ADTRAN INC

FORM 10-Q
(Quarterly Report)

Filed 5/14/1999 For Period Ending 3/31/1999

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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, 1999

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 April 30, 1999 Common Stock, $.01 Par Value 39,412,479 shares

ADTRAN, INC.

Quarterly Report on Form 10-Q
For the Quarter Ended March 31, 1999

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ADTRAN, INC.

CONDENSED BALANCE SHEETS

ASSETS

	March 31, 1999	December 31, 1998
Current assets:		
Cash and cash equivalents	$36,574,151	$ 10,009,320
Short-term investments	28,547,550	40,795,068
Accounts receivable, less allowance for doubtful accounts of $862,002 and $958,805 in 1999 and 1998, respectively	48,643,334	46,588,319
Other receivables	912,783	697,074
Inventory	55,149,436	65,700,576
Prepaid expenses	1,826,747	1,354,366
Deferred income taxes	2,416,686	2,416,685
Total current assets	174,070,687	167,561,408
Property, plant and equipment,less accumulated depreciation of $32,527,83 and $29,902,941 in 1999 and 1998, respectively	85,872,913	78,894,317
Other assets	220,000	220,000
Long-term investments	55,728,963	55,035,000
	$315,892,563	$301,710,725

LIABILITIES AND STOCKHOLDERS' EQUITY

	March 31, 1999	December 31, 1998
Current liabilities:		
Accounts payable	$10,301,202	$10,980,097
Accrued salaries	2,956,443	1,828,462
Accrued income taxes	5,800,876	1,060,795
Accrued taxes other than income taxes	304,861	252,548
Warranty liability	1,519,945	1,519,945
Compensated absences	1,523,974	1,384,802
Total current liabilities	22,407,301	17,026,649
Long term liabilities:		
Bonds payable	50,000,000	50,000,000
Deferred income taxes	3,295,140	3,295,140
Total liabilities	75,702,441	70,321,789
Stockholders' equity:		
Common stock, par value $.01 per share 200,000,000 shares authorized: 39,430,279 and 39,423,479 shares issued in 1999 and 1998, respectively	394,303	394,235
Additional paid-in capital	90,649,817	90,640,451
Retained earnings	172,680,799	163,570,297
Less treasury stock at cost: 1,120,081 and 1,100,081 shares in 1999 and 1998, respectively	(23,534,797)	(23,216,047)
Total stockholders' equity	240,190,122	231,388,936
	$315,892,563	$301,710,725

See notes to condensed financial statements

ADTRAN, INC.
CONDENSED STATEMENTS OF INCOME
Audited

	Three Months Ended March 31, 1999	1998
Sales	$77,162,648	$65,327,234
Cost of sales	37,668,543	29,408,537
Gross profit	39,494,105	35,918,697
Selling, general and administrative expenses	16,594,352	13,257,590
Research and development expenses	9,673,687	8,378,356
Income from operations	13,226,066	14,282,751
Interest expense	(570,000)	(534,428)
Other income, net	1,043,938	1,354,961
Income before income taxes	13,700,004	15,103,284
Provision for income taxes	(4,589,501)	(5,210,633)
Net income	$ 9,110,503	$ 9,892,651
Weighted average shares outstanding assuming dilution (1)	38,447,082	39,538,761
Earnings per common share assuming dilution (1)........	$ .24	$ .25
Earnings per common share - basic	$ .24	$ .25

(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

	Three Months Ended March 31, 1999	1998
Cash flows from operating activities:		
Net income	$9,110,503	$9,892,651
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,624,898	1,963,469
Gain on sale of property, plant and equipment	0	(667)
Loss on short-term investments	37,050	0
Change in operating assets:		
Accounts receivable	(2,055,016)	3,357,074
Inventory	10,551,140	365,725
Other receivables	(215,709)	(441,851)
Prepaid expenses	(472,382)	(890,830)
Change in operating lieabilities:		
Accounts payable	(678,894)	473,478
Accrued salaries	1,127,980	(174,691)
Accrued income taxes	4,740,081	2,697,849
Accrued taxes other than income taxes	52,313	70,133
Compensated absences	139,172	180,746
Net cash provided by operating activities	24,961,136	17,493,086
Cash flows from investing activities:		
Expenditures for property, plant and equipment	(9,603,494)	(3,832,319)
Proceeds from the disposition of property, plant and equipment	0	10,000
Redemption (Purchase) of short-term investments	12,210,468	(25,590,483)
Purchase of long-term investments	(693,963)	(5,035,000)
Net cash provided by (used in) investing activitie	1,913,011	(34,447,802)
Cash flows from financing activities:		
Proceeds from issuance of common stock	9,434	22,091
Purchase of treasury stock	(318,750)	0
Net cash (used in) provided by financing activities	(309,316)	22,091
Net increase (decrease) in cash and cash equivalents	26,564,831	(16,932,625)
Cash and cash equivalents, beginning of period	10,009,320	45,340,961
Cash and cash equivalents, end of period	$36,574,151	$28,408,336

