ADTRAN INC

FORM 10-Q
(Quarterly Report)

Filed 5/13/1996 For Period Ending 3/31/1996

Address	901 EXPLORER BLVD
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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 MARCH 31, 1996

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) 971-8000
(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 May 7, 1996
Common Stock, $.01 Par Value	38,640,965 shares

ADTRAN, INC.

QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MARCH 31, 1996

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADTRAN, INC.
CONDENSED BALANCE SHEETS

ASSETS

	December 31, 1995	March 31, 1996 (Unaudited)
Current assets:		
Cash and cash equivalents	$ 35,027,609	$ 33,302,382
Short-term investments	24,652,689	26,849,624
Accounts receivable, less allowance for doubtful accounts of $544,526 and $544,526 in 1995 and 1996, respectively	29,234,803	29,117,479
Other receivables	857,303	192,532
Inventory	44,997,195	51,280,181
Prepaid expenses	683,594	1,193,826
Deferred tax assets	1,068,861	1,068,861
Total current assets	136,522,054	143,004,885
Property, plant, and equipment, less accumulated depreciation of $8,877,504 and $9,850,147 in 1995 and 1996, respectively	29,245,252	34,232,635
	$165,767,306	$177,237,520

LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 9,740,587	$ 8,464,310
Accrued salaries	1,332,141	849,636
Accrued income taxes	1,310,841	5,350,601
Accrued taxes other than income taxes	586,150	588,347
Accrued interest payable	74,305	300,938
Warranty liability	523,027	523,027
Compensated absences	489,278	638,980
Total current liabilities	14,056,329	16,715,839
Long term liabilities:		
Long term debt	20,000,000	20,000,000
Deferred income taxes	967,666	967,666
Total liabilities	35,023,995	37,683,505
Stockholders' equity:		
Common stock, par value $.01 per share 60,000,000 shares authorized; 37,462,275 and 38,633,890 shares issued in 1995 and 1996, respectively	374,623	386,339
Additional paid-in capital	89,404,177	89,579,777
Retained earnings	40,964,511	49,587,899
Total stockholders' equity	130,743,311	139,554,015
	$165,767,306	$177,237,520

See notes to interim condensed financial statements

ADTRAN, INC.
INTERIM CONDENSED STATEMENTS OF INCOME

UNAUDITED
THREE MONTHS ENDED
MARCH 31,

	1995	1996
Sales	$38,096,590	$54,544,441
Cost of sales	19,422,631	28,860,274
Gross profit	18,673,959	25,684,167
Selling, general and administrative expenses	5,413,444	7,257,687
Research and development expenses	4,169,638	5,450,426
Operating income	9,090,877	12,976,054
Interest expense	(299,028)	(280,036)
Interest income	611,724	594,635
Other income (expense)	2,748	(183,208)
Income before provision for income taxes	9,406,321	13,107,445
Provision for income taxes	(3,331,719)	(4,484,057)
Net income	$ 6,074,602	$ 8,623,388
Net income per common and common equivalent share	$ .16	$ .22
Weighted average common and common equivalent shares outstanding (1)	38,995,272	39,549,106

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.

See notes to interim condensed financial statements

ADTRAN, INC.
INTERIM CONDENSED STATEMENTS OF CASH FLOWS
UNAUDITED

	THREE MONTHS ENDED MARCH 31, 1995	THREE MONTHS ENDED MARCH 31, 1996
Cash flows from operating activities:		
Net income	$ 6,074,602	$ 8,623,388
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	678,753	975,566
Provision for losses on accounts receivable	(264)	(1,191)
Provision for losses on inventory	457,609	596,741
Gain on sale of property, plant and equipment		(329)
Loss on short term investments		316,165
Change in operating assets:		
Accounts receivable	(1,777,290)	118,515
Inventory	(6,169,695)	(6,879,727)
Other receivables	(228,399)	664,771
Prepaid expenses	(290,153)	(510,232)
Change in operating liabilities:		
Accounts payable	453,497	(1,045,552)
Accrued salaries	(304,078)	(482,505)
Accrued income taxes	3,341,720	4,039,760
Accrued taxes other than income taxes	243,828	2,197
Accrued interest payable	66,111	226,633
Compensated absences	129,741	149,702
Other payables	(167,646)	(230,725)
Net cash provided by operating activities	2,508,336	6,563,177
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(1,828,014)	(5,967,222)
Proceeds from the disposition of property, plant and equipment		4,602
Net purchase of short-term investments	(9,294,056)	(2,513,100)
Net cash used in investing activities	(11,122,070)	(8,475,720)
Cash flows from financing activities:		
Proceeds from bond issuance	20,000,000	
Proceeds from issuance of common stock	71,185	187,316
Net cash provided by financing activities	20,071,185	187,316
Net increase (decrease) in cash and cash equivalents	11,457,451	(1,725,226)
Cash and cash equivalents, beginning of period	18,765,178	35,027,609
Cash and cash equivalents, end of period	$ 30,222,629	$33,302,382
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest, net of $0 and $58,055 of capitalized interest in 1995 and 1996, respectively	$ 232,917	$ 111,458
Cash paid during the period for taxes	$ 0	$ 500,000

