,747
Cost of sales.....	43,983,153	59,841,309
	-----	-----
Gross profit.....	39,358,830	45,434,438
Selling, general and administrative expenses.....	20,789,822	26,064,836
Research and development expenses.....	13,834,261	14,848,714
	-----	-----
Operating income.....	4,734,747	4,520,888
Interest expense.....	(690,283)	(503,556)
Other income, net.....	1,984,256	1,980,787
	-----	-----
Income before provision for income taxes.....	6,028,720	5,998,119
Provision for income taxes.....	(1,688,042)	(2,039,362)
	-----	-----
Net income.....	\$4,340,678	\$3,958,757
	=====	=====
Weighted average shares outstanding.....	38,557,574	38,718,662
	=====	=====
Weighted average shares outstanding assuming dilution (1).....	38,760,293	38,863,521
	=====	=====
Earnings per common share - basic.....	\$.11	\$.10
	=====	=====
Earnings per common share - assuming dilution (1).....	\$.11	\$.10
	=====	=====

(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	
	2002	2001
	-----	-----
Cash flows from operating activities:		
Net income.....	\$4,340,678	\$3,958,757
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	4,174,335	4,009,675
(Gain) loss on sale of short-term investments.....	(81,694)	17,134
Loss on sale of long-term investments.....	80,802	--
Change in operating assets and liabilities.....		
Accounts receivable, net.....	4,841,860	12,253,910
Inventory, net.....	9,644,581	(6,919,475)
Other receivables.....	2,196,249	22,586,228
Prepaid expenses and other assets.....	275,757	(202,113)
Accounts payable.....	1,481,073	(13,585,121)
Accrued expenses.....	1,855,790	1,279,395
Income taxes payable.....	715,621	(866,030)
	-----	-----
Net cash provided by operating activities.....	29,525,052	22,532,360
	-----	-----
Cash flows from investing activities:		
Expenditures for property, plant and equipment.....	(294,379)	(5,591,143)
Proceeds from sales of short-term investments.....	5,824,658	14,233,193
Purchases of short-term investments.....	(10,290,950)	(15,988,066)
Proceeds from sales of long-term investments.....	14,378,564	9,991,030
Purchases of long-term investments.....	(37,507,645)	(2,468,426)
	-----	-----
Net cash (used in) provided by investing activities.....	(27,889,752)	176,588
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	472,736	113,865
	-----	-----
Net cash provided by financing activities.....	472,736	113,865
	-----	-----
Net increase in cash and cash equivalents.....	2,108,036	22,822,813
Cash and cash equivalents, beginning of period.....	81,280,409	27,971,313
	-----	-----
Cash and cash equivalents, end of period.....	\$83,388,445	\$50,794,126
	=====	=====

See notes to condensed financial statements

ADTRAN, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The interim condensed balance sheet of ADTRAN, Inc. ("ADTRAN") at March 31, 2002 has been derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The accompanying unaudited condensed financial statements of ADTRAN have been prepared pursuant to the rules and regulations for reporting on Quarterly Reports on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 2002 are not necessarily indicative of the results that may be expected to occur for the year ending December 31, 2002. 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, 2002 and December 31, 2001, inventory consisted of the following:

	March 31, 2002	December 31, 2001
Raw materials	\$26,923,694	\$32,838,488
Work in progress	2,535,654	5,154,555
Finished goods	17,745,541	18,856,427
	-----	-----
Inventory, net	\$47,204,889	\$56,849,470
	=====	=====

3. COMPREHENSIVE INCOME

Comprehensive income consists of net income or loss and unrealized gains and losses on marketable securities, net of deferred taxes. Comprehensive loss of \$240,280 at March 31, 2002, consists of net income of \$4,340,678 and unrealized losses on marketable securities of \$4,580,958 (net of deferred tax). Comprehensive income of \$6,832,630 at December 31, 2001, consists of net income of \$17,328,529 and unrealized losses on marketable securities of \$10,495,899 (net of deferred tax).

4. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share (EPS) for the three months ended March 31, 2002 and 2001 is as follows:

For the Three Months Ended March 31, 2002

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$4,340,678	38,557,574	\$0.11
Effect of Dilutive Securities			
Stock Options		202,719	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$4,340,678	38,760,293	\$0.11

For the Three Months Ended March 31, 2001

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$3,958,757	38,718,662	\$0.10
Effect of Dilutive Securities			
Stock Options		144,859	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$3,958,757	38,863,521	\$0.10

5. SEGMENT INFORMATION

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

The table below presents information about the reported sales and gross profit of ADTRAN's segments for the three months ended March 31, 2002 and 2001. Asset information by reportable segment is not reported, since ADTRAN does not produce such information internally.

	Three Months Ended March 31, 2002		Three Months Ended March 31, 2001	
	Sales -----	Gross Profit -----	Sales -----	Gross Profit -----
Carrier Network	\$53,333,390	\$23,781,687	\$69,217,660	\$26,172,558
Enterprise Network	30,008,593	15,577,143	36,058,087	19,261,880
	-----	-----	-----	-----
Total	\$83,341,983	\$39,358,830	\$105,275,747	\$45,434,438
	=====	=====	=====	=====

The following is sales information by product and geographic area for the three months ended March 31, 2002 and 2001.

Sales by Product

	Three Months Ended	
	March 31, 2002 -----	March 31, 2001 -----
Digital Business Transport (DBT) / Total Reach(R)	\$11,639,415	\$27,340,664
High-bit-rate Digital Subscriber Line (HDSL) / T1 Systems	45,055,896	53,601,789
	26,646,672	24,333,294
	-----	-----
Total	\$83,341,983	\$105,275,747
	=====	=====

Sales by Geographic Region

	Three Months Ended	
	March 31, 2002 -----	March 31, 2001 -----
United States	\$78,768,299	\$101,626,918
Foreign	4,573,684	3,648,829
	-----	-----
Total	\$83,341,983	\$105,275,747
	=====	=====

6. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, which has an effective date of June 30, 2001 for all business combinations initiated after this date. This statement requires all business combinations within the scope of the Statement to be accounted for using the purchase method of accounting. SFAS No. 141 does not currently impact ADTRAN.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 142, Goodwill and Other Intangible Assets, which has an effective date starting with fiscal years beginning after December 15, 2001. This statement addresses the accounting for goodwill and other intangible assets. SFAS No. 142 does not currently impact ADTRAN.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143, Accounting for Asset Retirement Obligations ("ARO"), which has an effective date for financial statements for fiscal years beginning after June 15, 2002. This statement addresses the diversity in practice for recognizing asset retirement obligations and requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an ARO, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. ADTRAN does not expect the impact of SFAS No. 143 to be material to ADTRAN's March 31, 2002 financial statements or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which has an effective date for financial statements for fiscal years beginning after December 15, 2001. This statement, which supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. Additionally, this statement expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. ADTRAN adopted SFAS No. 144 effective January 1, 2002, and the impact was not material to ADTRAN's March 31, 2002 financial statements.

