ADTRAN INC
Form 10-Q
August 05, 2015
Table of Contents

UNITED STATES

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 June 30, 2015

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	**63-0918200**
(State of Incorporation)	**(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 by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (232.405 of this chapter) during the preceding 12 months (or for shorter period that the Registrant was required to submit and post such files). Yes x No ¨

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

Large Accelerated Filer x	Accelerated Filer ¨
Non-accelerated Filer ¨	Smaller Reporting Company ¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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 22, 2015**
Common Stock, $.01 Par Value	49,928,495 Shares

Table of Contents

ADTRAN, Inc.

Quarterly Report on Form 10-Q

For the Three and Six Months Ended June 30, 2015

Table of Contents

Item Number		Page Number
	PART I. FINANCIAL INFORMATION	
1	**Financial Statements:**	
	Consolidated Balance Sheets as of June 30, 2015 and December 31, 2014 (Unaudited)	3
	Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014 (Unaudited)	4
	Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014 (Unaudited)	5
	Consolidated Statements of Cash Flows for the six months ended June 30, 2015 and 2014 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7
2	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
3	Quantitative and Qualitative Disclosures About Market Risk	34
4	Controls and Procedures	36
	PART II. OTHER INFORMATION	
1A	Risk Factors	36
2	Unregistered Sales of Equity Securities and Use of Proceeds	36
6	Exhibits	37
	SIGNATURE	38
	EXHIBIT INDEX	39

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 other communications with our stockholders. Generally, the words, believe, expect, intend, estimate, anticipate, will, may, could and similar expressions identify forward-looking statements. We you 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 for the year ended December 31, 2014 filed on February 24, 2015 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

(Unaudited)

(In thousands, except per share amounts)

	June 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	$ 87,215	$ 73,439
Short-term investments	54,127	46,919
Accounts receivable, less allowance for doubtful accounts of $21 and $136 at June 30, 2015 and December 31, 2014, respectively	89,088	88,502
Other receivables	31,442	33,295
Inventory, net	100,048	86,710
Prepaid expenses	5,817	5,129
Deferred tax assets, net	17,038	17,095
Total Current Assets	**384,775**	**351,089**
Property, plant and equipment, net	73,347	74,828
Deferred tax assets, net	20,473	17,694
Goodwill	3,492	3,492
Other assets	10,236	10,942
Long-term investments	216,665	280,649
Total Assets	**$ 708,988**	**$ 738,694**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 85,456	$ 56,414
Unearned revenue	17,495	22,762
Accrued expenses	15,538	11,077
Accrued wages and benefits	15,515	13,855
Income tax payable, net	10,072	14,901
Total Current Liabilities	**144,076**	**119,009**
Non-current unearned revenue	9,444	10,948
Other non-current liabilities	31,268	30,924
Bonds payable	28,800	28,800

Total Liabilities	**213,588**	**189,681**
Commitments and contingencies (see Note 14)		
Stockholders Equity		
Common stock, par value $0.01 per share; 200,000 shares authorized; 79,652 shares issued and 50,573 shares outstanding at June 30, 2015 and 79,652 shares issued and 53,431 shares outstanding at December 31, 2014	797	797
Additional paid-in capital	244,920	241,829
Accumulated other comprehensive loss	(4,667)	(75)
Retained earnings	903,448	907,751
Less treasury stock at cost: 29,079 and 26,221 shares at June 30, 2015 and December 31, 2014, respectively	(649,098)	(601,289)
Total Stockholders Equity	**495,400**	**549,013**
Total Liabilities and Stockholders Equity	**$ 708,988**	**$ 738,694**

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,	
	2015	**2014**	**2015**	**2014**
Sales	$ 160,138	$ 176,129	$ 302,973	$ 323,133
Cost of sales	91,892	89,332	169,164	158,546
Gross Profit	**68,246**	**86,797**	**133,809**	**164,587**
Selling, general and administrative expenses	32,123	33,788	63,187	67,727
Research and development expenses	35,479	33,670	68,015	66,223
Operating Income	**644**	**19,339**	**2,607**	**30,637**
Interest and dividend income	908	1,054	1,841	2,348
Interest expense	(149)	(148)	(297)	(375)
Net realized investment gain	3,255	2,340	6,370	4,532
Other expense, net	(547)	(774)	(900)	(652)
Income before provision for income taxes	**4,111**	**21,811**	**9,621**	**36,490**
Provision for income taxes	(1,567)	(7,416)	(3,760)	(12,488)
Net Income	**$ 2,544**	**$ 14,395**	**$ 5,861**	**$ 24,002**
Weighted average shares outstanding basic	51,822	55,409	52,607	56,077
Weighted average shares outstanding diluted	51,917	55,729	52,742	56,559
Earnings per common share basic	$ 0.05	$ 0.26	$ 0.11	$ 0.43
Earnings per common share diluted	$ 0.05	$ 0.26	$ 0.11	$ 0.42
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 COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	**2014**	**2015**	**2014**
Net Income	$ 2,544	$ 14,395	$ 5,861	$ 24,002
Other Comprehensive Income (Loss), net of tax:				
Net unrealized gains (losses) on available-for-sale securities	(1,783)	1,219	(2,286)	298
Defined benefit plan adjustments	72		140	
Foreign currency translation	872	134	(2,446)	386
Other Comprehensive Income (Loss), net of tax	**(839)**	**1,353**	**(4,592)**	**684**
Comprehensive Income, net of tax	**$ 1,705**	**$ 15,748**	**$ 1,269**	**$ 24,686**

