ADTRAN INC

FORM 10-Q
(Quarterly Report)

Filed 11/13/1997 For Period Ending 9/30/1997

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

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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

[X] Quarterly Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act
of 1934
For the Quarterly Period Ended September 30, 1997

OR

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

Commission File Number 0-24612

ADTRAN, INC.

(Exact name of Registrant as specified in its charter)

Delaware (State of Incorporation)	63-0918200 (I.R.S. Employer Identification No.)

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

(205) 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 x No Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date:

Class Outstanding at October 31,1997 Common Stock, $.01 Par Value 39,370,819 shares

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ADTRAN, INC.

Quarterly Report on Form 10-Q
For the Quarter Ended September 30, 1997

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ADTRAN, INC.
CONDENSED BALANCE SHEETS

ASSETS

	September 30, 1997 (Unaudited)	December 31, 1996
Current assets:		
Cash and cash equivalents	$27,082,564	$44,839,131
Short-term investments	33,533,240	32,555,930
Accounts receivable, less allowance for doubtful accounts of $872,724 and $900,000 in 1996 and 1997, respectively	37,679,530	33,825,560
Other receivables	420,407	362,578
Inventory	46,618,219	40,792,646
Prepaid expenses	3,521,951	3,860,088
Total current assets	148,855,911	156,235,933
Property, plant and equipment, less accumulated depreciation of $18,982,515 and $13,637,007 in 1997 and 1996, respectively	64,390,736	53,971,213
Other Assets	200,000	0
Long-term investments	50,000,000	0
	$263,446,647	$210,207,146

LIABILITIES AND STOCKHOLDER'S EQUITY

	September 30, 1997 (Unaudited)	December 31, 1996
Current liabilities:		
Accounts payable	$8,087,087	$9,350,266
Accrued salaries	1,613,563	2,454,194
Accrued income taxes	835,452	1,803,706
Accrued taxes other than income taxes	339,374	338,997
Accrued interest payable	0	59,594
Warranty payable	1,404,802	1,026,156
Accrued vacation	911,237	693,218
Total current liabilities	13,191,515	15,726,131
Long term liabilities:		
Long term debt	50,000,000	20,000,000
Deferred income taxes	1,602,116	1,602,116
Total liabilities	64,793,631	37,328,247
Stockholders' equity:		
Common stock, par value $.01 per share 200,000,000 shares authorized: 39,368,319 and 38,769,514 shares issued in 1997 and 1996, respectively	393,683	387,695
Additional paid-in capital	90,497,910	90,172,863
Retained earnings	109,961,423	82,318,341
Treasury stock at cost, 100,000 shares	(2,200,000)	0
Net stockholders' equity	198,653,016	172,878,899
	$263,446,647	$210,207,146

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF INCOME

Unaudited

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
Sales	$70,578,975	$62,634,637	$190,934,367	$180,484,338
Cost of sales	34,486,972	32,930,249	94,418,912	95,352,361
Gross profit	36,092,003	29,704,388	96,515,455	85,131,977
Selling, general and administrative expenses	11,482,374	8,472,083	32,640,664	23,494,632
Research and development expenses	7,831,535	6,269,711	22,547,141	17,897,106
Income from operations	16,778,094	14,962,594	41,327,650	43,740,239
Interest expense	(521,449)	(219,597)	(1,272,649)	(666,467)
Other income	1,150,447	643,159	3,137,314	1,722,446
Income before income taxes	17,407,092	15,386,156	43,192,315	44,796,218
Provision for income taxes	(6,266,553)	(5,980,599)	(15,549,233)	(16,427,053)
Net income	$11,140,539	$ 9,405,557	$27,643,082	$28,369,165
Net income per common and common equivalent share	$ .28	$ .24	$ .70	$ .72
Weighted average common and common equivalent shares outstanding	39,693,383	39,579,894	39,611,783	39,568,602