7. LIABILITY FOR WARRANTY RETURNS

ADTRAN's products generally include warranties of five or ten years for product defects. ADTRAN accrues for warranty returns at cost to repair or replace products. This liability is included in accrued expenses in the accompanying balance sheets. The liability for warranty returns totaled approximately \$1,277,000 as of December 31, 2001 and March 31, 2002.

8. FINANCIAL INSTRUMENTS

ADTRAN evaluates its available-for-sale and held-to-maturity investments for related events or changes in circumstances that indicate a decline in value that is other than temporary. An impairment charge is recognized in the period in which an other than temporary decline is identified in an amount equal to the

excess of the carrying value over the fair value. There were no such impairment charges recognized during the quarter ended March 31, 2002.

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

OVERVIEW

ADTRAN designs, develops, manufactures, markets and services a broad range of high speed network access 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). We currently sell our products to a large number of carriers, including all RBOCs (Regional Bell Operating Companies), and to private and public enterprises worldwide.

Although total sales did not increase this year compared to last year due to an overall downturn in the telecommunications market, we have protected revenue by maintaining 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.

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 could 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.

CRITICAL ACCOUNTING POLICIES

Management believes the following critical accounting policies, among others, affect its more significant judgments and estimates used in the preparation of its financial statements:

. We review customer contracts to determine if all of the requirements for revenue recognition have been met prior to recording revenues from sales transactions. We generally record sales revenue upon shipment of our products, net of any discounts, since: (i) we generally do not have significant post-delivery obligations, (ii) the product price is fixed and determinable, (iii) collection of the resulting receivable is probable, and (iv) product returns are reasonably estimable. We generally ship products upon receipt of a purchase order from a customer. Shipping terms are evaluated, and revenue on products shipped is recorded in accordance with the applicable terms per each respective contract.

. We maintain allowances for doubtful accounts for losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

. We provide for the estimated cost of product warranties at the time revenue is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligation is affected by product failure rates, material usage and other rework costs incurred in correcting a product failure. Should actual product failure rates, material usage or other rework costs differ from our estimates, revisions to the estimated warranty liability may be required.

. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required.

. We hold minority interests in publicly traded companies whose share prices may be volatile. We record an investment impairment charge when we believe an investment has experienced a decline in value that is other than temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 2002 COMPARED TO THREE MONTHS ENDED MARCH 31, 2001

SALES

ADTRAN's sales decreased 20.8% from \$105,275,747 in the three months ended March 31, 2001 to \$83,341,983 in the three months ended March 31, 2002. The decrease was primarily the result of decreased spending by our customers, which we believe to be a result of both economic and industry-wide factors.

Carrier Network sales decreased from \$69,217,660 in the three months ended March 31, 2001 to \$53,333,390 in the three months ended March 31, 2002. Carrier Network sales as a percentage of total sales decreased from 65.7% in the three months ended March 31, 2001 to 64.0% in the three months ended March 31, 2002. Enterprise Network sales decreased from \$36,058,087 in the three months ended March 31, 2001 to \$30,008,593 in the three months ended March 31, 2002. Enterprise Network sales as a percentage of total sales increased from 34.3% in the three months ended March 31, 2001 to 36.0% in the three months ended March 31, 2002. Foreign sales increased 25.3% from \$3,648,829 in the three months ended March 31, 2001 to \$4,573,684 in the three months ended March 31, 2002. This increase is due to growing acceptance of ADTRAN products in international markets.

COST OF SALES

Cost of sales decreased 26.5% from \$59,841,309 in the three months ended March 31, 2001 to \$43,983,153 in the three months ended March 31, 2002. The cost of sales decrease quarter over quarter is related to the difference in first quarter revenues in each period. As a percentage of sales, cost of sales decreased from 56.8% in the three months ended March 31, 2001 to 52.8% in the three months ended March 31, 2002. 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, as described above, 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 decreased 20.2% from \$26,064,836 in the three months ended March 31, 2001 to \$20,789,822 in the three months ended March 31, 2002. This decrease is a result of a reduction in force, mandatory salary reductions, and other cost reductions implemented in the second half of 2001. However, selling, general and administrative expenses as a percentage of sales remained relatively unchanged from 24.8% in the three months ended March 31, 2001 to 24.9% in the three months ended March 31, 2002. Nevertheless, selling, general and administrative expenses as a percent of sales will generally fluctuate whenever there is significant fluctuation in revenues during the periods being compared.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased 6.8% from \$14,848,714 in the three months ended March 31, 2001 to \$13,834,261 in the three months ended March 31, 2002. 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. As a result, ADTRAN may incur significant research and development expenses prior to the receipt of revenues from a major new product group. As a percentage of sales, research and development expenses increased from 14.1% in the three months ended March 31, 2001 to 16.6% in the three months ended March 31, 2002. ADTRAN will continue to incur research and development expenses in connection with its new products and its expansion into international markets. Research and development expenses as a percent of sales will fluctuate whenever there is a significant fluctuation in revenues during the periods being compared.

INTEREST EXPENSE

Interest expense increased 37.1% from \$503,556 for the three months ended March 31, 2001 to \$690,283 in the three months ended March 31, 2002. This increase is primarily related to an increase in the interest rate on the \$50,000,000 revenue bond, the proceeds of which were used to expand our facilities in Huntsville, Alabama.