See notes to consolidated financial statements

Table of Contents

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30,	
	2015	**2014**
Cash flows from operating activities:		
Net income	$ 5,861	$ 24,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,256	7,467
Amortization of net premium on available-for-sale investments	1,578	2,272
Net realized gain on long-term investments	(6,370)	(4,532)
Net loss on disposal of property, plant and equipment	160	37
Stock-based compensation expense	3,114	4,149
Deferred income taxes	(1,743)	377
Tax benefit from stock option exercises	(23)	67
Excess tax benefits from stock-based compensation arrangements	38	(58)
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,003)	(31,583)
Other receivables	(119)	(4,072)
Inventory	(14,254)	841
Prepaid expenses and other assets	(1,433)	(3,103)
Accounts payable	30,938	14,425
Accrued expenses and other liabilities	2,175	8,248
Income tax payable, net	(3,961)	4,442
Net cash provided by operating activities	**21,214**	**22,979**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(5,392)	(4,919)
Proceeds from disposals of property, plant and equipment	8	1
Proceeds from sales and maturities of available-for-sale investments	120,422	166,518
Purchases of available-for-sale investments	(62,626)	(106,406)
Net cash provided by investing activities	**52,412**	**55,194**
Cash flows from financing activities:		
Proceeds from stock option exercises	833	1,781
Purchases of treasury stock	(49,307)	(53,091)
Dividend payments	(9,509)	(10,137)
Payments on long-term debt		(16,500)

Excess tax benefits from stock-based compensation arrangements	(38)	58
Net cash used in financing activities	**(58,021)**	**(77,889)**
Net increase in cash and cash equivalents	15,605	284
Effect of exchange rate changes	(1,829)	321
Cash and cash equivalents, beginning of period	**73,439**	**58,298**
Cash and cash equivalents, end of period	**$ 87,215**	**$ 58,903**
Supplemental disclosure of non-cash investing activities:		
Purchases of property, plant and equipment included in accounts payable	$ 270	$ 423

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, 2014 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 to fairly state these interim statements have been recorded 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, 2014, filed on February 24, 2015 with the SEC.

Changes in Classifications

We reclassified $2.3 million from other receivables to accounts receivable at December 31, 2014 to conform to the current period presentation.

Out of Period Adjustment

In connection with the preparation of our Condensed Consolidated Financial Statements, we recorded corrections of certain out of period, immaterial misstatements that occurred in prior periods, the most significant of which resulted in an increase in Other Expense of $1.3 million in the first quarter of 2015. The aggregate impact of the corrections was a $0.8 million reduction to pre-tax income for the six months ended June 30, 2015 and is not expected to be material to the current year annual results.

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. Our more significant estimates include the obsolete and excess inventory reserves, warranty reserves, customer rebates, determination of the deferred revenue components of multiple element sales agreements, estimated costs to complete obligations associated with deferred revenues, estimated income tax provision and income tax contingencies, the fair value of stock-based compensation, impairment of goodwill, valuation and estimated lives of intangible assets, estimated pension liability, fair value of investments,

and the evaluation of other-than-temporary declines in the value of investments. Actual amounts could differ significantly from these estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and early application is not permitted. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. We are currently evaluating the transition method that will be elected and the impact that the adoption of ASU 2014-09 will have on our financial position, results of operations and cash flows.

Table of Contents

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, *Intangibles Goodwill and Other Internal-Use Software (Subtopic 350-40): Customer s Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05), which provides guidance on accounting for fees paid by a customer in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. Early adoption is permitted. The amendments may be applied either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We do not believe the adoption of ASU 2015-05 will have a material impact on our financial position, results of operations and cash flows.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory* (ASU 2015-11). Currently, Topic 330, *Inventory,* requires an entity to measure inventory at the lower of cost or market. Market could be replacement cost, net realizable value, or net realizable value less an approximately normal profit margin. ASU 2015-11 does not apply to inventory that is measured using last-in, first-out (LIFO) or the retail inventory method. The amendments apply to all other inventory, which includes inventory that is measured using first-in, first-out (FIFO) or average cost. ASU 2015-11 requires an entity to measure in scope inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. ASU 2015-11 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The amendments should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. We do not believe the adoption of ASU 2015-05 will have a material impact on our financial position, results of operations and cash flows.

2. INCOME TAXES

Our effective tax rate increased from 34.2% in the six months ended June 30, 2014 to 39.1% in the six months ended June 30, 2015. The increase in the effective tax rate between the two periods is primarily attributable to the release of a valuation allowance attributable to a foreign subsidiary in 2014.

3. PENSION BENEFIT PLAN

We maintain a defined benefit pension plan covering employees in certain foreign countries.

The following table summarizes the components of net periodic pension cost for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Service cost	$ 324	$ 306	$ 664	$ 611
Interest cost	152	216	311	431
Expected return on plan assets	(250)	(280)	(511)	(559)
Amortization of actuarial losses	100		205	

Net periodic pension cost	**$ 326**	**$ 242**	**$ 669**	**$ 483**

Table of Contents

4. STOCK-BASED COMPENSATION

The following table summarizes the stock-based compensation expense related to stock options, restricted stock units (RSUs) and restricted stock for the three and six months ended June 30, 2015 and 2014, which was recognized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Stock-based compensation expense included in cost of sales	**$ 53**	**$ 119**	**$ 143**	**$ 235**
Selling, general and administrative expense	723	1,015	1,414	2,041
Research and development expense	699	958	1,557	1,873
Stock-based compensation expense included in operating expenses	**1,422**	**1,973**	**2,971**	**3,914**
Total stock-based compensation expense	**1,475**	**2,092**	**3,114**	**4,149**
Tax benefit for expense associated with non-qualified options	(222)	(296)	(402)	(580)
Total stock-based compensation expense, net of tax	**$ 1,253**	**$ 1,796**	**$ 2,712**	**$ 3,569**

The fair value of our stock options is estimated using the Black-Scholes model. The determination of the fair value of stock options on the date of grant using the Black-Scholes model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables that may have a significant impact on the fair value estimate.