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF CASH FLOWS
Unaudited

	Nine Months Ended September 30, 1997	1996
Cash flows from operating activities:		
Net income...	$27,643,082	$28,369,165
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation..	5,398,219	3,409,150
Provision for losses on accounts receivable...........	44,638	154,598
Provision for losses on inventory.....................	2,904,241	2,733,676
Provision for losses on warranty claims...............	1,253,409	529,729
(Gain) loss on sale of property, plant and equipment..	(14,074)	30,204
(Gain) loss on short-term investments................	55,930	405,789
Change in operating assets:		
Accounts receivable................................	(3,898,608)	(4,823,084)
Inventory..	(8,729,814)	(782,637)
Other current assets...............................	80,308	(2,509,125)
Change in operating liabilities:		
Accounts payable...................................	(1,263,179	(1,562,423)
Other liabilities..................................	(2,524,846)	(452,308)
Net cash provided by operating activities.................	20,949,306	25,502,734
Cash flows from investing activities:		
Expenditures for property, plant and equipment...........	(15,843,465)	(24,132,103)
Proceeds from the disposition of property, plant and equipment..	39,797	4,602
Purchase of restricted investments.......................	(50,000,000)	0
Net (purchase) sale of short-term investments............	(1,033,240)	(3,278,180)
Net cash provided by (used in) investing activities.....	(66,836,908)	(27,405,681)
Cash flows from financing activities:		
Proceeds from issuance of bonds.........................	50,000,000	0
Redemption of bonds payable.............................	(20,000,000)	0
Purchase of treasury stock............................	(2,200,000)	0
Proceeds from issuance of common stock..................	331,035	695,281
Net cash provided by financing activities................	28,131,035	695,281
Net increase (decrease) in cash and cash equivalents.....	(17,756,567)	(1,207,666)
Cash and cash equivalents, beginning of period...............	44,839,131	35,027,609
Cash and cash equivalents, end of period.....................	$27,082,564	$33,819,943
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest, net of $187,651 and $193,566 of capitalized interest in 1997 and 1996, respectively...............	$ 1,431,172	$ 983,458
Cash paid during the period for taxes....................	$17,053,959	$ 18,835,818

See notes to condensed financial statements

ADTRAN, INC.

NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed financial statements of ADTRAN, Inc. (the "Company") have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. Operating results for the nine months ended September 30, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. The interim statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K.

2. INVENTORY

At September 30, 1997 and December 31, 1996, inventory consisted of the following:

	September 30, 1997	December 31, 1996
Raw materials	$26,718,490	$24,454,251
Work in progress	2,994,622	2,963,220
Finished goods	16,905,107	13,375,175
	$46,618,219	$40,792,646

3. THE ALABAMA STATE INDUSTRIAL DEVELOPMENT AUTHORITY

The Company's long-term debt outstanding as of September 30, 1997 consisted of a loan in the amount of $50,000,000 related to the expansion of the Company's facilities in Huntsville, Alabama. The Company is continuing a project to expand its facilities in Huntsville in phases over the next four years at a cost expected to exceed $100,000,000, of which $47,032,157 had been incurred at September 30, 1997. The debt associated with $50,000,000 of this project has been approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). That incentive program enables participating companies such as the Company 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 the Company therefore may not realize the full benefit of these incentives. The Company will make payments to the Authority in amounts necessary to pay the principal of and interest on the Authority's Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project), as amended, currently outstanding in the aggregate principal amount of $50,000,000. Said 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,the holder of the bond.

4. RECENT ACCOUNTING DEVELOPMENTS

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 supersedes existing generally accepted accounting principles relative to the calculation of earnings per share, is effective for years ending after December 15, 1997 and requires restatement of all prior period earnings per share information upon adoption. Generally, SFAS 128 requires a calculation of basic earnings per share, which takes into consideration income (loss) available to common shareholders and the weighted average of common shares outstanding. SFAS 128 also requires the calculation of diluted earnings per share, which takes into account the impact of all additional common shares that would have been outstanding if all dilutive potential common shares relating to options, warrants, and convertible securities had been issued, as long as their effect is dilutive, with a related adjustment of income available for common shareholders, as appropriate. SFAS 128 requires dual presentation of basic and diluted earnings per share on the face of the statement of operations and requires a reconciliation of the numerator and denominator of the basic earnings per share computation. The Company does not expect the effect of its adoption of SFAS 128 to be material.

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

Overview

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

The Company's sales have increased each year, with the exception of the second quarter of 1997, due primarily to increases in the number of units sold to both new and existing customers. These annual sales increases reflect the Company's strategy of increasing unit volume and market share through the introduction of succeeding generations of products having lower selling prices and increased functionality as compared to the prior generation of a product and to the products of competitors. An important part of the Company's strategy is to engineer the reduction of the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. As a part of this strategy, the Company seeks in most instances to be a low cost, high quality provider of products in its markets. The Company's success to date is attributable in large measure to its ability to initially design its products with a view to their subsequent re-design, allowing efficient enhancements of the product in each succeeding product generation. This strategy has enabled the Company to sell succeeding generations of products to existing customers as well as to increase its market share by selling these enhanced products to new customers.

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

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 the Company which attempt to advise interested parties of the factors which affect the Company's business, including the disclosures made in other periodic reports on Forms 10-K, 10-Q and 8-K, when appropriate, filed with the Securities and Exchange Commission.