See notes to interim condensed financial statements

ADTRAN, INC.

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The accompanying unaudited 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 footnotes required by generally accepted accounting principles for complete financial statements are not included herein. 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.

Interim statements are subject to possible adjustments in connection with the annual audit of the Company's accounts for the full year 1996. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996.

2. INVENTORY

At December 31, 1995 and March 31, 1996, inventory consisted of the following:

	December 31, 1995	March 31, 1996
Raw materials	$27,390,750	$28,538,205
Work in progress	4,428,437	6,167,713
Finished goods	13,178,008	16,574,263
	$44,997,195	$51,280,181

3. THE ALABAMA STATE INDUSTRIAL DEVELOPMENT AUTHORITY

In conjunction with the expansion of its Huntsville, Alabama facility, the Company has been approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). Pursuant to such program, in January 1995, the Authority issued $20,000,000 of its taxable revenue bonds and loaned the proceeds from the sale of the bonds to the Company. The bonds were purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the "Bank"), and the Company and the Bank have agreed to keep the proceeds from such bonds invested in short-term commercial paper until such time as the proceeds are needed by the Company to pay the costs of construction. Prior to the Company using the proceeds for construction costs, the Company, the Authority, and the Bank would be required to enter into further documentation to allow such use of proceeds. The Company has agreed to make payments to the Authority in amounts necessary to pay the principal of and interest on such bonds. The bonds bear interest, payable monthly, at the rate of 87.5 basis points over the 30 day London inter-bank interest rate and mature on January 1, 2020. Construction on the project began in March 1995 and certain phases should be completed by the end of 1996.

4. STOCK SPLIT

On April 20,1995, the stockholders of the Company approved the board of directors' recommendation to increase the Company's authorized Common Stock from 30,000,000 shares to 60,000,000 shares, par value $.01. Following approval by the Company's stockholders, the board of directors declared a 2-for-1 stock split, payable on May 12, 1995, to stockholders of record on April 27, 1995. Information regarding net income per common and common equivalent share and weighted average common and common equivalent shares outstanding included in the financial statements gives effect to this stock split.

5. PUBLIC OFFERING

On June 29, 1995, the Company and certain stockholders of the Company (the "Selling Stockholders") sold a total of 3,125,100 shares of Common Stock to the public. Of the 3,125,100 shares offered, 500,000 shares were offered by the Company and 2,625,100 shares were offered by the Selling Stockholders. The Company received net proceeds (after deduction of underwriting discounts and other offering expenses) of $15,699,812 from the sale of 500,000 shares of Common Stock at the public offering price of $33 per share. The Company did not receive any of the proceeds from the sale of shares by the Selling Stockholders. The Company has used and expects to continue to use the proceeds for working capital and other general corporate purposes, including product development activities to enhance its existing products and develop new products as well as expansion of sales and marketing activities.

6. RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards No. 123 (SFAS 123), Accounting for Stock-Based Compensation, will require the Company, for the year ended December 31, 1996, to either account for the estimated fair value of stock options granted as compensation expense or continue to account for them under present rules. If the Company chooses to continue to account for stock options granted under present rules, as management believes is likely, disclosure will be required of the pro forma impact of accounting for the estimated fair value of stock options granted as compensation expense.

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

RESULTS OF OPERATIONS

OVERVIEW

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 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 both 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.

