ADTRAN INC

FORM 10-Q
(Quarterly Report)

Filed 11/14/2001 For Period Ending 9/30/2001

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

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, 2001

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 October 31, 2001
Common Stock, $.01 Par Value	39,462,838 shares

ADTRAN, INC.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2001

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADTRAN, INC.
CONDENSED BALANCE SHEETS

ASSETS

	September 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Current assets:		
Cash and cash equivalents	$107,145,382	$ 27,971,313
Short-term investments	12,161,842	60,286,332
Accounts receivable, less allowance for doubtful accounts of $681,562 and $813,003 in 2001 and 2000, respectively	65,191,577	82,133,831
Other receivables	7,626,851	35,862,774
Inventory	72,131,820	89,252,729
Prepaid expenses	3,408,573	4,032,438
Deferred income taxes	4,505,008	4,505,008
Total current assets	272,171,053	304,044,425
Property, plant and equipment, less accumulated depreciation of $65,901,740 and $53,422,304 in 2001 and 2000, respectively	122,638,651	123,713,176
Other assets	489,000	469,000
Long-term investments	120,909,770	118,109,404
	$516,208,474	$546,336,005

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2001 (Unaudited)	December 31, 2000 (Audited)
Current liabilities:		
Accounts payable	$ 15,773,077	$ 34,113,832
Accrued expenses	9,896,895	8,560,073
Income taxes payable	0	3,734,234
Total current liabilities	25,669,972	46,408,139
Long term liabilities:		
Bonds payable	50,000,000	50,000,000
Deferred income taxes	7,922,227	15,342,435
Total liabilities	83,592,199	111,750,574
Minority interest in subsidiary	0	160,000
Stockholders' equity:		
Common stock, par value $.01 per share, 200,000,000 shares authorized; 39,446,644 shares issued in 2001 and 2000	394,466	394,466
Additional paid-in capital	96,386,734	96,707,263
Accumulated other comprehensive income	7,207,989	19,870,288
Retained earnings	346,450,459	332,905,389
Less treasury stock at cost: 860,322 and 733,192 shares in 2001 and 2000, respectively	(17,823,373)	(15,451,975)
Total stockholders' equity	432,616,275	434,425,431
	$516,208,474	$546,336,005

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30, 2001	Three Months Ended September 30, 2000	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Sales	$95,513,062	$127,276,696	$297,986,682	$341,193,702
Cost of sales	53,114,239	61,323,706	164,594,872	159,165,772
Gross profit	42,398,823	65,952,990	133,391,810	182,027,930
Selling, general and administrative expenses	22,120,077	22,968,133	73,022,848	63,068,043
Research and development expenses	15,180,334	12,766,314	44,954,097	37,022,104
Operating income	5,098,412	30,218,543	15,414,865	81,937,783
Interest expense	(461,458)	(589,000)	(1,443,654)	(1,741,667)
Other income, net	1,758,025	2,797,520	5,447,036	5,932,258
Net realized investment gains	0	84,040,125	0	84,040,125
Income before income taxes	6,394,979	116,467,188	19,418,247	170,168,499
Provision for income taxes	(1,445,265)	(39,598,846)	(5,873,176)	(57,857,532)
Net income	$ 4,949,714	$ 76,868,342	$ 13,545,071	$112,310,967
Weighted average shares outstanding	38,639,907	38,690,560	38,656,006	38,633,914
Weighted average shares outstanding assuming dilution (1)	38,679,763	39,748,566	38,764,304	39,827,843
Earnings per common share - basic	$ .13	$ 1.99	$ .35	$ 2.91
Earnings per common share assuming-dilution (1)	$ .13	$ 1.93	$ .35	$ 2.82

(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)

	Nine Months Ended September 30, 2001	Nine Months Ended September 30, 2000
Cash flows from operating activities:		
Net income	$ 13,545,071	$ 112,310,967
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,489,306	9,536,588
Gain on sale of property, plant and equipment	--	(830)
Loss on sale of short-term investments	145,736	134,847
Gain on sale of long-term investments	--	(85,368,216)
Change in operating assets and liabilities:		
Accounts receivable	16,942,254	(20,140,805)
Inventory	17,120,909	(26,762,477)
Other receivables	28,220,712	(7,355,217)
Prepaid expenses and other assets	603,865	(3,466,177)
Accounts payable	(18,340,755)	14,209,349
Income taxes payable	(3,734,234)	23,630,263
Accrued expenses	1,336,822	3,316,079
Net cash provided by operating activities	68,329,686	20,044,371
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(11,415,032)	(27,089,785)
Proceeds from sales of short-term investments	83,483,545	50,907,900
Purchases of short-term investments	(35,956,805)	(162,843,646)
Proceeds from sales of long-term investments	28,135,929	87,194,072
Purchases of long-term investments	(50,711,327)	(5,763,409)
Net cash provided by (used in) investing activities	13,536,310	(57,594,868)
Cash flows from financing activities:		
Purchase of treasury stock	(2,955,575)	--
Proceeds from issuance of common stock	263,648	6,580,979
Net cash provided by (used in) financing activities	(2,691,927)	6,580,979
Net increase (decrease) in cash and cash equivalents	79,174,069	(30,969,518)
Cash and cash equivalents, beginning of period	27,971,313	37,500,674
Cash and cash equivalents, end of period	$107,145,382	$ 6,531,156