Results of Operations - Three Months and Nine Months Ended September 30, 1996 Compared to Three Months and Nine Months Ended September 30, 1997

Sales
The Company's sales increased 12.7% from $62,634,637 in the three months ended September 30, 1996 to $70,578,975 in the three months ended September 30, 1997. Similarly , sales increased 5.8% from $180,484,338 in the nine months ended September 30, 1996 to $190,934,367 in the nine months ended September 30, 1997. The increased sales resulted from an increase in sales volume to existing customers and from increased market penetration. Sales to Telcos increased 22.2% from $34,876,761 in the three months ended September 30, 1996 to $42,620,342 in the three months ended September 30, 1997 and increased from $107,595,394 in the nine months ended September 30, 1996 to $114,772,941 in the nine months ended September 30, 1997. The increase in Telco sales in the 1997 periods resulted primarily from increased sales of High bit-rate Digital Subscriber Line ("HDSL") products and Integrated Services Digital Network ("ISDN") products. Telco sales as a percentage of total sales increased from 55.7% in the three months ended September 30, 1996 to 60.4% in the three months ended September 30, 1997 and increased from 59.6% in the nine months ended September 30, 1996 to 60.1% in the nine months ended September 30, 1997. Sales of CPE products increased 20.7% from $19,928,445 in the three months ended September 30, 1996 to $24,062,588 in the three months ended September 30, 1997 and increased 22.4% from $50,653,819 in the nine months ended September 30, 1996 to $61,992,539 in the nine months ended September 30, 1997, as a result of increased CPE sales of T1 Service Unit ("TSU") products and ISDN products. OEM sales decreased 50.2% from $7,829,431 in the three months ended September 30, 1996 to $3,896,045 in the three months ended September 30, 1997 and decreased 36.3% from $22,235,124 in the nine months ended September 30, 1996 to $14,168,887 in the nine months ended September 30, 1997. This decrease was attributable primarily to reduced demand related to mature programs combined with the low volume normally encountered on new programs. Additionally, the Company has converted numerous products originally developed under OEM contract status to ADTRAN standard product status. This conversion was accomplished with permission from the OEM contract holders and was done to allow the Company to pursue markets directly that will no longer support a two-tier distribution structure. The financial effect of the increase in overall unit volume was offset somewhat by lower unit selling prices for many of the Company's products.

Cost of Sales

Cost of sales increase 4.7% from $32,930,249 in the three months ended September 30, 1996 to $34,486,972 in the three months ended September 30, 1997 and decreased 1.0% from $95,352,361 in the nine months ended September 30, 1996 to $94,418,912 in the nine months ended September 30, 1997. As a percentage of sales, cost of sales decreased from 52.6% in the three months ended September 30, 1996 to 48.9% in the three months ended September 30, 1997 and decreased from 52.8% in the nine months ended September 30, 1996 to 49.5% in the nine months ended September 30, 1997. An important part of the Company's strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This strategy may result in variations in the Company'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 the Company, these variations and 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 35.5% from $8,472,083 in the three months ended September 30, 1996 to $11,482,374 in the three months ended September 30, 1997 and increased 38.9% from $23,494,632 in the nine months ended September 30, 1996 to $32,640,664 in the nine months ended September 30, 1997. The increase was due to additional sales and support expenditures necessary as a result of the Company's expanded sales base, increased distribution activities associated with the CPE market, and general expansion into international markets. Selling, general and administrative expenses as a percentage of sales increased from 13.5% in the three months ended September 30, 1996 to 16.3% in the three months ended September 30, 1997 and increased from 13.0% in the nine months ended September 30, 1996 to 17.1% in the nine months ended September 30, 1997.

Research and Development Expenses

Research and development expenses increased 24.9% from $6,269,711 in the three months ended September 30, 1996 to $7,831,535 in the three months ended September 30, 1997 and increased 26.0% from $17,897,106 in the nine months ended September 30, 1996 to $22,547,141 in the nine months ended September 30, 1997. The increase was due to increased engineering costs associated with new product introductions and product cost and feature enhancement activities. As a percentage of sales, research and development expenses increased from 10.0% in the three months ended September 30, 1996 to 11.1% in the three months ended September 30, 1997 and increased from 9.9% in the nine months ended September 30, 1996 to 11.8% in the nine months ended September 30, 1997.

Interest Expense

Interest expense increased 137.5% from $219,597 in the three months ended September 30, 1996 to $521,449 in the three months ended September 30, 1997 and increased 90.9% from $666,467 in the nine months ended September 30, 1996 to $1,272,649 in the nine months ended September 30, 1997. The increase was due to interest cost incurred as a part of the cost of acquiring certain assets. The Company paid interest on $50,000,000 of revenue bond proceeds of which $20,000,000 was loaned to the Company in January 1995 and $30,000,000 was loaned to the Company in April 1997. The proceeds are being used to expand the Company's facilities in Huntsville, Alabama. See "Liquidity and Capital Resources" below.