There were no options granted during the three months ended June 30, 2015 and 2014. The weighted-average assumptions and value of options granted for the six months ended June 30, 2015 and 2014 are as follows:

	Six Months Ended June 30, 2015	June 30, 2014
Expected volatility	38.75%	39.57%
Risk-free interest rate	1.46%	1.86%
Expected dividend yield	1.60%	1.38%
Expected life (in years)	6.47	6.25
Weighted-average estimated value	$ 7.63	$ 9.28

The fair value of our RSUs is calculated using a Monte Carlo Simulation valuation method. No RSUs were granted or vested during the three and six months ended June 30, 2015 and 2014. Twelve thousand RSUs were forfeited during the six months ended June 30, 2015.

The fair value of restricted stock is equal to the closing price of our stock on the date of grant. No restricted stock was granted or forfeited during the three and six months ended June 30, 2015 and 2014. Two thousand shares of restricted stock vested during the three months ended June 30, 2015.

Stock-based compensation expense recognized in our Consolidated Statements of Income for the three and six months ended June 30, 2015 and 2014 is based on options, RSUs and restricted stock ultimately expected to vest, and has been reduced for estimated forfeitures. Estimated forfeitures for stock options are based upon historical experience and approximate 3.3% annually. We estimated a 0% forfeiture rate for our RSUs and restricted stock due to the limited number of recipients and historical experience for these awards.

Table of Contents

As of June 30, 2015, total compensation expense related to non-vested stock options, RSUs and restricted stock not yet recognized was approximately $12.6 million, which is expected to be recognized over an average remaining recognition period of 2.5 years.

The following table is a summary of our stock options outstanding as of December 31, 2014 and June 30, 2015 and the changes that occurred during the six months ended June 30, 2015:

(In thousands, except per share amounts)	Number of Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life In Years	Aggregate Intrinsic Value
Options outstanding, December 31, 2014	**6,981**	**$ 23.62**	**6.45**	**$ 10,625**
Options granted	2	$ 22.56		
Options forfeited	(243)	$ 21.01		
Options expired	(157)	$ 26.78		
Options exercised	(52)	$ 16.08		
Options outstanding, June 30, 2015	**6,531**	**$ 23.70**	**5.92**	**$ 446**
Options vested and expected to vest, June 30, 2015	**6,440**	**$ 23.75**	**5.85**	**$ 331**
Options exercisable, June 30, 2015	**4,190**	**$ 25.21**	**4.51**	**$ 446**

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between the closing price of our stock on the last trading day of the quarter and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2015. The aggregate intrinsic value will change based on the fair market value of our stock.

The total pre-tax intrinsic value of options exercised during the three and six months ended June 30, 2015 was $25 thousand and $0.1 million, respectively.

Table of Contents

5. INVESTMENTS

At June 30, 2015, we held the following securities and investments, recorded at either fair value or cost.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Deferred compensation plan assets	$ 14,046	$ 2,601	$ (113)	$ 16,534
Corporate bonds	114,446	123	(139)	114,430
Municipal fixed-rate bonds	67,302	130	(45)	67,387
Municipal variable rate demand notes	3,695			3,695
Marketable equity securities	28,901	9,265	(866)	37,300
Available-for-sale securities held at fair value	**$ 228,390**	**$ 12,119**	**$ (1,163)**	**$ 239,346**
Restricted investment held at cost				**30,000**
Other investments held at cost				**1,446**
Total carrying value of available-for-sale investments				**$ 270,792**

At December 31, 2014, we held the following securities and investments, recorded at either fair value or cost.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Deferred compensation plan assets	$ 13,897	$ 2,409	$ (12)	$ 16,294
Corporate bonds	111,261	186	(186)	111,261
Municipal fixed-rate bonds	127,341	480	(34)	127,787
Municipal variable rate demand notes	2,465			2,465
Marketable equity securities	26,399	12,395	(539)	38,255
Available-for-sale securities held at fair value	**$ 281,363**	**$ 15,470**	**$ (771)**	**$ 296,062**
Restricted investment held at cost				**30,000**
Other investments held at cost				**1,506**
Total carrying value of available-for-sale investments				**$ 327,568**

Table of Contents

As of June 30, 2015, our corporate bonds and municipal fixed-rate bonds had the following contractual maturities:

(In thousands)	Corporate bonds	Municipal fixed-rate bonds
Less than one year	$ 32,179	$ 18,254
One to two years	42,510	35,462
Two to three years	39,741	12,460
Three to five years		1,211
Total	**$ 114,430**	**$ 67,387**

Actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties.

Our investment policy provides limitations for issuer concentration, which limits, at the time of purchase, the concentration in any one issuer to 5% of the market value of our total investment portfolio.

At June 30, 2015, we held a $30.0 million restricted certificate of deposit, which is carried at cost. This investment serves as a collateral deposit against the principal amount outstanding under loans made to ADTRAN pursuant to an Alabama State Industrial Development Authority revenue bond (the Bond). At June 30, 2015, the estimated fair value of the Bond using a level 2 valuation technique was approximately $29.9 million, based on a debt security with a comparable interest rate and maturity and a Standard and Poor s credit rating of AAA. For more information on the Bond, see Debt under Liquidity and Capital Resources in the Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Item 2 of Part I of this report.

We review our investment portfolio for potential other-than-temporary declines in value on an individual investment basis. We assess, on a quarterly basis, significant declines in value which may be considered other-than-temporary and, if necessary, recognize and record the appropriate charge to write-down the carrying value of such investments. In making this assessment, we take into consideration qualitative and quantitative information, including but not limited to the following: the magnitude and duration of historical declines in market prices, credit rating activity, assessments of liquidity, public filings, and statements made by the issuer. We generally begin our identification of potential other-than-temporary impairments by reviewing any security with a fair value that has declined from its original or adjusted cost basis by 25% or more for six or more consecutive months. We then evaluate the individual security based on the previously identified factors to determine the amount of the write-down, if any. For the three and six months ended June 30, 2015 and 2014, other-than-temporary impairment charges were not significant.