OTHER INCOME

Other income remained relatively unchanged from \$1,980,787 for the three months ended March 31, 2001 to \$1,984,256 in the three months ended March 31, 2002.

INCOME TAXES

Our effective annual tax rate increased slightly from 27% in 2001 to 28% as of March 31, 2002. Income taxes decreased 17.2% from \$2,039,362 in the three months ended March 31, 2001 to \$1,688,042 in the three months ended March 31, 2002.

NET INCOME

As a result of the above factors, net income increased 9.6% from \$3,958,757 in the three months ended March 31, 2001 to \$4,340,678 in the three months ended March 31, 2002. As a percentage of sales, net income increased from 3.8% in the three months ended March 31, 2001 to 5.2% in the three months ended March 31, 2002.

LIQUIDITY AND CAPITAL RESOURCES

ADTRAN completed the construction of Phase IV of our corporate headquarters in Huntsville, Alabama, in October 2000. We have spent approximately \$20,000,000 in equipping Phase IV and expect to spend approximately \$25,000,000 over the next several years. Fifty million dollars of ADTRAN's Phase III expansion was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). The incentive program enables participating companies to generate Alabama corporate income tax credits that can be used to reduce the amount of Alabama corporate income taxes that would otherwise be payable. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future, and therefore, ADTRAN may not realize the full benefit of these incentives. Through March 31, 2002, 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. We are 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 20 basis points over the money market account-based rate of First Union National Bank. Included in long-term investments is \$50,000,000 of restricted funds, which is a collateral deposit against the principal of this bond.

ADTRAN's working capital position decreased 6.8% from \$217,876,000 as of December 31, 2001 to \$203,044,000 as of March 31, 2002. Accounts receivable and other receivables decreased 8.0% and 22.9%, respectively from December 31, 2001 to March 31, 2002 due to reduced sales volumes and improved collections. Accounts payable increased 9.5% from December 31, 2001 to March 31, 2002. ADTRAN has used, and expects to continue to use, the cash generated from operations for working capital and other general corporate purposes, including (i) product development activities to enhance its existing products and develop new products and (ii) expansion of sales and marketing activities. Inventory decreased 17.0% from \$56,849,000 as of December 31, 2001 to \$47,205,000 as of March 31, 2002. The decrease in inventory is attributable to management's continued efforts to streamline our production process and increase manufacturing velocity.

In October 1998, the Board of Directors authorized ADTRAN to re-purchase 2,000,000 shares of our outstanding common stock. In July 2001, the Board approved the re-purchase of an additional 2,000,000 shares. As of March 31, 2002, we had re-purchased 336,417 shares of our common stock at a total cost of \$6,540,000 under these programs.

Capital expenditures totaling \$294,379 in the three months ended March 31, 2002 were used for the purchase of equipment and \$5,591,143 in the first three months of 2001 were used to expand our headquarters and purchase equipment.

At March 31, 2002, ADTRAN's cash on hand of \$83,388,445 and short-term investments of \$30,823,999 placed our short-term cash availability at \$114,212,444. At December 31, 2001, cash on hand was \$81,280,409 and short-term investments were \$26,282,961, which placed our short-term cash availability at \$107,563,370.

At March 31, 2002, ADTRAN's long-term investments increased by 10.1% to \$173,789,118 from \$157,901,718 at December 31, 2001. This increase was attributable to ADTRAN's ability to generate cash from operations during the quarter. Long-term investments include a restricted balance of \$50,000,000 related to the revenue bonds as discussed above.

INVESTMENT POLICY

ADTRAN's short-term investments represent the liquid and working funds for the present and future operations of the company. These assets are invested with appropriate diversification to preserve capital, provide liquidity, and generate returns appropriate to current instruments in prevailing market conditions.

Long-term investments are likewise invested to preserve principal and liquidity, while maximizing overall returns on our monetary assets. This is achieved through conservative investments and appropriate diversification in fixed income, public equity, and private equity portfolios.

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.

FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 (the "Reform Act") provides a safe harbor for forward-looking statements made by or on behalf of ADTRAN. ADTRAN and its representatives may from time to time make written or verbal forward-looking statements, including statements contained in this report and our other filings with the Securities and Exchange Commission and in our reports to our stockholders. Generally, the words, "believe," "expect," "intend," "estimate," "anticipate," "will," "may," "could" and similar expressions identify forward-looking statements. We caution you that any forward-looking statements made by or on our behalf are subject to uncertainties and other factors that could cause such statements to be wrong. Some of these uncertainties and other factors are listed below. They have been discussed in our most recent Form 10-K filed on March 29, 2002 with the SEC as well as in prior SEC filings. Though we have attempted to list comprehensively these important factors, we caution investors that other factors may prove to be important in the future in affecting our operating results. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact each factor or combination of factors may have on our business. You are further cautioned not to place undue reliance on those forward-looking statements because they speak only of our

views as of the date the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

The following are some of the risks that could affect our financial performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements:

- . We must continue to update and improve our products and develop new products in order to compete and to keep pace with improvements in telecommunications technology.
- . Our dependence on a limited number of suppliers may prevent us from delivering our products on a timely basis, which could have a material adverse effect on customer relations and operating results.
- . Our dependence on subcontractors may result in reduced control over product quality, delayed delivery of products and/or increased manufacturing costs, each of which could negatively effect customer relations and operating results.
- . We compete in markets that have become increasingly competitive, which may results in reduced gross profit margins and market share.
- . We depend heavily on sales to certain customers; the loss of any of these customers would significantly reduce our revenues and net income.
- . The lengthy approval process required by the RBOCs and other carriers could result in fluctuations in our revenues.
- . Consolidation in the Competitive Service Provider market could result in a significant decrease in our revenue.
- . Increased sales volume in international markets could result in increased costs or loss of revenue due to factors inherent in these markets.
- . Our success depends on our ability to reduce the selling prices of succeeding generations of our products.
- . Our failure to adequately protect our intellectual property rights could adversely effect the development and commercialization of our products.
- . Two stockholders own or may influence a significant amount of our common stock and may continue to have significant influence on our affairs.
- . The price of our common stock has been volatile and may continue to fluctuate substantially.

