

ADTRAN INC

FORM 10-Q/A (Amended Quarterly Report)

Filed 8/22/2000 For Period Ending 6/30/2000

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q/A

Quarterly Report Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2000

OR

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

Commission File Number 0-24612

ADTRAN, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State of Incorporation)

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

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

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

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 July 31, 2000
----- Common Stock, \$.01 Par Value	----- 38,692,386 shares

ADTRAN, INC.

**SUPPLEMENTAL EXPLANATORY NOTE
AMENDMENT NO. 1 TO FORM 10-Q, AS FILED AUGUST 14, 2000**

ADTRAN, Inc. is filing this Amendment NO. 1 to Form 10-Q to adjust for a clerical error in the second sentence of the section entitled "NET INCOME" under

Part 1 Item 2 "Management's Discussion and Analysis of Financial Condition and

Results of Operations." The sentence originally read " As a percentage of sales, net income decreased from 12.1% in the three months ended June 30, 1999 to 16.3% in the three months ended June 30, 2000 and increased from 12.0% in the six months ended June 30, 1999 to 16.1% in the six months ended June 30, 2000". The corrected sentence now reads "As a percentage of sales, net income increased from 12.1% in the three months ended June 30, 1999 to 16.3% in the three months ended June 30, 2000 and increased from 12.0% in the six months ended June 30, 1999 to 16.1% in the six months ended June 30, 2000".

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

OF OPERATIONS

Overview

ADTRAN, Inc. designs, develops, manufactures, markets and services a broad range of high speed digital transmission products utilized by telephone companies ("Telcos") and corporate end-users to implement advanced digital data services over existing telephone networks. We currently sell our products to Telcos including all Regional Bell Operating Companies (through what is now referred to as our Carrier Network Division), and to private end-users through our Enterprise Network Division (formerly known as the Customer Premises Equipment or CPE Division).

ADTRAN's sales have increased each year due primarily to increases in the number of units sold to both new and existing customers. These annual sales increases reflect our strategy of increasing unit volume and market share through the introduction of succeeding generations of products having lower selling prices and increased functionality as compared 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 initially design our products with a view to their subsequent re-design, allowing efficient enhancements of the product in each succeeding product generation. This strategy enables ADTRAN to sell succeeding generations of products to existing customers while increasing our market share by selling these enhanced products to new customers.

ADTRAN intends to retain all earnings for use in the development of our 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 ADTRAN which attempt to advise interested parties of the factors which affect our business, including the disclosures made in other periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

RESULTS OF OPERATIONS - THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2000 COMPARED TO THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 1999

SALES

ADTRAN's sales increased 29.3% from \$88,506,872 in the three months ended June 30, 1999 to \$114,446,655 in the three months ended June 30, 2000. Sales increased 29.1% from \$165,669,520 in the six months ended June 30, 1999 to \$213,917,006 in the six months ended June 30, 2000. The increased sales resulted from an increase in sales volume to existing customers and from increased market penetration. Carrier Network sales increased from \$56,624,433 in the three months ended June 30, 1999 to \$77,053,480 in the three months ended June 30, 2000 and increased from \$104,276,102 in the six months ended June 30, 1999 to \$144,589,269 in the six months ended June 30, 2000. Carrier Network sales for the 2000 period increased primarily from continued success of High bit-rate Digital Subscriber Line ("HDSL") products and strong sequential growth in our Systems products. Carrier Network sales as a percentage of total sales increased from 64.0% in the three months ended June 30, 1999 to 67.3% in the three months ended June 30, 2000 and increased from 62.9% in the six months ended June 30, 1999 to 67.5% in the six months ended June 30, 2000. Sales of Enterprise Network products increased from \$31,882,439 in the three months ended June 30, 1999 to \$37,393,175 in the three months ended June 30, 2000. The increase was also due to strong growth in our Systems products as well as increased sales of "T-1" products, (a digital transmission link with a capacity of 1.544 Megabits per second used predominantly in North America). Sales of Enterprise Network products increased 12.9% from \$61,393,418 in the six months ended June 30, 1999 to \$69,327,737 in the six months ended June 30, 2000. As a percentage of sales, Enterprise Network sales decreased from 36.0% in the three months ended June 30, 1999 to 32.7% in the three months ended June 30, 2000 and decreased from 37.1% in the six months ended June 30, 1999 to 32.5% in the six months ended June 30, 2000. The financial effect of the increase in overall unit volume was offset somewhat by lower unit selling prices for many of ADTRAN's products.

COST OF SALES

Cost of sales increased 16.9% from \$45,151,016 in the three months ended June 30, 1999 to \$52,776,203 in the three months ended June 30, 2000 and increased 18.4% from \$82,635,552 in the six months ended June 30, 1999 to \$97,842,065 in the six months ended June 30, 2000. As a percentage of sales, cost of sales decreased from 51.0% in the three months ended June 30, 1999 to 46.1% in the three months ended June 30, 2000 and decreased from 49.9% in the six months ended June 30, 1999 to 45.7% in the six months ended June 30, 2000. An important part of ADTRAN's strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This strategy sometimes results in variations in ADTRAN's gross profit margin due to timing differences between the recognition of cost reductions and the lowering of product selling prices. In view of the rapid pace of new product introductions by ADTRAN, this strategy may result in variations in gross profit margins that, for any particular financial period, can be difficult to predict.

