

ADTRAN INC
Form 10-Q
August 01, 2007
Table of Contents

UNITED STATES
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, 2007

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

Edgar Filing: ADTRAN INC - Form 10-Q

(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 No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes 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 26, 2007
Common Stock, \$.01 Par Value	68,450,155 shares

Table of Contents**ADTRAN, INC.****Quarterly Report on Form 10-Q****For the Three and Six Months Ended June 30, 2007****Table of Contents**

Item Number		Page Number
	<u>PART I. FINANCIAL INFORMATION</u>	
1	<u>Financial Statements:</u>	
	<u>Consolidated Balance Sheets as of June 30, 2007 (Unaudited) and December 31, 2006</u>	3
	<u>Consolidated Statements of Income for the three and six months ended June 30, 2007 and 2006 (Unaudited)</u>	4
	<u>Consolidated Statements of Cash Flows for the six months ended June 30, 2007 and 2006 (Unaudited)</u>	5
	<u>Notes to Consolidated Financial Statements (Unaudited)</u>	6
2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
3	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	21
4	<u>Controls and Procedures</u>	21
	<u>PART II. OTHER INFORMATION</u>	
1A	<u>Risk Factors</u>	21
2	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	21
4	<u>Submission of Matters to a Vote of Security Holders</u>	22
6	<u>Exhibits</u>	22
	<u>SIGNATURE</u>	23
	<u>EXHIBIT INDEX</u>	24
	FORWARD LOOKING STATEMENTS	

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of ADTRAN. ADTRAN and its representatives may from time to time make written or oral forward-looking statements, including statements contained in this report, our other filings with the Securities and Exchange Commission (SEC) and in our reports to our stockholders. Generally, the words, believe, expect, intend, estimate, anticipate, will, may, could and similar expressions identify forward-looking statements. We caution that any forward-looking statements made by us or on our behalf are subject to uncertainties and other factors that could cause such statements to be wrong. A list of factors that could materially affect our business, financial condition or operating results is included under "Factors that Could Affect Our Future Results" in "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in Item 2 of Part I of this report. They have also been discussed in Item 1A of Part I in our most recent Annual Report on Form 10-K filed on February 28, 2007 with the SEC. Though we have attempted to list comprehensively these important factors, we caution investors that other factors may prove to be important in the future in affecting our operating results. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact each factor or a combination of factors may have on our business.

You are further cautioned not to place undue reliance on these forward-looking statements because they speak only of our views as of the date that the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****ADTRAN, INC.****CONSOLIDATED BALANCE SHEETS**

(In thousands, except per share amounts)

	June 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,061	\$ 40,147
Short-term investments	152,494	99,700
Accounts receivable, less allowance for doubtful accounts of \$302 at June 30, 2007 and \$210 at December 31, 2006	66,422	56,769
Other receivables	4,351	7,481
Income tax receivable, net		1,446
Inventory, net	42,790	53,117
Prepaid expenses	1,668	2,590
Deferred tax assets, net	7,930	7,915
Total current assets	297,716	269,165
Property, plant and equipment, net	78,604	80,194
Deferred tax assets, net	298	
Other assets	527	534
Long-term investments	156,848	189,765
Total assets	\$ 533,993	\$ 539,658
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 27,226	\$ 30,321
Unearned revenue	5,572	5,802
Accrued expenses	4,611	3,827
Accrued wages and benefits	9,605	9,579
Income tax payable, net	149	
Total current liabilities	47,163	49,529
Deferred tax liabilities, net		694
Other non-current liabilities	7,649	4,667
Bonds payable	48,812	48,812
Total liabilities	103,624	103,702
Commitments and contingencies (see Note 10)		
Stockholders Equity		

Edgar Filing: ADTRAN INC - Form 10-Q

Common stock, par value \$0.01 per share; 200,000 shares authorized; 79,652 shares issued at June 30, 2007 and December 31, 2006	797	797
Additional paid in capital	160,484	152,162
Accumulated other comprehensive income	5,039	2,696
Retained earnings	526,181	513,515
Less treasury stock at cost: 11,279 shares at June 30, 2007 and 10,180 shares at December 31, 2006	(262,132)	(233,214)
Total stockholders' equity	430,369	435,956
Total liabilities and stockholders' equity	\$ 533,993	\$ 539,658