The foregoing list of risks is not exclusive.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit Number -----		Description -----
10.1	(h)*	Amendment to First Amended and Restated Financing Agreement and First Amended and Restated Loan Agreement dated as of January 3, 2002 by and between First Union National Bank and ADTRAN, Inc.
	(i)*	Amended and Restated Investment Agreement dated as of January 3, 2002 by and between ADTRAN, Inc. and First Union National Bank.
	(j)*	Assignment and Assumption Agreement dated as of January 3, 2002 by and between AmSouth Bank of Alabama and First Union National Bank.

*Filed herewith.

(b) No reports on Form 8-K were filed during the quarter ended March 31, 2002.

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 14, 2002

/s/ James E. Matthews

James E. Matthews
Senior Vice President - Finance and
Chief Financial Officer

EXHIBIT 10.1 (h)

**AMENDMENT TO FIRST AMENDED AND RESTATED FINANCING AGREEMENT AND FIRST AMENDED
AND RESTATED LOAN AGREEMENT**

This Amendment to First Amended and Restated Financing Agreement and First Amended and Restated Loan Agreement (the "Amendment") dated as of January 3, 2002, by and between FIRST UNION NATIONAL BANK, a national banking association (successor-in-interest to First Union National Bank of Tennessee) (the "Bondholder"), and ADTRAN, Inc., a Delaware corporation (the "Borrower").

WHEREAS, the Bondholder, the Borrower and State Industrial Development Authority (the "Issuer") are parties to a certain First Amended and Restated Financing Agreement dated as of April 25, 1997 (as amended, modified and/or supplemented from time to time, the "Existing Financing Agreement"), and the Borrower and Issuer are parties to a certain First Amended and Restated Loan Agreement dated as of April 25, 1997 (as amended, modified and/or supplemented from time to time, the "Existing Loan Agreement"), pursuant to which the Issuer agreed to issue a certain Amended and Restated Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) in the authorized principal amount of \$50,000,000.00 (as amended, modified and/or supplemented from time to time, the "Bond"), the proceeds of which the Bondholder agreed to loan to the Borrower, which loan is evidenced by a certain First Amended and Restated Note dated as of even date therewith by the Borrower in favor of the Bondholder in the maximum original principal amount of \$50,000,000.00 (as amended, modified and/or supplemented from time to time, the "Note"); and

WHEREAS, pursuant to the Existing Financing Agreement, the Issuer assigned to the Bondholder all of its right, title and interest in and to the Bond, the Existing Loan Agreement and the other Financing Documents; and

WHEREAS, the Borrower has requested the Bondholder, and the Bondholder has agreed, to modify the interest rate applicable to the Note pursuant to the Existing Financing Agreement, and to modify certain terms and conditions of the Existing Loan Agreement, all on the terms and conditions contained in this Amendment.

NOW, THEREFORE, in consideration of the mutual premises herein contained, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound hereby, agree as follows:

1. Definitions.

- a. All defined terms used herein and not defined herein shall have the meanings ascribed thereto in the Existing Financing Agreement.
- b. As used herein and hereafter as used in the Financing Documents, the term "Financing Agreement", "Amended and Restated Financing Agreement" or any other term referring to

the Existing Financing Agreement on or after the date hereof, shall mean the Existing Financing Agreement as amended by this Amendment.
c. As used herein and hereafter as used in the Financing Documents, the term "Loan Agreement", "Amended and Restated Loan Agreement" or any other term referring to the Existing Loan Agreement on or after the date hereof, shall mean the Existing Loan Agreement as amended by this Amendment.

2. Amendment to Existing Financing Agreement.

a. The definition of "Money Market Account-Based Rate" in Section 1.01 of the Financing Agreement is hereby deleted in its entirety and replaced with the following:

"Money Market Account-Based Rate shall mean a rate 45 basis points in excess of the Money Market Account Rate, as determined on the date of initial issuance of the Amended and Restated Bond and each Interest Payment Date thereafter; provided, however, that commencing on January 3, 2002 the Money Market Account-Based Rate shall mean a fixed rate 20 basis points in excess of the 5-year CD rate (as hereinafter defined), as determined on January 3, 2002. For the purposes hereof, "CD Rate", means the rate for U.S. dollar certificates of deposit with a maturity date equal to the number of years set forth above, as published in the Federal Reserve publication H.15 under the caption "CDs (secondary market)" on the date of determination thereof, or if no such rate is reported, then as determined by the Bank from another recognized source of interbank quotation."

3. Conditions to Amendment. Unless otherwise agreed to by the Bondholder in writing, concurrently with the execution of this Amendment, and as a condition of its effectiveness:

- a. The Borrower shall have duly executed and delivered to the Bondholder that certain Amended and Restated Investment Agreement dated as of the date hereof (the "Investment Agreement");
- b. The Borrower shall have duly executed and delivered to the Bondholder that certain letter agreement dated as of the date hereof relating to Section 4.03 of the Financing Agreement (the "Letter Agreement");
- c. The Borrower shall have duly established the certificate of deposit with the Bondholder as required by Section 1 of the Investment Agreement; and
- d. The Borrower shall have paid any fees due and payable in connection with this Amendment and the other Modification Documents (as hereinafter defined) and all costs and expenses (including, without limitation, reasonable attorneys' fees) incurred by the Bondholder in connection with this Amendment.