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. (the "Company") at December 31, 1998 has been derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. The accompanying unaudited condensed financial statements of the Company have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. Operating results for the three months ended March 31, 1999 are not necessarily indicative of the results that may be expected to occur for the year ending December 31, 1999. 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 1

2. INVENTORY

At March 31, 1999 and December 31, 1998, inventory consisted of the following:

	March 31, 1999	December 31, 1998
Raw materials	$30,201,434	$39,787,631
Work in progress	10,391,538	7,935,771
Finished goods	14,556,464	17,977,174
	$55,149,436	$65,700,576

3. RECENT ACCOUNTING DEVELOPMENTS

In June 1998, the FASB issued SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 requires all derivatives to be measured at fair value and recognized as either assets or liabilities on the balance sheet. Changes in such fair value are required to be recognized immediately in net income to the extent the derivatives are not effective as hedges. SFAS No. 133 is effective for fiscal years beginning after June 15, 1999 and is effective for interim periods in the initial year of adoption. The Company does not currently hold any derivative financial instruments.

4. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share for the three months ended March 31, 1999 and 1998 is as follows:

	For the Three Months Ended March 31, 1999		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
BASIC EPS			
Income available to common stockholders	$9,110,503	38,326,332	$0.24
EFFECT OF DILUTIVE SECURITIES			
Stock Options		120,750	
DILUTED EPS			
Income available to common conversions + assumed conversions	$9,110,503	38,447,082	$0.24

	For the Three Months Ended March 31, 1998		
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
BASIC EPS			
Income available to common stockholders	$9,892,651	39,301,337	$.25
EFFECT OF DILUTIVE SECURITIES			
Stock Options		237,424	
DILUTED EPS			
Income available to common stockholders + assumed conversions	$9,892,651	39,538,761	$.25

5. SEGMENT INFORMATION

The Company operates two reportable segments - (1) the Carrier Network Division (formerly Telco) and (2) the Enterprise Network Division (formerly CPE). The Company evaluates the performance of its segments based on gross profit; therefore, selling, general and administrative costs, as well as research and development, interest income/expense, and the provision for 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 the Company for the three months ended March 31, 1999 and 1998. Asset information by reportable segment is not reported, since the Company does not produce such information internally.

	First Quarter 1999		First Quarter 1998	
	Sales	Gross Profit	Sales	Gross Profit
(in thousands)				
Carrier Network	$47,652	$24,407	$40,696	$22,378
Enterprise Network	29,511	15,087	24,631	13,541
Total	$77,163	$39,494	$65,327	$35,919

The following table presents sales information by geographic area for the quarters ended March 31:

Sales (in thousands)	First Quarter 1999	First Quarter 1998
United States	$74,656	$60,954
Foreign	2,507	4,373
	$77,163	$65,327

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

Overview

ADTRAN, Inc. (the "Company") designs, develops, manufactures, markets and services a broad range of high speed digital transmission products utilized by telephone companies ("Telcos") and corporate end-users to implement advanced digital data services over existing telephone networks. The Company currently sells its products to Telcos (including all of the Regional Bell Operating Companies), what is now referred to by the Company as the Carrier Network Division, and to private end-users in the Enterprise Network Division (formerly known as the Customer Premises Equipment or 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 to the prior generation of a product and to the products of competitors. An important part of the Company's strategy is to engineer the reduction of the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. As a part of this strategy, the Company seeks in most instances to be a low-cost, high-quality provider of products in its markets. The Company's success to date is attributable in large measure to its ability to initially design its products with a view to their subsequent re-design, allowing efficient enhancements of the product in each succeeding product generation. This strategy has enabled the Company to sell succeeding generations of products to existing customers as well as to increase its market share by selling these enhanced products to new customers.

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

When used in this Form 10-Q, the words "believe," "anticipate," "think," "intend," "will be," and similar expressions identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures made by the Company which attempt to advise interested parties of the factors which affect the Company's business, including the disclosures made in other periodic reports on Forms 10-K, 10-Q and 8-K filed with the Securities and Exchange Commission.