Realized gains and losses on sales of securities are computed under the specific identification method. The following table presents gross realized gains and losses related to our investments.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2015	2014	2015	2014
Gross realized gains	$ 3,459	$ 2,407	$ 6,604	$ 4,635

Gross realized losses	$ (204)	$ (67)	$ (234)	$ (103)

As of June 30, 2015 and 2014, gross unrealized losses related to individual securities in a continuous loss position for 12 months or longer were not significant.

Table of Contents

We have categorized our cash equivalents held in money market funds and our investments held at fair value into a three-level fair value hierarchy based on the priority of the inputs to the valuation technique for the cash equivalents and investments as follows: Level 1 Values based on unadjusted quoted prices for identical assets or liabilities in an active market; Level 2 Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly; Level 3 Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs include information supplied by investees.

	Fair Value Measurements at June 30, 2015 Using			
(In thousands)	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 1,087	$ 1,087	$	$
Available-for-sale securities				
Deferred compensation plan assets	16,534	16,534		
Available-for-sale debt securities				
Corporate bonds	114,430		114,430	
Municipal fixed-rate bonds	67,387		67,387	
Municipal variable rate demand notes	3,695		3,695	
Available-for-sale marketable equity securities				
Marketable equity securities technology industry	7,786	7,786		
Marketable equity securities other	29,514	29,514		
Available-for-sale securities	**239,346**	**53,834**	**185,512**	
Total	**$ 240,433**	**$ 54,921**	**$ 185,512**	**$**

Table of Contents

	Fair Value Measurements at December 31, 2014 Using			
(In thousands)	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 1,163	$ 1,163	$	$
Available-for-sale securities				
Deferred compensation plan assets	16,294	16,294		
Available-for-sale debt securities				
Corporate bonds	111,261		111,261	
Municipal fixed-rate bonds	127,787		127,787	
Municipal variable rate demand notes	2,465		2,465	
Available-for-sale marketable equity securities				
Marketable equity securities technology industry	9,661	9,661		
Marketable equity securities other	28,594	28,594		
Available-for-sale securities	**296,062**	**54,549**	**241,513**	
Total	**$ 297,225**	**$ 55,712**	**$ 241,513**	**$**

The fair value of our Level 2 securities is calculated using a weighted average market price for each security. Market prices are obtained from a variety of industry standard data providers, security master files from large financial institutions, and other third-party sources. These multiple market prices are used as inputs into a distribution-curve-based algorithm to determine the daily market value of each security.

Our municipal variable rate demand notes have a structure that implies a standard expected market price. The frequent interest rate resets make it reasonable to expect the price to stay at par. These securities are priced at the expected market price.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We have certain customers and suppliers who are invoiced or pay in a non-functional currency. Changes in the monetary exchange rates may adversely affect our results of operations and financial condition. When appropriate, we enter into various derivative transactions to enhance our ability to manage the volatility relating to these typical business exposures. We do not hold or issue derivative instruments for trading or other speculative purposes. Our derivative instruments are recorded in the Consolidated Balance Sheets at their fair values. Our derivative instruments do not qualify for hedge accounting, and accordingly, all changes in the fair value of the instruments are recognized as other income (expense) in the Consolidated Statements of Income. The maximum contractual period for our derivatives is currently less than twelve months. Our derivative instruments are not subject to master netting arrangements and are not offset in the Consolidated Balance Sheets.

As of June 30, 2015, we had forward contracts outstanding with notional amounts totaling 39.0 million ($43.4 million), which mature at various times throughout 2015.

Table of Contents

The fair values of our derivative instruments recorded in the Consolidated Balance Sheet as of June 30, 2015 and December 31, 2014 were as follows:

(In thousands)		Balance Sheet Location	June 30, 2015	December 31, 2014
Derivatives Not Designated as Hedging Instruments (Level 2):				
Foreign exchange contracts	asset derivatives	Other receivables	$ 447	$ 249
Foreign exchange contracts	liability derivatives	Accounts payable	$ (832)	$ (10)

The change in the fair values of our derivative instruments recorded in the Consolidated Statements of Income during the three and six months ended June 30, 2015 and 2014 were as follows:

(In thousands)	Income Statement Location	Three Months Ended June 30, 2015	Three Months Ended June 30, 2014	Six Months Ended June 30, 2015	Six Months Ended June 30, 2014
Derivatives Not Designated as Hedging Instruments:					
Foreign exchange contracts	Other income (expense)	$ (1,299)	$ (438)	$ 177	$ (548)

7. INVENTORY

At June 30, 2015 and December 31, 2014, inventory consisted of the following:

(In thousands)	June 30, 2015	December 31, 2014
Raw materials	$ 38,819	$ 34,831
Work in process	3,489	3,750
Finished goods	57,740	48,129
Total	**$ 100,048**	**$ 86,710**

We establish reserves for estimated excess, obsolete, or unmarketable inventory equal to the difference between the cost of the inventory and the estimated fair value of the inventory based upon assumptions about future demand and market conditions. At June 30, 2015 and December 31, 2014, raw materials reserves totaled $17.6 million and $16.9 million, respectively, and finished goods inventory reserves totaled $7.6 million and $7.8 million, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill, all of which relates to our acquisition of Bluesocket, Inc. and is included in our Enterprise Networks division, was $3.5 million at June 30, 2015 and December 31, 2014. We evaluate the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. We have elected to

first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit to which the goodwill is assigned is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. If we determine that it is more likely than not that its fair value is less than its carrying amount, then the two-step impairment test will be performed. There have been no impairment losses recorded since acquisition.

Intangible assets are included in other assets in the accompanying Consolidated Balance Sheets and include intangibles acquired in conjunction with our acquisitions of Objectworld Communications Corporation on September 15, 2009, Bluesocket, Inc. on August 4, 2011, and the NSN BBA business on May 4, 2012.