Net Income

As a result of the above factors, net income increased 18.4% from $9,405,557 in the three months ended September 30, 1996 to $11,140,539 in the three months ended September 30, 1997 and decreased 2.6 % from $28,369,165 in the nine months ended June 30, 1996 to $27,643,082 in the nine months ended September 30, 1997. As a percentage of sales, net income increased from 15.0% in the three months ended September 30, 1996 to 15.8% in the three months ended September 30, 1997 and decreased from 15.7% in the nine months ended September 30, 1996 to 14.5% in the nine months ended September 30, 1997.

Liquidity and Capital Resources

The Company is continuing a project to expand its facilities in Huntsville, Alabama in phases over the next four years at a cost expected to exceed $100,000,000 of which $47,032,157 had been incurred at September 30, 1997. The debt associated with $50,000,000 of this project has been approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). That incentive program enables participating companies such as the Company 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 the Company therefore may not realize the full benefit of these incentives. The Company will make payments to the Authority in amounts necessary to pay the principal of and interest on the Authority's Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project), as amended, currently outstanding in the aggregate principal amount of $50,000,000. Said 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, the holder of the bond.

The Company's working capital position declined from $140,509,802 as of December 31, 1996 to $135,664,396 as of September 30, 1997. This decline was due to a reclassification of the Company's investments in the amount of $20,000,000 that were classified as a short-term investment at December 31, 1996 and reinvested on April 25, 1997 as a long-term investment. The Company has used, and expects to continue to use, the remaining proceeds of prior public offerings for working capital and other general corporate purposes, including (i) product development activities to enhance its existing products and develop new products and (ii) expansion of sales and marketing activities. Inventory increased 14.3% from December 31, 1996 to September 30, 1997. This increase was attributable to the introduction of new products and to lower than anticipated sales volume.

On March 31, 1997, the Board of Directors authorized the Company to repurchase up to 1,000,000 shares of the Company's outstanding common stock. As of September 30, 1997, the Company had repurchased 100,000 shares of its common stock at a total cost of $2,200,000.

Capital expenditures totaling $29,661,438 in 1996 and $15,843,465 in the first nine months of 1997 were used to expand the Company's headquarters and to purchase equipment.

At September 30, 1997, the Company's cash on hand of $27,082,564, short-term investments of $33,533,240 and $10,000,000 available under a $10,000,000 bank line of credit placed the Company's potential cash availability at $70,615,804, of which a portion is being used to expand the Company's facilities under the incentive program described above. The Company's $10,000,000 bank line of credit bears interest at the rate of 87.5 basis points over the 30 day London inter-bank offered rate. The Company intends to renew its $10,000,000 bank line of credit upon expiration.

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

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

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

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

(b) Reports on Form 8-K. None

SIGNATURE

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

ADTRAN, INC.
(Registrant)

Date: November 13, 1997 *   /s/ John R. Cooper*

John R. Cooper

Vice President -Finance and
Chief Financial Officer

INDEX OF EXHIBITS

EXHIBIT 11

ADTRAN, INC

EIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING For the Three Months and Nine Months Ended September 30, 1996 and 1997

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Weighted average common shares outstanding....................	39,257,527	38,707,474	39,188,559	38,551,606
Net weighted average common stock options outstanding under the treasury stock method................	435,856	872,420	423,224	1,016,996
Weighted average common and common equivalent shares outstanding.............................	39,693,383	39,579,894	39,611,783	39,568,602
Net income..	11,140,539	9,405,557	$27,643,082	$28,369,165
Net income per common and common equivalent share..	$ .28	$ .24	$ .70	$ .72

ARTICLE 5

This schedule contains susmmary financial information extracted from the condensed statement of income for the nine months ended September 30, 1997 and the condensed balance sheet as of September 30, 1997 and is qualified in its entirety by reference to such financial statements.

CIK: 0000926282

NAME: ADTRAN, Inc.

MULTIPLIER: 1

CURRENCY: US Dollar

PERIOD TYPE	9 MOS
FISCAL YEAR END	Dec 31 1997
PERIOD START	Jan 01 1997
PERIOD END	Sep 30 1997
EXCHANGE RATE	1
CASH	$27,082,564
SECURITIES	33,533,240
RECEIVABLES	38,579,530
ALLOWANCES	(900,000)
INVENTORY	46,618,219
CURRENT ASSETS	148,855,911
PP&E	83,373,251
DEPRECIATION	(18,982,515)
TOTAL ASSETS	263,446,647
CURRENT LIABILITIES	13,191,515
BONDS	50,000,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	393,683
OTHER SE	198,259,333
TOTAL LIABILITY AND EQUITY	263,446,647
SALES	190,934,367
TOTAL REVENUES	190,934,367
CGS	94,418,912
TOTAL COSTS	94,418,912
OTHER EXPENSES	32,640,664
LOSS PROVISION	0
INTEREST EXPENSE	1,272,649
INCOME PRETAX	43,192,315
INCOME TAX	15,549,233
INCOME CONTINUING	27,643,082
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	27,643,082
EPS PRIMARY	.70
EPS DILUTED	.70

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