See notes to consolidated financial statements

Table of Contents

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Sales	\$ 123,674	\$ 122,296	\$ 233,986	\$ 230,944
Cost of sales	50,115	49,865	94,637	94,005
Gross profit	73,559	72,431	139,349	136,939
Selling, general and administrative expenses	26,155	26,344	52,631	51,031
Research and development expenses	19,546	17,469	37,904	35,235
Operating income	27,858	28,618	48,814	50,673
Interest income	3,006	3,413	5,914	6,911
Interest expense	(626)	(633)	(1,245)	(1,267)
Net realized investment gain	185	474	268	1,074
Other income, net	199	410	497	349
Life insurance proceeds			1,000	
Income before provision for income taxes	30,622	32,282	55,248	57,740
Provision for income taxes	(10,779)	(11,468)	(18,477)	(20,671)
Net income	\$ 19,843	\$ 20,814	\$ 36,771	\$ 37,069
Weighted average shares outstanding - basic	68,797	75,324	69,073	75,986
Weighted average shares outstanding - diluted	70,267	77,284	70,583	78,098
Earnings per common share - basic	\$ 0.29	\$ 0.28	\$ 0.53	\$ 0.49
Earnings per common share - diluted	\$ 0.28	\$ 0.27	\$ 0.52	\$ 0.47
Dividend per share	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18

See notes to consolidated financial statements

Table of Contents**ADTRAN, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(In thousands)

	Six Months Ended	
	2007	June 30, 2006
Cash flows from operating activities:		
Net income	\$ 36,771	\$ 37,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,336	5,494
Amortization of net premium on available-for-sale investments	1,153	1,730
Gain on sale of long-term investments	(268)	(1,074)
Loss on disposal of property, plant and equipment	70	8
Stock-based compensation expense	4,535	4,029
Deferred income taxes	(2,159)	(1,232)
Tax benefits from stock option exercises	3,787	1,271
Excess tax benefits from stock-based compensation arrangements	(2,842)	(818)
Changes in operating assets and liabilities:		
Accounts receivable, net	(9,653)	1,796
Other receivables	3,130	(1,480)
Income tax receivable, net	1,446	
Inventory, net	10,327	3,402
Prepaid expenses and other assets	929	(667)
Accounts payable	(3,095)	867
Accrued expenses and other liabilities	2,082	(1,452)
Income tax payable	439	(191)
Net cash provided by operating activities	51,988	48,752
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,816)	(3,547)
Proceeds from sales and maturities of available-for-sale investments	98,980	126,427
Purchases of available-for-sale investments	(116,650)	(157,353)
Acquisition of business		(400)
Net cash used in investing activities	(21,486)	(34,873)
Cash flows from financing activities:		
Proceeds from stock option exercises	12,921	3,294
Purchases of treasury stock	(52,289)	(82,710)
Dividend payments	(12,465)	(13,779)
Excess tax benefits from stock-based compensation arrangements	2,842	818
Net cash used in financing activities	(48,991)	(92,377)
Net decrease in cash and cash equivalents	(18,489)	(78,498)
Effect of exchange rate changes	403	372

Edgar Filing: ADTRAN INC - Form 10-Q

Cash and cash equivalents, beginning of period	40,147	112,794
Cash and cash equivalents, end of period	\$ 22,061	\$ 34,668

See notes to consolidated financial statements

Table of Contents

ADTRAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of ADTRAN[®], Inc. and its subsidiaries (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. The December 31, 2006 Consolidated Balance Sheet is derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

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. The results of operations for an interim period are not necessarily indicative of the results for the full year. The interim statements should be read in conjunction with the financial statements and notes thereto included in ADTRAN's Annual Report on Form 10-K for the year ended December 31, 2006.

Changes in Classifications

Certain changes in classifications have been made to the prior period balances in order to conform to the current period's presentation. These reclassifications have no effect on previously reported total assets, total liabilities, stockholders' equity or net income.

Revision of Classification of Treasury Stock Losses

During the three months ended June 30, 2007, we identified a cumulative understatement of additional paid in capital and a corresponding overstatement of retained earnings resulting from losses incurred at the re-issuance of treasury shares from stock option exercises. These cumulative amounts were \$15.2 million as of March 31, 2007 and \$10.6 million as of December 31, 2006. We believe these amounts are not material to the consolidated financial statements for the periods affected and as a result, we have revised these amounts for the periods presented. These reclassifications have no effect on previously reported total assets, total liabilities, net stockholders' equity or net income.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. ADTRAN's most significant estimates include the allowance for doubtful accounts, obsolete and excess inventory reserves, warranty reserves, rebates, allowance for sales returns, determination of the deferred revenue components of multiple element sales agreements, estimated income tax contingencies and the fair value of stock-based compensation. Actual amounts could differ significantly from these estimates.

Recent Accounting Pronouncements

Updates to recent accounting standards as disclosed in ADTRAN's Annual Report on Form 10-K for the year ended December 31, 2006 are as follows:

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure accounts and loans receivable, available-for-sale and held-to-maturity securities, equity method investments, accounts payable, guarantees and issued debt. Other eligible items include firm commitments for

Table of Contents

f