Table of Contents

The following table presents our intangible assets as of June 30, 2015 and December 31, 2014:

(In thousands)	June 30, 2015			December 31, 2014		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
Customer relationships	$ 5,937	$ (2,350)	$ 3,587	$ 6,310	$ (2,136)	$ 4,174
Developed technology	5,784	(3,962)	1,822	6,005	(3,577)	2,428
Intellectual property	2,340	(1,687)	653	2,340	(1,520)	820
Trade names	270	(235)	35	270	(205)	65
Other	11	(11)		12	(11)	1
Total	**$ 14,342**	**$ (8,245)**	**$ 6,097**	**$ 14,937**	**$ (7,449)**	**$ 7,488**

Amortization expense, all of which relates to business acquisitions, was $0.5 million and $0.6 million for the three months ended June 30, 2015 and 2014, respectively, and $1.0 million and $1.2 million for the six months ended June 30, 2015 and 2014, respectively.

As of June 30, 2015, the estimated future amortization expense of our intangible assets is as follows:

(In thousands)	Amount
Remainder of 2015	$ 928
2016	1,679
2017	1,164
2018	703
2019	309
Thereafter	1,314
Total	**$ 6,097**

9. STOCKHOLDERS EQUITY

A summary of the changes in stockholders equity for the six months ended June 30, 2015 is as follows:

(In thousands)	Stockholders Equity
Balance, December 31, 2014	**$ 549,013**
Net income	5,861
Dividend payments	(9,509)
Dividends accrued for unvested restricted stock units	10
Net unrealized losses on available-for-sale securities (net of tax)	(2,286)
Defined benefit plan adjustments	140

Foreign currency translation adjustment		(2,446)
Proceeds from stock option exercises		833
Purchase of treasury stock		(49,307)
Income tax benefit from exercise of stock options		(23)
Stock-based compensation expense		3,114
Balance, June 30, 2015	**$**	**495,400**

Stock Repurchase Program

Since 1997, our Board of Directors has approved multiple share repurchase programs that have authorized open market repurchase transactions of up to 45.0 million shares of our common stock. During the six months ended June 30, 2015, we repurchased 2.9 million shares of our common stock at an average price of $16.87 per share. As of June 30, 2015, we have the authority to purchase an additional 1.9 million shares of our common stock under the current plans approved by the Board of Directors.

Table of Contents

Stock Option Exercises

We issued 0.1 million shares of treasury stock during the six months ended June 30, 2015 to accommodate employee stock option exercises. The stock options had exercise prices ranging from $15.29 to $22.53. We received proceeds totaling $0.8 million from the exercise of these stock options during the six months ended June 30, 2015.

Dividend Payments

During the six months ended June 30, 2015, we paid cash dividends as follows (in thousands except per share amounts):

Record Date	Payment Date	Per Share Amount	Total Dividend Paid
February 5, 2015	February 19, 2015	$ 0.09	$ 4,811
May 7, 2015	May 21, 2015	$ 0.09	$ 4,698

Other Comprehensive Income

Other comprehensive income consists of unrealized gains (losses) on available-for-sale securities, reclassification adjustments for amounts included in net income related to impairments of available-for-sale securities, realized gains (losses) on available-for-sale securities, and amortization of actuarial gains (losses) related to our defined benefit plan, defined benefit plan adjustments, and foreign currency translation adjustments.

The following tables present changes in accumulated other comprehensive income, net of tax, by component for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015			
(In thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total
Beginning balance	**$ 8,461**	**$ (5,689)**	**$ (6,600)**	**$ (3,828)**
Other comprehensive income (loss) before reclassifications	177		872	1,049
Amounts reclassified from accumulated other comprehensive income	(1,960)	72		(1,888)
Net current period other comprehensive income (loss)	(1,783)	72	872	(839)
Ending balance	**$ 6,678**	**$ (5,617)**	**$ (5,728)**	**$ (4,667)**

(In thousands)	Three Months Ended June 30, 2014 Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total
Beginning balance	**$ 9,816**	**$ (891)**	**$ 1,159**	**$ 10,084**
Other comprehensive income (loss) before reclassifications	2,516		134	2,650
Amounts reclassified from accumulated other comprehensive income	(1,297)			(1,297)
Net current period other comprehensive income (loss)	1,219		134	1,353
Ending balance	**$ 11,035**	**$ (891)**	**$ 1,293**	**$ 11,437**

Table of Contents

The following tables present changes in accumulated other comprehensive income, net of tax, by component for the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30, 2015			
(In thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total
Beginning balance	**$ 8,964**	**$ (5,757)**	**$ (3,282)**	**$ (75)**
Other comprehensive income (loss) before reclassifications	1,537		(2,446)	(909)
Amounts reclassified from accumulated other comprehensive income	(3,823)	140		(3,683)
Net current period other comprehensive income (loss)	(2,286)	140	(2,446)	(4,592)
Ending balance	**$ 6,678**	**$ (5,617)**	**$ (5,728)**	**$ (4,667)**

	Six Months Ended June 30, 2014			
(In thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total
Beginning balance	**$ 10,737**	**$ (891)**	**$ 907**	**$ 10,753**
Other comprehensive income (loss) before reclassifications	2,918		386	3,304
Amounts reclassified from accumulated other comprehensive income	(2,620)			(2,620)
Net current period other comprehensive income (loss)	298		386	684
Ending balance	**$ 11,035**	**$ (891)**	**$ 1,293**	**$ 11,437**

The following tables present the details of reclassifications out of accumulated other comprehensive income for the three months ended June 30, 2015 and 2014:

(In thousands)	Three Months Ended June 30, 2015	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement Where Net Income Is Presented**
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$ 3,264	Net realized investment gain
Impairment expense	(51)	Net realized investment gain
Defined benefit plan adjustments actuarial losses	(105)	(1)
Total reclassifications for the period, before tax	3,108	
Tax (expense) benefit	(1,220)	
Total reclassifications for the period, net of tax	$ 1,888	

(1) Included in the computation of net periodic pension cost. See Note 3 of Notes to Consolidated Financial Statements.

