

# ADTRAN INC

## FORM 10-Q (Quarterly Report)

Filed 8/14/2001 For Period Ending 6/30/2001

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Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

# SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

## FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For the Quarterly Period Ended June 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 July 31, 2001
----- Common Stock, \$.01 Par Value	----- 39,462,838 shares

**ADTRAN, INC.**  
Quarterly Report on Form 10-Q  
For the Quarter Ended June 30, 2001

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**PART I. FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

**ADTRAN, INC.  
CONDENSED BALANCE SHEETS**

ASSETS		
	June 30, 2001	December 31, 2000
	----- (Unaudited)	----- (Audited)
Current assets:		
Cash and cash equivalents.....	\$ 87,692,766	\$ 27,971,313
Short-term investments.....	14,778,697	60,286,332
Accounts receivable, less allowance for doubtful accounts of \$726,531 and \$813,003 in 2001 and 2000, respectively.....	65,359,868	82,133,831
Other receivables.....	10,507,117	35,862,774
Inventory.....	86,961,654	89,252,729
Prepaid expenses.....	3,417,485	4,032,438
Deferred income taxes.....	4,505,008	4,505,008
	-----	-----
Total current assets.....	273,222,595	304,044,425
Property, plant and equipment, less accumulated depreciation of \$61,606,577 and \$53,422,304 in 2001 and 2000, respectively.....	123,805,170	123,713,176
Other assets.....	489,000	469,000
Long-term investments.....	116,276,752	118,109,404
	-----	-----
	\$513,793,517	\$546,336,005
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 15,118,080	\$ 34,113,832
Accrued expenses.....	8,877,618	8,560,073
Income taxes payable.....	0	3,734,234
	-----	-----
Total current liabilities.....	23,995,698	46,408,139
Long term liabilities:		
Bonds payable.....	50,000,000	50,000,000
Deferred income taxes.....	8,530,175	15,342,435
	-----	-----
Total liabilities.....	82,525,873	111,750,574
	-----	-----
Minority interest in subsidiary.....	160,000	160,000
Stockholders' equity:		
Common stock, par value \$.01 per share, 200,000,000 shares authorized: 39,446,644 shares issued and outstanding in 2001 and 2000.....	394,466	394,466
Additional paid-in capital.....	96,620,506	96,707,263
Accumulated other comprehensive income.....	7,812,263	19,870,288
Retained earnings.....	341,500,744	332,905,389
Less treasury stock at cost: 722,172 and 733,192 shares in 2001 and 2000, respectively.....	(15,220,335)	(15,451,975)
	-----	-----
Total stockholders' equity.....	431,107,644	434,425,431
	-----	-----
	\$513,793,517	\$546,336,005
	=====	=====

See notes to condensed financial statements

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

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2001	2000	2001	2000
Sales.....	\$97,197,873	\$114,446,655	\$202,473,620	\$213,917,006
Cost of sales.....	51,639,324	52,776,203	111,480,633	97,842,065
Gross profit.....	45,558,549	61,670,452	90,992,987	116,074,941
Selling, general and administrative expenses.....	24,837,935	21,427,211	50,902,771	40,099,910
Research and development expenses.....	14,925,049	12,993,822	29,773,763	24,255,790
Income from operations.....	5,795,565	27,249,419	10,316,453	51,719,241
Interest expense.....	(478,639)	(576,333)	(982,194)	(1,152,667)
Other income, net.....	1,708,223	1,581,686	3,689,010	3,134,737
Income before income taxes.....	7,025,149	28,254,772	13,023,269	53,701,311
Provision for income taxes.....	(2,388,551)	(9,606,622)	(4,427,911)	(18,258,687)
Net income.....	\$ 4,636,598	\$ 18,648,150	\$ 8,595,358	\$ 35,442,624
Weighted average shares outstanding.....	38,722,761	38,667,341	38,720,784	38,611,437
Weighted average shares outstanding assuming dilution (1).....	38,857,510	39,840,435	38,859,545	39,869,569
Earnings per common share - basic.....	\$ .12	\$ .48	\$ .22	\$ .92
Earnings per common share assuming dilution (1).....	\$ .12	\$ .47	\$ .22	\$ .89