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 September 30, 2001 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 nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected to occur for the year ending December 31, 2001. 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 September 30, 2001 and December 31, 2000, inventory consisted of the following:

	September 30, 2001	December 31, 2000
Raw materials	$44,694,570	$50,011,508
Work in progress	7,223,169	12,606,275
Finished goods	20,214,081	26,634,946
	$72,131,820	$89,252,729

3. COMPREHENSIVE INCOME

Comprehensive income consists of net income and unrealized gains and losses on marketable securities, net of deferred taxes. Comprehensive income of $20,753,060 at September 30, 2001, consists of net income of $13,545,071 and unrealized gains on marketable securities of $7,207,989 (net of deferred tax of $3,805,999). Comprehensive income of $140,672,549 at December 31, 2000, consists of net income of $120,802,261 and unrealized gains on marketable securities of $19,870,288 (net of deferred tax of $11,645,134).

4. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share (EPS) for the three months and nine months ended September 30, 2001 and 2000 is as follows:

	For the Three Months Ended September 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$4,949,714	38,639,907	$0.13
Effect of Dilutive Securities			
Stock Options		39,856	
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$4,949,714	38,679,763	$0.13

	For the Nine Months Ended September 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$13,545,071	38,656,006	$0.35
Effect of Dilutive Securities			
Stock Options		108,298	
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$13,545,071	38,764,304	$0.35

Earnings Per Share (continued)

	For the Three Months Ended September 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$76,868,342	38,690,560	$1.99
Effect of Dilutive Securities			
Stock Options		1,058,006	
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$76,868,342	39,748,566	$1.93

	For the Nine Months Ended September 30, 2000		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	$112,310,967	38,633,914	$2.91
Effect of Dilutive Securities			
Stock Options		1,193,929	
Diluted EPS			
Income available to common stockholders Plus assumed conversions	$112,310,967	39,827,843	$2.82

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 and nine months ended September 30, 2001 and 2000. Asset information by reportable segment is not reported, since ADTRAN does not produce such information internally.

	Three Months Ended September 30, 2001		Nine Months Ended September 30, 2001	
	Sales	Gross Profit	Sales	Gross Profit
Carrier Network	$ 55,813,387	$21,353,729	$185,283,724	$ 73,588,743
Enterprise Network	39,699,675	21,045,094	112,702,958	59,803,067
Total	$ 95,513,062	$42,398,823	$297,986,682	$133,391,810

	Three Months Ended September 30, 2000		Nine Months Ended September 30, 2000	
	Sales	Gross Profit	Sales	Gross Profit
Carrier Network	$ 79,911,989	$38,846,847	$224,501,259	$115,269,078
Enterprise Network	47,364,707	27,106,143	116,692,443	66,758,852
Total	$127,276,696	$65,952,990	$341,193,702	$182,027,930

The following table presents sales information by geographic area for the three months and nine months ended September 30, 2001 and 2000.

	Three Months Ended		Nine Months Ended	
	September 30, 2001	September 30, 2000	September 30, 2001	September 30, 2000
United States	$88,662,414	$123,061,429	$285,368,513	$331,772,796
Foreign	6,850,648	4,215,267	12,618,169	9,420,906
Total	$95,513,062	$127,276,696	$297,986,682	$341,193,702

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 supersedes APB Opinion No. 16, Business Combinations, and FASB Statement No. 38, Accounting for Preacquisition Contingencies of Purchased Enterprises. This statement requires all business combinations within the scope of the Statement to be accounted for using the purchase method of accounting. For business combinations completed prior to June 30, 2001, the statement requires companies to recognize intangible assets apart from goodwill and expand the disclosures about assets acquired and liabilities assumed. The impact of SFAS No. 141 on the financial statements is not expected to be material.