Table of Contents

(In thousands)	Three Months Ended June 30, 2014	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement Where Net Income Is Presented**
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$ 2,160	Net realized investment gain
Impairment expense	(34)	Net realized investment gain
Total reclassifications for the period, before tax	2,126	
Tax (expense) benefit	(829)	
Total reclassifications for the period, net of tax	$ 1,297	

The following tables present the details of reclassifications out of accumulated other comprehensive income for the six months ended June 30, 2015 and 2014:

(In thousands)	Six Months Ended June 30, 2015	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement Where Net Income Is Presented**
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$ 6,340	Net realized investment gain
Impairment expense	(73)	Net realized investment gain
Defined benefit plan adjustments actuarial losses	(203)	(1)
Total reclassifications for the period, before tax	6,064	
Tax (expense) benefit	(2,381)	
Total reclassifications for the period, net of tax	$ 3,683	

(1) Included in the computation of net periodic pension cost. See Note 3 of Notes to Consolidated Financial Statements.

(In thousands)	Six Months Ended June 30, 2014	
Details about Accumulated Other Comprehensive Income Components	**Amount Reclassified from Accumulated Other Comprehensive Income**	**Affected Line Item in the Statement Where Net Income Is Presented**
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$ 4,330	Net realized investment gain
Impairment expense	(34)	Net realized investment gain
Total reclassifications for the period, before tax	4,296	
Tax (expense) benefit	(1,676)	
Total reclassifications for the period, net of tax	$ 2,620	

Table of Contents

The following table presents the tax effects related to the change in each component of other comprehensive income for the three months ended June 30, 2015 and 2014:

	Three Months Ended June 30, 2015			Three Months Ended June 30, 2014		
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$ 290	$ (113)	$ 177	$ 4,125	$ (1,609)	$ 2,516
Reclassification adjustment for amounts included in net income	(3,108)	1,220	(1,888)	(2,126)	829	(1,297)
Foreign currency translation adjustment	872		872	134		134
Total Other Comprehensive Income (Loss)	**$ (1,946)**	**$ 1,107**	**$ (839)**	**$ 2,133**	**$ (780)**	**$ 1,353**

The following table presents the tax effects related to the change in each component of other comprehensive income for the six months ended June 30, 2015 and 2014:

	Six Months Ended June 30, 2015			Six Months Ended June 30, 2014		
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$ 2,520	$ (983)	$ 1,537	$ 4,784	$ (1,866)	$ 2,918
Reclassification adjustment for amounts included in net income	(6,064)	2,381	(3,683)	(4,296)	1,676	(2,620)
Foreign currency translation adjustment	(2,446)		(2,446)	386		386
Total Other Comprehensive Income (Loss)	**$ (5,990)**	**$ 1,398**	**$ (4,592)**	**$ 874**	**$ (190)**	**$ 684**

Table of Contents

10. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2015 and 2014 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	**2015**	**2014**	**2015**	**2014**
Numerator				
Net income	$ 2,544	$ 14,395	$ 5,861	$ 24,002
Denominator				
Weighted average number of shares basic	51,822	55,409	52,607	56,077
Effect of dilutive securities				
Stock options	72	288	122	459
Restricted stock and restricted stock units	23	32	13	23
Weighted average number of shares diluted	51,917	55,729	52,742	56,559
Net income per share basic	$ 0.05	$ 0.26	$ 0.11	$ 0.43
Net income per share diluted	$ 0.05	$ 0.26	$ 0.11	$ 0.42

Anti-dilutive options to purchase common stock outstanding were excluded from the above calculations. Anti-dilutive options totaled 6.1 million and 4.3 million for the three months ended June 30, 2015 and 2014, respectively, and 5.7 million and 3.1 million for the six months ended June 30, 2015 and 2014, respectively.

11. SEGMENT INFORMATION

We operate in two reportable segments: (1) the Carrier Networks Division and (2) the Enterprise Networks Division. We evaluate the performance of our segments based on gross profit; therefore, selling, general and administrative expenses, research and development expenses, interest and dividend income, interest expense, net realized investment gain/loss, other income/expense and provision for taxes are reported on an entity-wide basis only. There are no inter-segment revenues.

The following tables present information about the reported sales and gross profit of our reportable segments for the three and six months ended June 30, 2015 and 2014. Asset information by reportable segment is not reported, since we do not produce such information internally.

	Three Months Ended			
	June 30, 2015		June 30, 2014	
(In thousands)	**Sales**	**Gross Profit**	**Sales**	**Gross Profit**
Carrier Networks	$ 135,397	$ 54,699	$ 143,455	$ 68,053
Enterprise Networks	24,741	13,547	32,674	18,744

Total	**$ 160,138**	**$ 68,246**	**$ 176,129**	**$ 86,797**

	Six Months Ended			
	June 30, 2015		June 30, 2014	
(In thousands)	**Sales**	**Gross Profit**	**Sales**	**Gross Profit**
Carrier Networks	$ 251,411	$ 104,558	$ 261,617	$ 129,406
Enterprise Networks	51,562	29,251	61,516	35,181
Total	**$ 302,973**	**$ 133,809**	**$ 323,133**	**$ 164,587**

Table of Contents

Sales by Product

Our three major product categories are Carrier Systems, Business Networking and Loop Access.