(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)

	Six Months Ended	
	June 30,	
	2001	2000
	-----	-----
Cash flows from operating activities:		
Net income.....	\$ 8,595,358	\$ 35,442,624
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation.....	8,186,185	6,004,577
Loss (gain) on sale of short-term investments.....	94,603	86,218
Change in operating assets and liabilities:		
Accounts receivable.....	16,773,963	(8,428,466)
Inventory.....	2,291,075	(10,277,685)
Other receivables.....	25,340,446	(1,059,635)
Prepaid expenses and other assets.....	594,953	(2,896,005)
Accounts payable.....	(18,995,752)	6,377,678
Income taxes payable.....	(3,734,234)	(4,618,385)
Accrued expenses.....	317,545	(612,256)
	-----	-----
Net cash provided by operating activities.....	39,464,142	20,068,665
	-----	-----
Cash flows from investing activities:		
Expenditures for property, plant and equipment.....	(8,276,268)	(18,090,491)
Proceeds from sales of short-term investments.....	71,689,165	34,486,335
Purchases of short-term investments.....	(26,700,662)	(55,170,283)
Proceeds from sales of long-term investments.....	12,624,284	484,002
Purchases of long-term investments.....	(29,224,091)	(1,452,462)
	-----	-----
Net cash provided by (used in) investing activities.....	20,112,428	(39,742,899)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock.....	144,883	5,772,711
	-----	-----
Net cash provided by financing activities.....	144,883	5,772,711
	-----	-----
Net increase (decrease) in cash and cash equivalents.....	59,721,453	(13,901,523)
Cash and cash equivalents, beginning of period.....	27,971,313	37,500,674
	-----	-----
Cash and cash equivalents, end of period.....	\$ 87,692,766	\$ 23,599,151
	=====	=====

See notes to condensed financial statements

**NOTES TO CONDENSED FINANCIAL STATEMENTS**  
(Unaudited)

**1. BASIS OF PRESENTATION**

The interim condensed balance sheet of ADTRAN, Inc. ("ADTRAN") at December 31, 2000 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 six months ended June 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 June 30, 2001 and December 31, 2000, inventory consisted of the following:

	June 30, 2001	December 31, 2000
	-----	-----
Raw materials	\$54,149,773	\$50,011,508
Work in progress	8,281,368	12,606,275
Finished goods	24,530,513	26,634,946
	-----	-----
	\$86,961,654	\$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 \$16,407,621 at June 30, 2001, consists of net income of \$8,595,358 and unrealized gains on marketable securities of \$7,812,263 (net of deferred tax of \$4,412,947). 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 \$14,695,744).

#### 4. EARNINGS PER SHARE

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

	For the Three Months Ended June 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$4,636,598	38,722,761	\$0.12
Effect of Dilutive Securities			
Stock Options		134,749	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$4,636,598	38,857,510	\$0.12

  

	For the Six Months Ended June 30, 2001		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$8,595,358	38,720,784	\$0.22
Effect of Dilutive Securities			
Stock Options		138,761	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$8,595,358	38,859,545	\$0.22



## Earnings Per Share (continued)

For the Three Months Ended June 30, 2000

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$18,648,150	38,667,341	\$0.48
Effect of Dilutive Securities			
Stock Options		1,173,094	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$18,648,150	39,840,435	\$0.47

For the Six Months Ended June 30, 2000

	Income (Numerator)	Shares (Denominator)	Per-Share Amount
Basic EPS			
Income available to common stockholders	\$35,442,624	38,611,437	\$0.92
Effect of Dilutive Securities			
Stock Options		1,258,132	
Diluted EPS			
Income available to common stockholders plus assumed conversions	\$35,442,624	39,869,569	\$0.89

## 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 the provision for income taxes are reported on an entity wide basis only. There are no intersegment revenues.

The table below presents information about the reported sales and gross profit of ADTRAN's segments for the three months and six months ended June 30, 2001 and 2000. Asset information by reportable segment is not reported, since ADTRAN does not produce such information internally.