On June 29, 1995, the Company and certain stockholders of the Company (the "Selling Stockholders") sold a total of 3,125,100 shares of Common Stock to the public. Of the 3,125,100 shares offered, 500,000 shares were offered by the Company and 2,625,100 shares were offered by the Selling Stockholders. The Company received net proceeds (after deduction of underwriting discounts and other offering expenses) of $15,699,812 from the sale of 500,000 shares of Common Stock at the public offering price of $33 per share. The Company did not receive any of the proceeds from the sale of shares by the Selling Stockholders. The Company has used and expects to continue to use the proceeds for working capital and other general corporate purposes, including product development activities to enhance its existing products and develop new products as well as expansion of sales and marketing activities.

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.

INTERIM RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1995 COMPARED TO THREE MONTHS ENDED MARCH 31, 1996

SALES

The Company's sales increased 43.2% from $38,096,590 in the first three months ended March 31, 1995 to $54,544,441 in the first three months ended March 31, 1996. The increased sales resulted from increased sales volume to existing customers and from increased market penetration. Sales to Telcos increased 65.1% from $19,617,819 in the three months ended March 31, 1995 to $32,385,385 in the three months ended March 31, 1996. The increase in Telco sales in the first quarter of 1996 resulted from increased sales of Integrated Services Digital Network ("ISDN") products and increased sales of High bit-rate Digital Subscriber Line ("HDSL") products. Telco sales as a percentage of total sales increased from 51.5% in the three months ended March 31, 1995 to 59.4% in the three months ended March 31, 1996 due to increased sales volume of ISDN and HDSL products during the first quarter of 1996. Sales of CPE products increased 47.8% from $10,247,034 in the three months ended March 31, 1995 to $15,143,210 in the three months ended March 31, 1996 as a result of increased sales of ISDN products, T1 Service Unit ("TSU") products and Digital Data Service ("DDS") products. OEM sales decreased 14.8% from $8,231,738 in the three months ended March 31, 1995 to $7,015,846 in the three months ended March 31, 1996. This decrease was attributable primarily to reduced demand related to mature programs combined with the low volume normally encountered on new programs. In addition, the Company 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 ADTRAN 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 increased 48.6% from $19,422,631 in the three months ended March 31, 1995 to $28,860,274 in the three months ended March 31, 1996, primarily as a result of the increase in sales. As a percentage of sales, cost of sales increased from 51.0% in the three months ended March 31, 1995 to 52.9% in the three months ended March 31, 1996. 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 sometimes results in variations in the Company's gross profit margin due to timing differences between the lowering of product selling prices and the full recognition of cost reductions. In view of the rapid pace of new product introductions by the Company, 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 increased 34.1% from $5,413,444 in the three months ended March 31, 1995 to $7,257,687 in the three months ended March 31, 1996. The increase was due to additional sales and support expenditures necessary as a result of the Company's expanded sales base. However, the larger sales base caused selling, general and administrative expenses as a percentage of sales to decrease from 14.2% in the three months ended March 31, 1995 to 13.3% in the three months ended March 31, 1996.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased 30.7% from $4,169,638 in the three months ended March 31, 1995 to $5,450,426 in the three months ended March 31, 1996. 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, however, research and development expenses declined from 10.9% in the three months ended March 31, 1995 to 10.0% in the three months ended March 31, 1996 due to the increased sales in the first quarter of 1996.

INTEREST EXPENSE

Interest expense decreased 6.4% from $299,028 in the three months ended March 31, 1995 to $280,036 in the three months ended March 31, 1996. This decrease was due to capitalization of interest cost as a part of the historical cost of acquiring certain assets, as required in Statement of Financial Accounting Standards No. 34 (SFAS 34), "Capitalization of Interest Cost." The Company currently pays interest on $20,000,000 of revenue bond proceeds loaned to the Company in January 1995, which 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 42.0% from $6,074,602 in the three months ended March 31, 1995 to $8,623,388 in the three months ended March 31, 1996. As a percentage of sales, net income decreased only slightly from 15.9% in the three months ended March 31, 1995 to 15.8% in the three months ended March 31, 1996.

LIQUIDITY AND CAPITAL RESOURCES

Prior to its initial public offering in August 1994 and a second public offering in June 1995, the Company financed its operations primarily with cash flow from operations, supplemented with borrowings under its bank line of credit as needed.