RESULTS OF OPERATIONS - THREE MONTHS ENDED MARCH 31, 1999 COMPARED TO THREE MONTHS ENDED MARCH 31, 1998

SALES

The Company's sales increased 18.1% from $65,327,234 in the three months ended March 31, 1998 to $77,162,648 in the three months ended March 31, 1999. The increased sales resulted from an increase in sales volume to existing customers and from increased market penetration. Carrier Network (formerly known as Telco) sales increased from $40,696,014 in the three months ended March 31, 1998 to $47,651,669 in the three months ended March 31, 1999. The increase in Carrier Network sales in the 1999 period resulted primarily from increased sales of High bit-rate Digital Subscriber Line ("HDSL") products and Integrated Services Digital Network ("ISDN") products. Carrier Network sales as a percentage of total sales decreased from 62.3% in the three months ended March 31, 1998 to 61.8% in the three months ended March 31, 1999. Sales of Enterprise Network (formerly known as CPE) products increased 19.8% from $24,631,220 in the three months ended March 31, 1998 to $29,510,979 in the three months ended March 31, 1999, as a result of increased sales of "T-1" products, (a digital transmission link with a capacity of 1.544 megabits per second used predominantly in North America). As a percentage of total sales, Enterprise Network sales increased from 37.7% in the three months ended March 31, 1998 to 38.2% in the three months ended March 31, 1999. 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 28.1% from $29,408,537 in the three months ended March 31, 1998 to $37,668,543 in the three months ended March 31, 1999, due primarily to the increased sales mix and volume of the more expensive HDSL products. As a percentage of sales, cost of sales increased from 45.0%in the three months ended March 31, 1998 to 48.8% in the three months ended March 31, 1999. Carrier Network cost of sales increased 26.9% from $18,318,666 in the three months ended March 31, 1998 to $23,244,312 in the three months ended March 31, 1999. Carrier Network cost of sales as a percentage of Carrier Network sales increased from 45.0% in the three months ended March 31, 1998 to 48.8% in the three months ended March 31, 1999. Enterprise Network cost of sales increased slightly from $11,089,871 in the three months ended March 31, 1998 to $14,424,231 in the three months ended March 31, 1999. Enterprise Network cost of sales as a percentage of Enterprise Network sales increased from 45.0% in the three months ended March 31, 1998 to 48.9% in the three months ended March 31, 1999. An important part of the Company's strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This strategy sometimes results in variations in the Company's gross profit margin due to timing differences between the recognition of cost reductions and the lowering of product selling prices. In view of the rapid pace of new product introductions by the Company, 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 25.2% from $13,257,590 in the three months ended March 31, 1998 to $16,594,352 in the three months ended March 31, 1999. The increase was due to additional sales and support expenditures necessary as a result of the Company's expanded sales base. Selling, general and administrative expenses as a percentage of sales increased from 20.3% in the three months ended March 31, 1998 to 21.5% in the three months ended March 31, 1999.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased 15.5% from $8,378,356 in the three months ended March 31, 1998 to $9,673,687 in the three months ended March 31, 1999. 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 12.8% in the three months ended March 31, 1998 to 12.5% in the three months ended March 31, 1999. The Company will continue to invest in these product development activities because they are necessary to position the Company to accumulate market share and maintain growth over the longer term.

INTEREST EXPENSE

Interest expense increased 6.7% from $534,428 in the three months ended March 31, 1998 to $570,000 in the three months ended March 31, 1999. See "Liquidity and Capital Resources" below.

NET INCOME

As a result of the above factors, net income decreased slightly from $9,892,651 in the three months ended March 31, 1998 to $9,110,503 in the three months ended March 31, 1999. As a percentage of sales, net income decreased from 15.1% in the three months ended March 31, 1998 to 11.8% in the three months ended March 31, 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company is continuing a project to expand its facilities in Huntsville in several phases over the next two years at a cost of approximately $150,000,000, of which $57,428,780 had been incurred as of March 31, 1999. The debt associated with $50,000,000 of this project was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority") under which the Authority issued $50,000,000 of its taxable revenue bonds (the "Amended and Restated Bond"), pursuant to such program and loaned the proceeds from the sale of the Amended and Restated Bond to the Company. The Company will make payments to the Authority in amounts necessary to pay the principal of and interest on the Amended and Restated Bond, which matures on January 1, 2020.

The Company's working capital position increased slightly from $150,534,759 as of December 31, 1998 to $151,663,386 as of March 31, 1999 due to cash generated from operations. The Company 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 16% from December 31, 1998 to March 31, 1999. This decrease was attributable to the increased shipments of existing stock, planned for and built up in 1998.

On March 31, 1997, the Board of Directors authorized the Company to re-purchase up to 1,000,000 shares of the Company's outstanding common stock. In October 1998, the Board approved the re-purchase of an additional 2,000,000 shares. As of March 31, 1999, the Company had re-purchased 1,120,081 shares of its common stock at a total cost of $23,534,797.

Capital expenditures totaling $23,095,854 for the year ended December 31, 1998 and $9,603,494 in the first three months of 1999 were used to expand the Company's headquarters and to purchase equipment.