Carrier Systems products are used by communications service providers to provide data, voice, and video services to consumers and enterprises. This category includes the following product areas and related services:

Broadband Access

Total Access® 5000 Series of Multi-Service Access Node (MSAN)

hiX 5600 Series of MSANs

Total Access 1100/1200 Series of Fiber to the Node (FTTN) products

hiX 1100 Series of Fiber to the Node (FTTN) products

VDSL2 Vectoring based Digital Subscriber Line Access Multiplexer (DSLAM) products

ADTRAN 500 Series of FTTdp G.fast Distribution Point Units (DPU)

Optical

Optical Networking Edge (ONE)

NetVanta 8000 Series of Fiber Ethernet Access Devices (EAD)

NetVanta 8400 Series of 10Gig Multi-service Edge Switches

OPTI-6100 and Total Access 3000 optical Multi-Service Provisioning Platforms (MSPP)

Pluggable Optical Products, including SFP, XFP, and SFP+

Time Division Multiplexed (TDM) systems

Business Networking products provide access to communication services and facilitate the delivery of cloud connectivity and enterprise communications to the small and mid-sized enterprise (SME) market. This category includes the following product areas and related services:

Internetworking products

Total Access IP Business Gateways

Optical Network Terminals (ONTs)

Bluesocket® virtual Wireless LAN (vWLAN®)

NetVanta®

Access Routers

Enterprise Session Border Controllers (eSBC)

Managed Ethernet Switches

IP Business Gateways

Unified Communications (UC) solutions

Carrier Ethernet Network Terminating Equipment (NTE)

Carrier Ethernet Routers and Gateways

Network Management Solutions

Loop Access products are used by carrier and enterprise customers for access to copper-based communications networks. This category includes the following product areas and related services:

High bit-rate Digital Subscriber Line (HDSL) products

Digital Data Service (DDS)

Integrated Services Digital Network (ISDN) products

T1/E1/T3 Channel Service Units/Data Service Units (CSUs/DSUs)

TRACER fixed-wireless products

Table of Contents

The table below presents sales information by product category for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Carrier Systems	$ 119,039	$ 128,824	$ 219,478	$ 228,377
Business Networking	34,210	41,969	69,591	79,888
Loop Access	6,889	5,336	13,904	14,868
Total	**$ 160,138**	**$ 176,129**	**$ 302,973**	**$ 323,133**

In addition, we identify subcategories of product revenues, which we divide into core products and legacy products. Our core products consist of Broadband Access and Optical products (included in Carrier Systems), and Internetworking products (included in Business Networking). Our legacy products include HDSL products (included in Loop Access) and other products not included in the aforementioned core products.

The table below presents subcategory revenues for the three and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2015**	**2014**	**2015**	**2014**
Core Products				
Broadband Access (included in Carrier Systems)	$ 100,746	$ 108,309	$ 185,540	$ 189,836
Optical (included in Carrier Systems)	16,432	15,833	28,936	28,622
Internetworking (included in Business Networking)	33,158	40,986	67,317	77,932
Subtotal	**150,336**	**165,128**	**281,793**	**296,390**
Legacy Products				
HDSL (does not include T1) (included in Loop Access)	6,399	4,798	13,102	13,675
Other products (excluding HDSL)	3,403	6,203	8,078	13,068
Subtotal	**9,802**	**11,001**	**21,180**	**26,743**
Total	**$ 160,138**	**$ 176,129**	**$ 302,973**	**$ 323,133**

12. LIABILITY FOR WARRANTY RETURNS

Our products generally include warranties of 90 days to ten years for product defects. We accrue for warranty returns at the time revenue is recognized based on our estimate of the cost to repair or replace the defective products. We engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers. Our products continue to become more complex in both size and functionality as many of our product offerings migrate from line card applications to systems products. The increasing complexity of our

products will cause warranty incidences, when they arise, to be more costly. Our estimates regarding future warranty obligations may change due to product failure rates, material usage, and other rework costs incurred in correcting a product failure. In addition, from time to time, specific warranty accruals may be recorded if unforeseen problems arise. Should our actual experience relative to these factors be worse than our estimates, we will be required to record additional warranty expense. Alternatively, if we provide for more reserves than we require, we will reverse a portion of such provisions in future periods. The liability for warranty obligations totaled $8.9 million at June 30, 2015 and $8.4 million at December 31, 2014. These liabilities are included in accrued expenses in the accompanying Consolidated Balance Sheets.

Table of Contents

A summary of warranty expense and write-off activity for the six months ended June 30, 2015 and 2014 is as follows:

	Six Months Ended June 30,	
	2015	**2014**
(In thousands)		
Balance at beginning of period	$ 8,415	$ 8,977
Plus: Amounts charged to cost and expenses	1,128	1,339
Less: Deductions	(610)	(1,999)
Balance at end of period	**$ 8,933**	**$ 8,317**

13. RELATED PARTY TRANSACTIONS

During 2014, we employed the law firm of our director emeritus for legal services. All bills for services rendered by this firm were reviewed and approved by our Chief Financial Officer. We believe that the fees for such services were comparable to those charged by other firms for services rendered to us. The services of our director emeritus ended with his death on September 7, 2014. For the three and six months ended June 30, 2014, we incurred fees of $10 thousand per month for these legal services.

14. COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, we may be subject to various legal proceedings and claims, including employment disputes, patent claims, disputes over contract agreements and other commercial disputes. In some cases, claimants seek damages or other relief, such as royalty payments related to patents, which, if granted, could require significant expenditures. Although the outcome of any claim or litigation can never be certain, it is our opinion that the outcome of all contingencies of which we are currently aware will not materially affect our business, operations, financial condition or cash flows.

We have committed to invest up to an aggregate of $7.9 million in two private equity funds, and we have contributed $8.4 million as of June 30, 2015, of which $7.7 million has been applied to these commitments.

15. SUBSEQUENT EVENTS

On July 14, 2015, we announced that our Board of Directors declared a quarterly cash dividend of $0.09 per common share to be paid to stockholders of record at the close of business on July 30, 2015. The payment date will be August 13, 2015. The quarterly dividend payment will be approximately $4.5 million. In July 2003, our Board of Directors elected to begin declaring quarterly dividends on our common stock considering the tax treatment of dividends and adequate levels of Company liquidity.