The Company's only long-term debt outstanding as of March 31, 1996 consisted of a loan in the amount of $20,000,000 related to the expansion of the Company's facilities in Huntsville, Alabama. The Company has commenced a project to expand its facilities in Huntsville in several phases over the next five years at a cost of up to $50,000,000. This project has been approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). That program enables participating companies such as the Company to generate Alabama corporate income tax credits that can be used to offset up to the entire amount of the debt incurred to finance the project. In January 1995, the Authority issued $20,000,000 of its taxable revenue bonds pursuant to such program and loaned the proceeds from the sale of the bonds to the Company. The bonds were purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the"Bank"), and the Company and the Bank have agreed to keep the proceeds from such bonds invested in short-term commercial paper until such time as the proceeds are needed by the Company to pay the costs of construction. Prior to the Company using the proceeds for construction costs, the Company, the Authority, and the Bank would be required to enter into further documentation to allow such use of proceeds. The Company has agreed to make payments to the Authority in amounts necessary to pay the principal of, and interest on, such bonds. The bonds bear interest, payable monthly, at the rate of 87.5 basis points over the 30 day London inter-bank interest rate and mature on January 1, 2020. Construction on the project began in March 1995 and certain phases should be completed by the end of 1996. The Company expects to use the proceeds of additional revenue bonds pursuant to such program to equip its expanded facilities over the next five years. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future.

The Company's working capital position improved from $122,465,725 as of December 31, 1995 to $126,289,046 as of March 31, 1996. This improvement in the Company's working capital position was due primarily to increased earnings. The Company has used, and expects to continue to use, the remaining proceeds of the 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. Increased earnings for the three months ended March 31, 1996 were reflected in an increase in inventory as compared to the twelve months ended December 31, 1995. Inventory increased 14.0% during the period as a result of the increase in sales and a desire by the Company to ship larger orders to customers from available stock.

Capital expenditures totaling $12,790,517 in 1995 and $5,967,222 in the first three months of 1996 were used to expand the Company's headquarters and to purchase equipment.

At March 31, 1996, the Company's cash on hand of $33,302,382, short-term investments of $26,849,624 and $5,000,000 available under a bank line of credit placed the Company's potential cash availability at $65,152,006 as of March 31, 1996, of which $20,000,000 will be used to expand the Company's facilities under the incentive program described above. The Company's $5,000,000 bank line of credit bears interest at the lender's prime rate and expires in May 1996. The Company intends to renew the $5,000,000 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 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, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ADTRAN, INC.
(REGISTRANT)

Date: May 13, 1996

/s/ Irwin O. Goldstein

Irwin O. Goldstein
Vice President - Finance and Administration
and Chief Financial and Accounting Officer
(Duly Authorized Officer)

INDEX OF EXHIBITS

EXHIBIT 11

ADTRAN, INC

WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING FOR THE THREE MONTHS ENDED MARCH 31, 1995 AND 1996

THREE MONTHS ENDED
MARCH 31,

	1995	1996
Weighted average common shares outstanding	36,340,044	37,462,275
Net weighted average common stock options outstanding under the treasury stock method	2,655,228	2,086,831
Weighted average common and common equivalent shares outstanding	38,995,272	39,549,106
Net income	$6,074,602	$8,623,388
Net income per common and common equivalent share	$ .16	$ .22

Note: All share and per share amounts give retroactive effect to the 2-for-1 stock split declared by the board of directors, payable on May 12, 1995, to stockholders of record on April 27, 1995.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE INTERIM CONDENSED STATEMENT OF INCOME FOR THE THREE MONTHS ENDED MARCH 31, 1996 AND THE CONDENSED BALANCE SHEET AS OF MARCH 31, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1996
PERIOD START	JAN 1 1996
PERIOD END	MAR 31 1996
CASH	33,302,382
SECURITIES	26,849,624
RECEIVABLES	29,662,005
ALLOWANCES	(544,526)
INVENTORY	51,280,181
CURRENT ASSETS	143,004,885
PP&E	44,082,782
DEPRECIATION	(9,850,147)
TOTAL ASSETS	177,237,520
CURRENT LIABILITIES	16,715,839
BONDS	20,000,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	386,339
OTHER SE	139,167,676
TOTAL LIABILITY AND EQUITY	177,237,520
SALES	54,544,441
TOTAL REVENUES	54,544,441
CGS	28,860,274
TOTAL COSTS	28,860,274
OTHER EXPENSES	12,708,113
LOSS PROVISION	0 [1]
INTEREST EXPENSE	280,036
INCOME PRETAX	13,107,445
INCOME TAX	4,484,057
INCOME CONTINUING	8,623,388
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	8,623,388
EPS PRIMARY	0.22
EPS DILUTED	0.22

[1] Not material to the condensed financial statements.

End of Filing