At March 31, 1999, the Company's cash on hand of $36,574,151, short- term investments of $28,547,550 and $10,000,000 available under a bank line of credit placed the Company's potential cash availability at $75,121,701, of which a portion is being used to expand the Company's facilities under the incentive program described above. The Company's $10,000,000 bank line of credit bears interest at the rate of 87.5 basis points over the 30 day London inter-bank offered rate. The Company intends to renew its $10,000,000 bank line of credit upon expiration in May 2000.

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

YEAR 2000 READINESS DISCLOSURE

The Company conducted a year 2000 program to assess and mitigate the impact of the year 2000 issue. The Company believes that all critical information technology and non-information technology hardware and software systems are year 2000 compliant, including, but not limited to, business systems, network infrastructure, manufacturing equipment, engineering tools, customer products and plant facilities.

The Company has completed the inventory and assessment phases of its year 2000 program. The Company's operations are not dependent upon older legacy source code or mainframe computers as is often the case with systems with significant year 2000 issues. Therefore, there is little or no date-related code remediation or conversion necessary to maintain normal business activities. The primary remaining effort in the year 2000 program is to review and validate the conclusions reached by the Company's year 2000 assessment. The Company does not believe that costs associated with bringing the Company's computer systems into full compliance with the year 2000 issue will result in a material expense to the Company.

In July of 1998, the Company completed the implementation of new business software and hardware which the Company believes is year 2000 compliant. The Company upgraded some secondary systems which were identified with minor year 2000 issues. Likewise, testing and year 2000 simulations were performed on all Company systems to verify date processing capabilities. As of March 31, 1999 all critical systems have been tested and are believed to be year 2000 compliant.

The Company has also contacted and assessed its suppliers and subcontractors regarding the year 2000 issue and concluded that those suppliers and subcontractors, which have a material relationship with the Company, are not expected to cause significant business interruptions to occur as a result of the year 2000 issue. The Company's assessment of suppliers has identified those most critical to the Company's operations and a contingency plan has been drafted to handle issues in the future. The Company's primary external subcontractors are conducting their own independent internal year 2000 programs and are being assisted by the Company with their year 2000 preparations where appropriate.

The Company believes that its products are year 2000 compliant. Company engineers have confirmed product design specifications and have verified product date processing functionality. Customers are provided individual responses to product inquiries and the Company has posted detailed year 2000 information on its web site. The Company does not believe that it will have any material exposure to contingencies related to the year 2000 issue for products it has sold.

Based on information presently available, the Company does not anticipate any material impact on its financial condition or results of operations from the effect of the year 2000 issue on its internal systems or on those systems of its major suppliers and customers. However, there can be no guarantee that the systems of other companies on which the Company relies will be timely converted, or that a failure to convert by another company would not have a material adverse impact on the Company. Furthermore, despite the Company's assessments, there can be no guarantee that there will not be a year 2000 problem arising from the Company's own system that may have a material adverse impact on the Company.

As of March 31, 1999 the Company had spent approximately $140,000 for year 2000 compliance. The Company anticipates spending an additional $40,000 during 1999. The Company does not separately track these internal costs incurred for the Y2K project. However, this cost consisted primarily of the related payroll costs of its information systems group.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) The following exhibits are being filed with this report.
None

(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 14, 1999 *˙/s/ John R. Cooper*

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

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONDENSED STATEMENT OF INCOME FOR THE THREE MONTHS ENDED MARCH 31, 1999 AND THE CONDENSED BALANCE SHEET AS OF MARCH 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

CIK: 0000926282

NAME: ADTRAN, INC.

MULTIPLIER: 1

CURRENCY: U.S. DOLLAR

PERIOD TYPE	3 MOS
FISCAL YEAR END	DEC 31 1999
PERIOD START	JAN 01 1999
PERIOD END	MAR 31 1999
EXCHANGE RATE	1
CASH	36,574,151
SECURITIES	28,547,550
RECEIVABLES	48,643,334
ALLOWANCES	862,002
INVENTORY	55,149,436
CURRENT ASSETS	174,070,687
PP&E	118,400,752
DEPRECIATION	32,527,839
TOTAL ASSETS	315,892,563
CURRENT LIABILITIES	22,407,301
BONDS	50,000,000
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	394,303
OTHER SE	240,190,122
TOTAL LIABILITY AND EQUITY	315,892,563
SALES	77,162,648
TOTAL REVENUES	77,162,648
CGS	37,668,543
TOTAL COSTS	37,668,543
OTHER EXPENSES	16,594,352
LOSS PROVISION	0
INTEREST EXPENSE	570,000
INCOME PRETAX	13,700,004
INCOME TAX	4,589,501
INCOME CONTINUING	9,110,503
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	9,110,503
EPS PRIMARY	.24
EPS DILUTED	.24

End of Filing