4. The Borrower's Representations and Warranties. The Borrower hereby represents and warrants to the Bondholder as follows:

- a. All of the representations and warranties made by the Borrower in the Existing Financing Agreement, the Existing Loan Agreement and the other Financing Documents remain true, complete and accurate as of the date hereof and as applied to this Amendment and the Financing Documents, except to the extent that the Borrower has advised the Bondholder otherwise in writing.
- b. No Event of Default and no default exists, and no event has occurred which with notice or lapse of time or both would constitute a default or an Event of Default under the Existing

Financing Agreement or the Existing Loan Agreement, except to the extent that the Borrower has previously advised the Bondholder otherwise in writing and the Bondholder has waived such default in writing, which the Bondholder hereby waives, and the Bondholder acknowledges that it is not aware of any existing defaults under the Financing Documents; and the Borrower has no claims, defenses or set-offs to its obligations under the Financing Documents.

c. As of the date hereof, there has been no material adverse change in the financial condition of the Borrower from that reflected in the most recent financial statements of the Borrower delivered to the Bondholder.

d. The execution and performance by the Borrower of this Amendment, the Investment Agreement, the Letter Agreement and any other documents and agreements in connection herewith (collectively, the "Modification Documents"), have been duly authorized by all necessary corporate action, will not violate any provision of law applicable to the Borrower or any provision of its charter or by-laws, will not result in a breach of or constitute a default or require any consent under, or result in the creation of any lien, charge or encumbrance upon any property or assets of the Borrower pursuant to any indenture or other agreement or instrument by which the Borrower or any of its properties may be bound or affected. This Amendment and the other Modification Documents constitute legal, valid and binding agreements of the Borrower, enforceable in accordance with their respective terms, except as enforceability may be affected by bankruptcy, insolvency, moratorium or other laws affecting creditors' rights generally.

5. Events of Default. A breach of any covenant, representation or warranty set forth in this Amendment or any other Modification Document by the Borrower shall constitute an Event of Default under the Financing Agreement and the Loan Agreement.

6. Effect of Amendment. Except as expressly amended and supplemented hereby, the Existing Financing Agreement, the Existing loan Agreement, the Bond and all of the Financing Documents in effect as of the date hereof shall remain in full force and effect, unmodified, and are enforceable against the Borrower in accordance with their respective terms.

7. Further Modifications. This Amendment contains all of the modifications to the Existing Financing Agreement and the Existing Loan Agreement, and no further or other modifications to the Existing Financing Agreement or the Existing Loan Agreement shall be effective unless in writing executed by the Bondholder and the Borrower.

8. Binding Effect. This Amendment shall extend to and bind the parties hereto and their respective successors and permitted assigns.

9. Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the jurisdiction applicable pursuant to the Loan Agreement.

10. Counterparts. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same document.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to First Amended and Restated Financing Agreement and First Amended and Restated Loan Agreement to be duly executed as of the date first above written.

FIRST UNION NATIONAL BANK

By: /s/ Robyn G. Beh

Robyn G. Beh
Vice President

ATTEST:

ADTRAN, Inc.

/s/ Luzma Doughty

Luzma Doughty
Executive Assistant

By: /s/ Howard A. Thrailkill

Howard A. Thrailkill
President

CONSENT OF ORIGINAL ISSUER

The State Industrial Development Authority hereby consents to the foregoing Amendment to the First Amended and Restated Financing Agreement and First Amended and Restated Loan Agreement dated as of January 2, 2002.

Dated: January 2, 2002.

**STATE INDUSTRIAL DEVELOPMENT
AUTHORITY**

By: /s/ Henry C. Mabry, III

Henry C. Mabry, III
Secretary

EXHIBIT 10.1 (i)

AMENDED AND RESTATED INVESTMENT AGREEMENT

This Amended and Restated Investment Agreement (this "Agreement") is entered into as of this 3rd day of January, 2002, by and between ADTRAN, Inc. (the "Borrower"), a Delaware corporation, and FIRST UNION NATIONAL BANK (successor-in-interest to First Union National Bank of Tennessee) (the "Bondholder"), a national banking association.

WITNESSETH

WHEREAS, the State Industrial Development Authority for the State of Alabama (the "Issuer") issued its Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) in the principal amount of Fifty Million and No/100 Dollars (\$50,000,000.00) (the "Bond") to the Bondholder pursuant to that certain First Amended and Restated Financing Agreement (as amended from time to time, the "Financing Agreement") dated as of April 25, 1997 among the Issuer, the Bondholder and the Borrower; and

WHEREAS, the Borrower and the Issuer entered into that certain First Amended and Restated Loan Agreement (as amended from time to time, the "Loan Agreement") dated as of April 25, 1997, and the Issuer assigned to the Bondholder all of the rights of the Issuer under the Loan Agreement with the intention that the Bondholder enjoy the rights of the Issuer thereunder except to the extent of certain rights reserved with respect to certain rights to notice and "Additional Payments," as defined in the Financing Agreement; and

WHEREAS, as further evidence of its obligations to the Bondholder arising under the Loan Agreement, the Borrower executed that certain First Amended and Restated Note (as amended from time to time, the "Note") dated April 25, 1997 payable to the order of the Bondholder in the maximum principal amount of Fifty Million and No/100 Dollars (\$50,000,000.00); and

WHEREAS, one condition to the Bondholder's agreement to purchase the Bond was that the Bondholder shall have a first priority lien upon certain deposit accounts maintained with the Bondholder to secure the Note and obligations under the Loan Agreement, with such deposits to be derived from sources other than the proceeds of the Bond; and

WHEREAS, the Borrower, the Bondholder and AmSouth Bank of Alabama ("AmSouth") entered into that certain Investment Agreement (the "Original Investment Agreement") dated as of April 25, 1997, pursuant to the terms and conditions of which the Borrower granted to Bondholder a lien and security interest upon certain Deposit Accounts (as defined therein) established with Bondholder and AmSouth; and

WHEREAS, concurrently with the execution hereof, the Bondholder and AmSouth are entering into an Assignment and Assumption Agreement, pursuant to the terms and conditions of which AmSouth is irrevocably

selling and assigning to the Bondholder, and the Bondholder is irrevocably purchasing and assuming, AmSouth's participation and interest in the Bond, the Note, the Loan Agreement and the collateral security thereof; and

WHEREAS, in connection with such sale and assignment from AmSouth to the Bondholder, the Borrower and Bondholder desire to amend and restate the Original Investment Agreement in its entirety, pursuant to the terms and conditions hereinafter set forth.