	Three Months Ended June 30, 2001		Six Months Ended June 30, 2001	
	Sales	Gross Profit	Sales	Gross Profit
Carrier Network	\$ 60,252,677	\$26,062,456	\$129,470,337	\$ 52,235,014
Enterprise Network	36,945,196	19,496,093	73,003,283	38,757,973
Total	\$ 97,197,873	\$45,558,549	\$202,473,620	\$ 90,992,987

  

	Three Months Ended June 30, 2000		Six Months Ended June 30, 2000	
	Sales	Gross Profit	Sales	Gross Profit
Carrier Network	\$ 77,053,480	\$40,313,974	\$144,589,269	\$ 76,422,233
Enterprise Network	37,393,175	21,356,478	69,327,737	39,652,708
Total	\$114,446,655	\$61,670,452	\$213,917,006	\$116,074,941

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

	Three Months Ended		Six Months Ended	
	June 30, 2001	June 30, 2000	June 30, 2001	June 30, 2000
United States	\$91,430,352	\$112,268,918	\$193,057,270	\$208,711,367
Foreign	5,767,521	2,177,737	9,416,350	5,205,639
Total	\$97,197,873	\$114,446,655	\$202,473,620	\$213,917,006

## 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.

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.

## **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.

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 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.

While ADTRAN has experienced increased sales in each year, our operating results have fluctuated on a quarterly basis in the past, and operating results may vary significantly in future periods due to a number of factors. 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 will 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 SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2000**

### **SALES**

ADTRAN's sales decreased 15.1% from \$114,446,655 in the three months ended June 30, 2000 to \$97,197,873 in the three months ended June 30, 2001. Sales decreased 5.3% from \$213,917,006 in the six months ended June 30, 2000 to \$202,473,620 in the six months ended June 30, 2001. The decrease in sales for the three months and six months ended June 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 \$77,053,480 in the three months ended June 30, 2000 to \$60,252,677 in the three months ended June 30, 2001 and decreased from \$144,589,269 in the six months ended June 30, 2000 to \$129,470,337 in the six months ended June 30, 2001. Carrier Network sales as a percentage of total sales decreased from 67.3% in the three months ended June 30, 2000 to 62.0% in the three months ended June 30, 2001 and decreased from 67.6% in the six months ended June 30, 2000 to 63.9% in the six months ended June 30, 2001. Sales of Enterprise Network products decreased from \$37,393,175 in the three months ended June 30, 2000 to \$36,945,196 in the three months ended June 30, 2001. Sales of Enterprise Network products increased 5.3% from \$69,327,737 in the six months ended June 30, 2000 to \$73,003,283 in the six months ended June 30, 2001. As a percentage of sales, Enterprise Network sales increased from 32.7% in the three months ended June 30, 2000 to 38.0% in the three months ended June 30, 2001 and increased from 32.4% in the six months ended June 30, 2000 to 36.1% in the six months ended June 30, 2001.

### **COST OF SALES**

Cost of sales decreased 2.2% from \$52,776,203 in the three months ended June 30, 2000 to \$51,639,324 in the three months ended June 30, 2001 and increased 13.9% from \$97,842,065 in the six months ended June 30, 2000 to \$111,480,633 in the six months ended June 30, 2001. The cost of sales decrease quarter over quarter is directly related to the difference in second quarter revenues in each period. The increase in cost of sales for the six months ended June 30, 2001 over the six months ended June 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 46.1% in the three months ended June 30, 2000 to 53.1% in the three months ended June 30, 2001 and increased from 45.7% in the six months ended June 30, 2000 to 55.1% in the six months ended June 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**

Selling, general and administrative expenses increased 15.9% from \$21,427,211 in the three months ended June 30, 2000 to \$24,837,935 in the three months ended June 30, 2001 and increased 26.9% from \$40,099,910 in the six months ended June 30, 2000 to \$50,902,771 in the six months ended June 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 18.7% in the three months ended June 30, 2000 to 25.6% in the three months ended June 30, 2001 and increased from 18.7% in the six months ended June 30, 2000 to 25.1% in the six months ended June 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 14.9% from \$12,993,822 in the three months ended June 30, 2000 to \$14,925,049 in the three months ended June 30, 2001 and increased 22.7% from \$24,255,790 in the six months ended June 30, 2000 to \$29,773,763 in the six months ended June 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 11.3% in the three months ended June 30, 2000 to 15.4% in the three months ended June 30, 2001 and increased from 11.4% in the six months ended June 30, 2000 to 14.7% in the six months ended June 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 17.0% from \$576,333 for the three months ended June 30, 2000 to \$478,639 in the three months ended June 30, 2001 and decreased 14.8% from \$1,152,667 in the six months ended June 30, 2000 to \$982,194 in the six months ended June 30, 2001.