SELLING, GENERAL AND ADMINISTRATIVE

Selling, general and administrative expenses increased 22.7% from \$17,463,138 in the three months ended June 30, 1999 to \$21,427,211 in the three months ended June 30, 2000 and increased 17.2% from \$34,218,521 in the six months ended June 30, 1999 to \$40,099,910 in the six months ended June 30, 2000. The increase was due to additional sales and support expenditures necessary as a result of our expanded sales base. Selling, general and administrative expenses as a percentage of sales decreased from 19.7% in the three months ended June 30, 1999 to 18.7% in the three months ended June 30, 2000 and decreased from 20.7% in the six months ended June 30, 1999 and 18.8% in the six months ended June 30, 2000. Sales and support organization expansion, which resulted in increased costs during the quarter, will continue because they are necessary to position ADTRAN to accumulate market share and maintain growth over the longer term.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased 25.4% from \$10,362,428 in the three months ended June 30, 1999 to \$12,993,822 in the three months ended June 30, 2000 and increased 20.9% from \$20,059,091 in the six months ended June 30, 1999 to \$24,255,790 in the six months ended June 30, 2000. The increase was due to increased investment in product development and cost reduction through engineering. As a percentage of sales, research and development expenses decreased from 11.7% in the three months ended June 30, 1999 to 11.3% in the three months ended June 30, 2000 and decreased from 12.1% in the six months ended June 30, 1999 to 11.3% in the six months ended June 30, 2000. ADTRAN will continue to invest in these product development activities because they are necessary to position us to accumulate market share and maintain growth over the longer term.

INTEREST EXPENSE

Interest expense remained the same at \$576,333 for the three months ended June 30, 1999 and the three months ended June 30, 2000 and remained relatively unchanged from \$1,146,333 in the six months ended June 30, 1999 to \$1,152,667 in the six months ended June 30, 2000.

NET INCOME

As a result of the above factors, net income increased 74.0% from \$10,716,232 in the three months ended June 30, 1999 to \$18,648,150 in the three months ended June 30, 2000 and increased 78.8% from \$19,826,735 in the six months ended June 30, 1999 to \$35,442,624 in the six months ended June 30, 2000. As a percentage of sales, net income increased from 12.1% in the three months ended June 30, 1999 to 16.3% in the three months ended June 30, 2000 and increased from 12.0% in the six months ended June 30, 1999 to 16.6% in the six months ended June 30, 2000.

Liquidity and Capital Resources

ADTRAN is committed to spend approximately an additional \$4,500,000 completing the construction of Phase IV of our corporate headquarters in Huntsville, Alabama, with an expected completion date of October 30, 2000. Over the next several years, we expect to spend approximately an additional \$25,000,000 to equip Phase IV. Fifty million dollars of ADTRAN's Phase III expansion was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). The incentive program enables participating companies to generate Alabama corporate income tax credits that can be used to reduce the amount of Alabama corporate income taxes that would otherwise be payable. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future, and ADTRAN therefore may not realize the full benefit of these incentives. Through December 31, 1999, the

Authority had issued \$50,000,000 of its taxable revenue bonds pursuant to the incentive program and loaned the proceeds from the sale of the bonds to ADTRAN. ADTRAN is required to make payments to the Authority in the amounts necessary to pay the principal of and interest on the Authority's Taxable Revenue Bond, Series 1995, as amended, currently outstanding in the aggregate principal amount of \$50,000,000. The bond matures on January 1, 2020, and bears interest at the rate of 45 basis points over the money market rate of First Union National Bank of Tennessee.

ADTRAN's working capital position increased from \$181,147,292 as of December 31, 1999 to \$208,264,624 as of June 30, 2000 due to cash generated from operations. 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 increased 17.5% from December 31, 1999 to June 30, 2000. The increase is attributable to our anticipation of increased shipments to existing customers.

On March 31, 1997, the Board of Directors authorized ADTRAN to re-purchase up to 1,000,000 shares of our outstanding common stock. In October 1998, the Board approved the re-purchase of an additional 2,000,000 shares. As of June 30, 2000, we had re-purchased 1,121,017 shares of our common stock at a total cost of \$23,595,265.

Capital expenditures totaling \$36,237,000 for the year ended December 31, 1999 and \$8,832,000 in the first six months of 2000 were used to expand our headquarters and to purchase equipment.

At June 30, 2000, ADTRAN's cash on hand of \$23,599,150 and short-term investments of \$61,678,506 placed our potential cash availability at \$85,277,656, of which a portion is being used to expand ADTRAN's facilities under the incentive program described above. ADTRAN determined not to renew the \$10,000,000 bank line of credit, which expired on March 29, 2000.

During July 2000, ADTRAN sold certain marketable equity securities (included in long-term investments in the accompanying condensed consolidated balance sheet) for \$85,932,536 net of transaction cost of \$4,705,670, resulting in a realized gain of \$85,356,467. The realized gain will be reflected in the financial statements of ADTRAN in the third quarter 2000.

We intend to finance our operations in the future with cash flow from operations and remaining borrowed taxable revenue bond proceeds. We believe these available sources of funds to be adequate to meet our operating and capital needs for the foreseeable future.

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: August 22, 2000

/s/ John R. Cooper

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

End of Filing

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