NOW, THEREFORE, as an inducement to cause the Bondholder to purchase the Bond, and for other valuable consideration, the receipt and sufficiency of which are acknowledged, it is agreed as follows:

1. Establishment and Maintenance of Certificate of Deposit. Prior to the execution of this Agreement, the Borrower established a commercial money market deposit account with the Bondholder bearing the account number 2000010106277 in the amount of Thirty Million and No/100 Dollars (\$30,000,000.00) (the "Deposit Account"). Prior or concurrently with the execution of this Agreement, Borrower shall apply the amounts on the deposit in the Deposit Account, together with an additional Twenty Million and No/100 Dollars (\$20,000,000.00) for a total of Fifty Million and No/100 Dollars (\$50,000,000.00), toward the purchase of a 5-year certificate of deposit with the Bondholder (the "Certificate of Deposit"). The Certificate of Deposit shall be established in the name of the Borrower and is and shall be subject to the restriction that the Borrower shall have no access to funds on deposit or applied thereto absent the consent of the Bondholder. The interest rate on the Certificate of Deposit shall be a fixed rate throughout the term of the Certificate of Deposit, pursuant to the Loan Agreement.

2. Source of Deposited Funds. Funds applied by the Borrower toward the Certificate of Deposit shall not be funds that are proceeds of the Bond.

3. Definition of Secured Indebtedness. As used herein, "Secured Indebtedness" shall mean all present and future debts and other obligations of the Borrower evidenced by the Bond, the Note and the Loan Agreement, as they may hereafter from time to time be amended, modified, extended, renewed or restated, and all obligations arising hereunder.

4. Security Interest; Assignment. To secure the payment of the Secured Indebtedness, the Borrower hereby assigns, pledges and grants a continuing security interest in and lien on the Certificate of Deposit to the Bondholder, together with all replacement certificates of deposit, however denominated, and all proceeds thereof (collectively, the "Account").

5. Representations and Warranties. The Borrower warrants and represents to the Bondholder the following:

a. Title. The Borrower is the sole legal and equitable owner of the Account.

b. No Encumbrances. The Account is not subject to any assignment, lien or other encumbrance other than rights in favor of the Bondholder pursuant to this Agreement.

c. Valid Lien. This Agreement provides the Bondholder with a valid first priority assignment of and lien interest in the Certificate of Deposit.

d. Representations and Warranties in the Financing Agreement and Loan Agreement. All of the representations and warranties set forth in Article 2 of the Financing Agreement and set forth in Section 2.2 of the Loan Agreement are true and correct as of the date hereof.

6. Covenants. The Borrower covenants with the Bondholder as follows:

a. No Transfer. The Borrower shall not sell or assign the Account in whole or in part and will not grant or allow any other lien or encumbrance to attach thereto.

b. No Withdrawal. The Borrower shall not withdraw any funds from or otherwise applied to the Account or convert the Account to any other savings instruments or account in whole

or in part, without the prior specific written approval of the Bondholder; provided, however, (i) in the absence of the Event of Default hereunder the Borrower shall be entitled to receive interest accrued on the Account as such interest would normally become payable under the terms and conditions of the respective account contracts, and
(ii) the Borrower may at any time use funds from the Account to prepay the Secured Indebtedness, in whole or in part.

7. **Perfection.** The Borrower acknowledges and agrees that the Certificate of Deposit is a bank deposit and that the Bondholder's security interest therein is duly protected against lien creditors of the Borrower, bona fide purchasers from the Borrower and the rights of the Borrower or a Trustee for Borrower under any filing under the Bankruptcy Code by the absolute control of the Bondholder as to the right of withdrawal from the Certificate of Deposit. Should the Bondholder in the future determine that the filing of a financing statement or other action is necessary or desirable as further evidence of the perfection of the interest of the Bondholder in the Account, the Borrower shall bear all costs of the preparation and filing of such financing statements or the taking of such other action, including the reasonable fees and expenses of the Bondholder's attorneys.

8. **The Bondholder's Right of Set-off.** As a further inducement to the Bondholder to purchase the Bond, the Borrower hereby grants to the Bondholder (and acknowledges the existence of) the right of set-off against the Account and grants to the Bondholder (and acknowledges the existence of) a banker's lien against the Account, both of which rights serve as additional security for the Secured Obligations.

9. **The Borrower's Right of Set-off Against the Bondholder.** The Bondholder hereby grants to the Borrower and acknowledges the existence of the Borrower's right to set-off the balance of the Account against and to the reduction of all or part of the balance of the Secured Indebtedness in the event that the Bondholder should fail to pay to the Borrower the funds in the Account upon the tender of full payment of Secured Indebtedness or upon the tender of partial payment thereof, to the extent such partial payment is then allocated to the Bondholder's interest in the Bond.

10. **Warranty of the Bondholder.** The Bondholder represents and warrants that this Agreement constitutes a legal, valid, and binding obligation of the Bondholder and is enforceable against the Bondholder in accordance with its terms, except as enforcement hereof may be limited by (i) bankruptcy, insolvency, or other similar laws affecting the enforcement of creditors' rights and (ii) general principles of equity, including the exercise of judicial discretion in appropriate cases.

11. **Event of Default Defined.** The occurrence of any one or more of the following events shall constitute an Event of Default under this Agreement:

- a. **Financing Agreements.** The occurrence of an Event of Default under the Financing Agreement, the Loan Agreement of the Note.
- b. **Monetary Default.** The Borrower's failure to pay any amount due to the Bondholder under this Agreement within five (5) days of demand.
- c. **Breach of Covenant.** The Borrower's failure to perform or observe any obligation or covenant made herein with respect to the Secured Indebtedness.
- d. **Breach of Representation or Warranty.** The Borrower's making of any representation or warranty in connection with this Agreement or the Secured Indebtedness that is materially false.

12. **Remedies Upon Event of Default.** Upon the occurrence of an Event of Default hereunder, the Bondholder may pursue any or all of the following remedies without any notice to the Borrower except as required below:

- a. **Withdrawal from Account.** The Bondholder may withdraw some or all of the funds in the Account and apply the proceeds thereof to the Secured Indebtedness. The Borrower hereby appoints the Bondholder as the Borrower's attorney-in-fact for the purpose of withdrawing funds from the Account in such event.
- b. **Exercise of Set-off.** The Bondholder may exercise its right to set-off and lien against the Account.
- c. **Other Remedies.** The Bondholder may pursue any other remedy that may be available to it under any other document pertaining to the Secured Indebtedness or that may otherwise be available to the Bondholder at law or equity.
- d. **Application of Proceeds.** All amounts received by the Bondholder for the Borrower's account by exercise of its remedies hereunder shall be applied as follows:
First, to the payment of all expenses incurred by the Bondholder in exercising its rights hereunder, including attorney's fees, and any other expenses due the Bondholder from the Borrower; Second, to the payment of all interest included in the Secured Indebtedness, in such order as the Bondholder may elect; Third, to the payment of all principal included in the Secured Indebtedness, in such order as the Bondholder may elect; and Fourth, surplus to the Borrower or other party entitled thereto.