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 supersedes APB Opinion No. 17, Intangible Assets. This statement addresses how intangible assets that are acquired individually or with a group of other assets should be accounted for in financial statements upon their acquisition. This statement also addresses how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Goodwill will cease to be amortized upon the implementation of the statement and companies will test goodwill at least annually for impairment. The impact of SFAS No. 142 on the financial statements is not expected to be material.

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. The impact of SEAS No. 143 is not expected to be material to the Company's financial statements.

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. The impact of SFAS No. 144 is not expected to be material to the Company's financial statements.

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 digital transmission products utilized by providers of telecommunications services (serviced by ADTRAN's Carrier Networks Division or CN) and corporate end-users (serviced by ADTRAN's Enterprise Networks Division or EN) to implement advanced digital data services over existing telephone networks. We currently sell our products to a large number of carriers, including all RBOCs, and to private and public enterprises worldwide. Although sales have not increased in this 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.

This Form 10-Q contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended, which represent ADTRAN's expectations or beliefs, including, but not limited to, statements concerning (i) the business and financial outlook, (ii) our business, financial condition or results of operations, and (iii) our business strategy. When used in this 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, including, but not limited to, the disclosures described under the captions "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Liquidity and Capital Resources," and those discussed in ADTRAN's filings with the Securities and Exchange Commission, as well as the general economic conditions and industry trends which could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements.

RESULTS OF OPERATIONS - THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS AND NINE MONTHS ENDED SEPTEMBER 30, 2000

SALES

ADTRAN's sales decreased 25.0% from $127,276,696 in the three months ended September 30, 2000 to $95,513,062 in the three months ended September 30, 2001. Sales decreased 12.7% from $341,193,702 in the nine months ended September 30, 2000 to $297,986,682 in the nine months ended September 30, 2001. The decrease in sales for the three months and nine months ended September 30, 2001, is attributable to two factors: (i) the lowering of HDSL product prices in the second half of 2000 and (ii) the market wide slow down in the telecommunications industry. Carrier Network sales decreased from $79,911,989 in the three months ended September 30, 2000 to $55,813,387 in the three months ended September 30, 2001 and decreased from $224,501,259 in the nine months ended September 30, 2000 to $185,283,724 in the nine months ended September 30, 2001. Carrier Network sales as a percentage of total sales decreased from 62.8% in the three months ended September 30, 2000 to 58.4% in the three months ended September 30, 2001 and decreased from 65.8% in the nine months ended September 30, 2000 to 62.2% in the nine months ended September 30, 2001. Sales of Enterprise Network products decreased from $47,364,707 in the three months ended September 30, 2000 to $39,699,675 in the three months ended September 30, 2001. Sales of Enterprise Network products decreased from $116,692,443 in the nine months ended September 30, 2000 to $112,702,958 in the nine months ended September 30, 2001. As a percentage of sales, Enterprise Network sales increased from 37.2% in the three months ended September 30, 2000 to 41.6% in the three months ended September 30, 2001 and increased from 34.2% in the nine months ended September 30, 2000 to 37.8% in the nine months ended September 30, 2001.

COST OF SALES

Cost of sales decreased 13.4% from $61,323,706 in the three months ended September 30, 2000 to $53,114,239 in the three months ended September 30, 2001 and increased 3.4% from $159,165,772 in the nine months ended September 30, 2000 to $164,594,872 in the nine months ended September 30, 2001. The cost of sales decrease quarter over quarter is directly related to the difference in third quarter revenues in each period. The increase in cost of sales for the nine months ended September 30, 2001 over the nine months ended September 30, 2000, is attributable to the timing of product price reductions as compared to product cost savings. As a percentage of sales, cost of sales increased from 48.2% in the three months ended September 30, 2000 to 55.6% in the three months ended September 30, 2001 and increased from 46.6% in the nine months ended September 30, 2000 to 55.2% in the nine months ended September 30, 2001. 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 remained relatively unchanged from $22,968,133 in the three months ended September 30, 2000 to $22,120,077 in the three months ended September 30, 2001 and increased 15.8% from $63,068,043 in the nine months ended September 30, 2000 to $73,022,848 in the nine months ended September 30, 2001. Beginning in mid year 2000, ADTRAN increased expenditures for the expansion of our infrastructure in both sales and support personnel in an effort to expand our customer base and for increased initiatives in the EN and international markets. Selling, general and administrative expenses as a percentage of sales increased from 18.0% in the three months ended September 30, 2000 to 23.2% in the three months ended September 30, 2001 and increased from 18.5% in the nine months ended September 30, 2000 to 24.5% in the nine months ended September 30, 2001. Selling, general and administrative expenses as a percent of sales will fluctuate whenever there is significant fluctuation in revenues in periods being compared.