## **OTHER INCOME**

Other income increased 8.0% from \$1,581,686 for the three months ended June 30, 2000 to \$1,708,223 in the three months ended June 30, 2001 and increased 17.7% from \$3,134,737 in the six months ended June 30, 2000 to \$3,689,010 in the six months ended June 30, 2001.

## **NET INCOME**

As a result of the above factors, net income decreased 75.1% from \$18,648,150 in the three months ended June 30, 2000 to \$4,636,598 in the three months ended June 30, 2001 and decreased 75.7% from \$35,442,624 in the six months ended June 30, 2000 to \$8,595,358 in the six months ended June 30, 2001. As a percentage of sales, net income decreased from 16.3% in the three months ended June 30, 2000 to 4.8% in the three months ended June 30, 2001 and decreased from 16.6% in the six months ended June 30, 2000 to 4.2% in the six months ended June 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 3.3% from \$257,636,000 as of December 31, 2000 to \$249,227,000 as of June 30, 2001. Accounts receivables and other receivables decreased 20.4% and 71.0%, respectively from December

31, 2000 to June 30, 2001. Accounts payable decreased 55.7% from December 31, 2000 to June 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 2.6% from December 31, 2000 to June 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 June 30, 2001, we had re-purchased 1,121,417 shares of our common stock at a total cost of \$23,612,000.

Capital expenditures totaling \$32,540,000 for the year ended December 31, 2000 and \$8,276,000 in the first six months of 2001 were used to expand our headquarters and to purchase equipment.

At June 30, 2001, ADTRAN's cash on hand of \$87,692,766 and short-term investments of \$14,778,697 placed our potential cash availability at \$102,471,463.

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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The 2001 Annual Meeting of Stockholders of ADTRAN was held on April 20, 2001. Proxies with regard to the matters to be voted upon at the Annual Meeting were solicited under Regulation 14A of the Securities Exchange Act of 1934, as amended. Set forth below is a brief description of each matter voted upon at the Annual Meeting and the results of the voting on each such matter.

(a) Election of each director named below to serve until the next Annual Meeting of Stockholders. There was no solicitation in opposition to any of the nominees listed in the proxy statement, and all of the nominees were elected.

Nominees	Votes	
	For	Withheld
Mark C. Smith	32,093,737	2,456,118
Lonnie S. McMillian	32,089,651	2,460,204
Howard A. Thrailkill	32,091,506	2,458,349
W. Frank Blount	33,839,982	709,873
William J. Marks	34,291,750	258,105
Roy J. Nichols	33,842,964	706,891
James L. North	34,289,237	260,618

(b) Ratification of the appointment of PricewaterhouseCoopers LLP as independent accountants of ADTRAN for 2001.

Votes		
For	Against	Abstain
33,910,062	621,009	18,784

(c) Approval of an amendment to the 1996 Employee Incentive Stock Option Plan which increases the aggregate number of shares of Common Stock authorized for issuance under the plan from 5,488,100 to 8,488,100.

Votes		
For	Against	Abstain
26,660,477	2,130,199	51,385



(d) Approval of an amendment to the 1996 Employee Incentive Stock Option Plan to place limits on the number of options that may be granted under the plan with an exercise price that is below the fair market value of ADTRAN's common stock on the date of grant and on the class of employees eligible to receive such options.

Votes		
For	Against	Abstain
26,794,494	1,924,261	123,306

**ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) No reports on Form 8-K were filed during the quarter ended June 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: August 13, 2001*

*/s/ John R. Cooper*

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

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**End of Filing**

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