13. **Expenses.** Upon demand, the Borrower will advance to the Bondholder or, at the Bondholder's option, reimburse the Bondholder for, the following expenses:

- a. **Taxes.** All taxes that the Bondholder may be required to pay because of the Secured Indebtedness (excluding taxes based upon the net income of the Bondholder) or because of the Bondholder's interest in any property securing the payment of the Secured Indebtedness;
- b. **Administration.** All expenses that the Bondholder may incur in connection with the preparation, execution, administration or enforcement of this Agreement or of any other document pertaining to the Secured Indebtedness;
- c. **Protection of Collateral.** All costs of preserving or disposing of any collateral securing the Secured Indebtedness.
- d. **Costs of Collection.** All court costs and other costs of collecting any debt, overdraft or other obligation included in the Secured Indebtedness, including compensation for time spent by employees of the Bondholder;
- e. **Litigation.** All costs arising from any litigation, investigation, or administrative proceeding (whether or not the Bondholder is a party thereto) that the Bondholder may incur as a result of the Secured Indebtedness or as a result of the Bondholder's association with the Borrower, including, but not limited to, expenses incurred by the Bondholder in connection with a cause or proceeding involving the Borrower under any chapter of the Bankruptcy Code or any successor statute thereto;
- f. **Attorneys' Fees.** Reasonable attorneys' fees and costs incurred in connection with any of the foregoing.

If the Bondholder pays any of the foregoing expenses, they shall become a part of the Secured Indebtedness and shall bear interest at the highest rate applicable to the Secured Indebtedness from time to time. This paragraph shall remain in full effect regardless of the full payment of the Secured Indebtedness, the purported termination of this Agreement, the delivery of the executed original of this Agreement to the Borrower, or the content or accuracy of any representation made by the Borrower to the Bondholder; provided, however, the Bondholder may terminate this paragraph by executing and delivering to the Borrower a written instrument of termination specifically referring to this paragraph.

14. Consent to Jurisdiction and Service of Process. The Borrower hereby irrevocably consents to the jurisdiction of the federal and state courts of the State of New Jersey, for the purpose of any litigation to which the Bondholder may be a party and which concerns this Agreement or the Secured Indebtedness. It is further agreed that venue for any such action shall lie exclusively with courts sitting in the State of New Jersey, unless the Bondholder agrees to the contrary in writing. The Borrower hereby further irrevocably consents to service of process being served in any suit, action or proceeding concerning this Agreement or the Secured Indebtedness by mailing a copy thereof by registered mail or certified mail, postage prepaid, return receipt requested, or by overnight courier service, to it at its address set forth herein or in the Loan Agreement.

15. Not Partners: No Third Party Beneficiaries. Nothing contained herein or in any related document shall be deemed to render the Bondholder a partner of the Borrower for any purpose. This Agreement has been executed for the sole benefit of the Bondholder and no third party is authorized to rely upon the Bondholder's rights hereunder or to rely upon an assumption that the Bondholder has or will exercise its rights under this Agreement or under any document referred to herein.

16. No Marshaling of Assets. The Bondholder may proceed against collateral securing the Secured Indebtedness and against parties liable therefore in such order as it may elect, and neither the Borrower nor any creditor of the Borrower shall be entitled to require the Bondholder to marshal assets. The benefit of any rule of law or equity to the contrary is hereby expressly waived.

17. Notices. Any communications concerning this Agreement or the credit described herein shall be addressed as provided in the Financing Agreement.

18. No Reliance on the Bondholder's Analysis. The Borrower acknowledges and represents that, in connection with the Secured Indebtedness, the Borrower has not relied upon any financial projection, budget, assessment or other analysis by the Bondholder or upon any representation by the Bondholder as to the risks, benefits or prospects of the Borrower's business activities or present or future capital needs incidental thereto, all such considerations having been examined fully and independently by the Borrower.

19. Legal and Binding Agreement. The Borrower warrants that the execution and performance of this Agreement will not violate any judicial or administrative order or government law or regulation, and that this Agreement is valid, binding and enforceable in every respect according to its terms, subject to principles of equity and laws applicable to the rights of creditors generally, including bankruptcy laws.

20. No Consent Required. The Borrower warrants that the Borrower's execution, delivery and performance of this Agreement do not require the consent of or the giving of notice to any third party including, but not limited to, any other lender, governmental body or regulatory authority, except for the Issuer, to who such notice has been given.

21. Indulgence Not Waiver. The Bondholder's indulgence in the existence of an Event of Default hereunder or any other departure from the terms of this Agreement shall not prejudice the Bondholder's rights to declare an Event of Default or otherwise strict compliance with this Agreement

22. Cumulative Remedies. The remedies provided the Bondholder in this Agreement are not exclusive of any other remedies that may be available to the Bondholder under any other document or at law or equity.

23. Amendment and Waiver in Writing. No provision of this Agreement can be amended or waived, except by a statement in writing signed by the party against which enforcement of the amendment or waiver is sought.

24. Assignment. This Agreement shall be binding upon and inure to the benefit of the respective heirs, successors and assigns of the parties except that the Borrower shall not assign any rights or delegate any obligations arising hereunder without the prior written consent of the Bondholder.

Any attempted assignment or delegation by the Borrower without such required prior consent shall be void.

25. Entire Agreement; Termination of Existing Investing Agreement. This Agreement and the other written agreements among the parties represent the entire agreement among the parties concerning the subject matter hereof, and all oral discussions and prior agreements are merged herein. This Agreement is intended to replace and supercede that certain Investment Agreement dated as of April 25, 1997 among Borrower, Bondholder (successor-in-interest to First Union National Bank of Tennessee) and AmSouth Bank of Alabama.