RESEARCH AND DEVELOPMENT EXPENSES
Research and development expenses increased 18.9% from $12,766,314 in the three months ended September 30, 2000 to $15,180,334 in the three months ended September 30, 2001 and increased 21.4% from $37,022,104 in the nine months ended September 30, 2000 to $44,954,097 in the nine months ended September 30, 2001. 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 10.0% in the three months ended September 30, 2000 to 15.9% in the three months ended September 30, 2001 and increased from 10.9% in the nine months ended September 30, 2000 to 15.1% in the nine months ended September 30, 2001. 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 in periods being compared.

INTEREST EXPENSE
Interest expense decreased 21.7% from $589,000 for the three months ended September 30, 2000 to $461,458 in the three months ended September 30, 2001 and decreased 17.1% from $1,741,667 in the nine months ended September 30, 2000 to $1,443,653 in the nine months ended September 30, 2001.

OTHER INCOME
Other income decreased 37.2% from $2,797,520 for the three months ended September 30, 2000 to $1,758,025 in the three months ended September 30, 2001 and remained relatively unchanged from $5,932,258 in the nine months ended September 30, 2000 to $5,447,036 in the nine months ended September 30, 2001.

INCOME TAXES
We have reduced our projected annual tax rate from 34% to 28% because we expect the lower rate to be the rate applicable to the net income estimated for 2001. This change resulted in an additional $.02 of third quarter 2001 earnings per share. In addition, we anticipate a further reduction of tax liability because we expect to be entitled to substantial refunds for taxes paid in prior years (particularly capital gains taxes) and future research and development tax credits. Income taxes (net of taxes on realized investment gains in the year 2000 of $28,573,645) decreased 86.9% from $11,025,201 for the three months ended September 30, 2000 to $1,445,265 in the three months ended September 30, 2001 and decreased 79.9% from $29,283,887 for the nine months ended September 30, 2000 to $5,873,176 in the nine months ended September 30, 2001. The decrease in income taxes results primarily from the difference in net income in each period.

NET INCOME
As a result of the above factors, income before realized investment gains (net of income taxes in the year 2000) decreased 76.9% from $21,401,862 in the three months ended September 30, 2000 to $4,949,714 in the three months ended September 30, 2001 and decreased 76.2% from $56,844,727 in the nine months ended September 30, 2000 to $13,545,071 in the nine months ended September 30, 2001. As a percentage of sales, income before realized investments gains (net of income taxes in the year 2000) decreased from 16.8% in the three months ended September 30, 2000 to 5.2% in the three months ended September 30, 2001 and decreased from 16.7% in the nine months ended September 30, 2000 to 4.5% in the nine months ended September 30, 2001.

LIQUIDITY AND CAPITAL RESOURCES

ADTRAN completed the construction of Phase IV of our corporate headquarters in Huntsville, Alabama, in October 2000. Over the next several years, we expect to spend approximately an additional $35,000,000 to equip Phase IV. Fifty million dollars of ADTRAN's Phase III expansion was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). 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, 2000, the Authority had issued $50,000,000 of its taxable revenue bonds pursuant to the incentive program and loaned the proceeds from the sale of the 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 decreased 4.3% from $257,636,000 as of December 31, 2000 to $246,501,000 as of September 30, 2001. Accounts receivables and other receivables decreased 20.6% and 78.7%, respectively from December 31, 2000 to September 30, 2001. Accounts payable decreased 53.8% from December 31, 2000 to September 30, 2001. These decreases are directly related to the overall industry slow down and the consolidation of our subcontractors. 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 19.2% from December 31, 2000 to September 30, 2001. The decrease in inventory is attributable to management's continued efforts to streamline our production process and focus on manufacturing velocity.

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 September 30, 2001, we had re-purchased 1,276,417 shares of our common stock at a total cost of $26,568,000.

Capital expenditures totaling $27,090,000 in the nine months ended September 30, 2000 and $11,415,000 in the first nine months of 2001 were used to expand our headquarters and to purchase equipment.

At September 30, 2001, ADTRAN's cash on hand of $107,145,382 and short-term investments of $12,161,842 placed our potential cash availability at $119,307,224. At December 31, 2000, cash on hand was $27,971,313 and short-term investments were $60,286,332 which placed our potential cash availability at $88,257,645.

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

ITEM 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) No reports on Form 8-K were filed during the quarter ended September 30, 2001.

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: November 13, 2001 *John R. Cooper*

/s/ John R. Cooper

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