26. Severability. Should any provision of this Agreement be invalid or unenforceable for any reason, the remaining provisions hereof shall remain in full effect.

27. Time of Essence. Time is of the essence of this Agreement, and all dates and time periods specified herein shall be strictly observed, except that the Bondholder may permit specific deviations therefrom by its written consent.

28. Applicable Law. The validity, construction and enforcement of this Agreement shall be determined according to the laws of the State of New Jersey applicable to contracts executed and performed entirely within the state. In this regard, it is acknowledged that the Note, Loan Agreement and Financing Agreement are governed by the substantive laws of the State of Alabama, and the parties wish for New Jersey law to apply hereto because the Bondholder has its places of business and all payments on the Secured Indebtedness are due in the State of New Jersey.

29. Gender and Number. Words used herein indicating gender or number shall be read as context may apply.

30. Captions Not Controlling. Captions and headings have been included in this Agreement for the convenience of the parties, and shall not be construed as affecting the content of the respective paragraphs.

31. Waivers Regarding Damages and Trial by Jury. The Borrower agrees with the Bondholder, and the Bondholder agrees with the Borrower, that they shall not have a remedy of punitive or exemplary damages against the other in any dispute arising out of this Agreement, and hereby waive any right or claim to punitive or exemplary damages as they have not or which may arise in the future in connection with any dispute arising out of this Agreement. **EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES ITS RIGHT TO A TRIAL BY JURY IN ANY ACTION ARISING HEREUNDER.**

32. Other Concurrent Deliveries to Bondholder. Concurrently with the execution hereof, the Borrower shall have delivered to the Bondholder a good standing certificate issued by the Borrower's state of incorporation within the last thirty (30) days and such Uniform Commercial Code lien, tax lien, judgment and pending litigation search results (which results shall be in form and substance satisfactory to the Bondholder) as may be requested by the Bondholder.

33. Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same document.

Duly executed and delivered as of the date first written above.

ATTEST:
/s/ Pat Gill

Pat Gill
Executive Assistant

ADTRAN, Inc.
By: /s/ James E. Matthews

James E. Matthews
Senior Vice President/CFO

FIRST UNION NATIONAL BANK
By: /s/ Robyn G. Beh

Robyn G. Beh
Vice President

EXHIBIT 10.1 (j)

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (the "Assignment"), dated as of January 3, 2002 (the "Effective Date"), is entered into by and between AMSOUTH BANK OF ALABAMA (the "Assignor") and FIRST UNION NATIONAL BANK (successor-in-interest to First Union National Bank of Tennessee) (the "Assignee").

1. Definitions. Capitalized terms used but not defined herein shall have the meanings given to them in that certain First Amended and Restated Financing Agreement dated as of April 25, 1997 among ADTRAN, Inc., as borrower, State Industrial Development Authority, as issuer, and First Union National Bank (successor-in-interest to First Union National Bank of Tennessee), as bondholder (as amended, the "Financing Agreement").

2. Assignment and Assumption. As of the Effective Date, for an agreed consideration (which the Assignee has delivered to the Assignor prior to or concurrently with the execution hereof), the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor: (i) a 40% undivided participation interest in the Bond, the principal amount of such interest is \$20,000,000 (the "Assignor's Participation"); (ii) to the extent of the Assignor's Participation, an undivided interest in all of the Bond Documents and the Collateral (as defined in the Participation Agreement, as hereinafter defined); and (iii) all of Assignor's right, title and interest in and to the Participant Account as defined in the Investment Agreement (the "Investment Agreement") dated April 25, 1997 among First Union National Bank (successor-in-interest to First Union National Bank of Tennessee), ADTRAN, Inc. and AmSouth Bank of Alabama (collectively, the "Assigned Interest"). Such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Agreement, without representation or warranty by the Assignor.

3. Representations and Warranties:

3.1 Assignor: The Assignor represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance, option, right or other adverse claim, and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby.

3.2 Assignee: The Assignee represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and to consummate the transactions contemplated hereby, and (ii) from and after the Effective Date, it shall, to the extent of the Assigned Interest, assume the rights and obligations of the Bondholder thereunder.

4. Participant Account and Investment Agreement. The Assignor acknowledges and agrees that concurrently with the execution hereof the Participant Account (as defined in the Investment Agreement) and all amounts on deposit therein shall be transferred from Assignor to a deposit account maintained by the Company with Assignee, which deposit account shall be governed by and subject to a new investment agreement between the Company and Assignee in replacement of the Investment Agreement.

5. Payments. From and after the Effective Date, all payments from the Company in respect of the Assigned Interest (including payments of principal, interest, fees and other amounts) due and payable on or after the Effective Date shall be the sole property of the Assignee. As of the Effective Date \$87,627.74 of the accrued and unpaid interest is owed to the Assignor in respect of the Assigned Interest. To the extent that such amount(s) are received by the Assignee from the Company, the Assignee shall promptly forward same to the Assignor.

6. Participation Agreement. That certain Participation Agreement dated as of April 25, 1997 between First Union Nation Bank (successor-in-interest to First Union National Bank of Tennessee) and AmSouth Bank of Alabama (the "Participation Agreement") is hereby terminated, as of the Effective Date, and except as otherwise provided in Paragraph 5 hereof, Assignor and Assignee represent and agree that neither has any claims, matured or unmatured, against the other arising from such Participation Agreement or the transactions described therein, or if any such claims exist, they are hereby waived and released.

7. General Provisions. This Assignment shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment by telecopy shall be effective as delivery of a manually executed counterpart of this Assignment. This Assignment shall be governed by, and construed in accordance with, the law of the State of New Jersey.

The terms set forth in this Assignment are hereby agreed to:

**ASSIGNOR:
AMSOUTH BANK OF ALABAMA**

By: /s/ Nicholas Willis

Nicholas Willis

Commercial Banking Officer

**ASSIGNEE:
FIRST UNION NATIONAL BANK**

By: /s/ Robyn G. Beh

Robyn G. Beh

Vice President