On July 14, 2015, our Board of Directors authorized the repurchase of an additional 5.0 million shares of our common stock (bringing the total shares authorized for repurchase to 50.0 million), which will commence upon completion of the repurchase plan announced May 14, 2014. This new authorization will be implemented through open market or private purchases from time to time as conditions warrant.

During the third quarter and as of August 5, 2015, we have repurchased 0.8 million shares of our common stock through open market purchases at an average cost of $16.31 per share. We currently have the authority to purchase an additional 6.0 million shares of our common stock under the current plan approved by the Board of Directors.

Table of Contents

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document.

OVERVIEW

ADTRAN, Inc. is a leading global provider of networking and communications equipment. Our solutions enable voice, data, video and Internet communications across a variety of network infrastructures. These solutions are deployed by some of the world s largest service providers, distributed enterprises and small and medium-sized businesses, public and private enterprises, and millions of individual users worldwide.

Our success depends upon our ability to increase unit volume and market share through the introduction of new products and succeeding generations of products having lower selling prices and increased functionality as compared to both the prior generation of a product and to the products of competitors. An important part of our strategy is to reduce the cost of each succeeding product generation and then lower the product s selling price based on the cost savings achieved in order to gain market share and/or improve gross margins. As a part of this strategy, we seek in most instances to be a high-quality, low-cost provider of products in our markets. Our success to date is attributable in large measure to our ability to design our products initially with a view to their subsequent redesign, allowing both increased functionality and reduced manufacturing costs in each succeeding product generation. This strategy enables us to sell succeeding generations of products to existing customers, while increasing our market share by selling these enhanced products to new customers.

Our three major product categories are Carrier Systems, Business Networking and Loop Access.

Carrier Systems products are used by communications service providers to provide data, voice, and video services to consumers and enterprises. This category includes the following product areas and related services:

Broadband Access

Total Access® 5000 Series of Multi-Service Access Node (MSAN)

hiX 5600 Series of MSANs

Total Access 1100/1200 Series of Fiber to the Node (FTTN) products

hiX 1100 Series of Fiber to the Node (FTTN) products

VDSL2 Vectoring based Digital Subscriber Line Access Multiplexer (DSLAM) products

ADTRAN 500 Series of FTTdp G.fast Distribution Point Units (DPU)

Optical

Optical Networking Edge (ONE)

NetVanta 8000 Series of Fiber Ethernet Access Devices (EAD)

NetVanta 8400 Series of 10Gig Multi-service Edge Switches

OPTI-6100 and Total Access 3000 optical Multi-Service Provisioning Platforms (MSPP)

Pluggable Optical Products, including SFP, XFP, and SFP+

Time Division Multiplexed (TDM) systems

Table of Contents

Business Networking products provide access to communication services and facilitate the delivery of cloud connectivity and enterprise communications to the small and mid-sized enterprise (SME) market. This category includes the following product areas and related services:

- Internetworking products
  - Total Access IP Business Gateways
  - Optical Network Terminals (ONTs)
  - Bluesocket® virtual Wireless LAN (vWLAN®)
  - NetVanta®
    - Access Routers
    - Enterprise Session Border Controllers (eSBC)
    - Managed Ethernet Switches
    - IP Business Gateways
    - Unified Communications (UC) solutions
    - Carrier Ethernet Network Terminating Equipment (NTE)
    - Carrier Ethernet Routers and Gateways
  - Network Management Solutions

Loop Access products are used by carrier and enterprise customers for access to copper-based communications networks. This category includes the following product areas and related services:

High bit-rate Digital Subscriber Line (HDSL) products

Digital Data Service (DDS)

Integrated Services Digital Network (ISDN) products

T1/E1/T3 Channel Service Units/Data Service Units (CSUs/DSUs)

TRACER fixed-wireless products

In addition, we identify subcategories of product revenues, which we divide into core products and legacy products. Our core products consist of Broadband Access and Optical products (included in Carrier Systems) and Internetworking products (included in Business Networking). Our legacy products include HDSL products (included in Loop Access) and other products not included in the aforementioned core products. Many of our customers are migrating their networks to deliver higher bandwidth services by utilizing newer technologies. We believe that products and services offered in our core product areas position us well for this migration. As a result of this migration, revenues of our legacy products, including HDSL, have decreased significantly. Despite occasional increases, we anticipate revenues of our legacy products, including HDSL, will continue to decline over time.

See Note 11 of Notes to Consolidated Financial Statements in this report for further information regarding these product categories.

Sales were $160.1 million and $303.0 million for the three and six months ended June 30, 2015 compared to $176.1 million and $323.1 million for the three and six months ended June 30, 2014. Product revenues for our three core areas, Broadband Access, Optical and Internetworking, were $150.3 million and $281.8 million for the three and six months ended June 30, 2015 compared to $165.1 million and $296.4 million for the three and six months ended June 30, 2014. Our gross margin decreased to 42.6% and 44.2% for the three and six months ended June 30, 2015 from 49.3% and 50.9% for the three and six months ended June 30, 2014. Our operating income margin decreased to 0.4% and 0.9% for the three and six months ended June 30, 2015 from 11.0% and 9.5% for the three and six months ended June 30, 2014. Net income was $2.5 million and $5.9 million for the three and six months ended June 30, 2015 compared to $14.4 million and $24.0 million for the three and six months ended June 30, 2014. Our effective tax rate increased to 38.1% and 39.1% for the three and six months ended June 30, 2015 from 34.0% and 34.2% for the three and six months ended June 30, 2014. Earnings per share, assuming dilution, were $0.05 and $0.11 for the three and six months ended June 30, 2015 compared to $0.26 and $0.42 for the three and six months ended June 30, 2014.

Table of Contents

Our operating results have fluctuated on a quarterly basis in the past, and may vary significantly in future periods due to a number of factors, including customer order activity and backlog. Backlog levels vary because of seasonal trends, the timing of customer projects and other factors that affect customer order lead times. Many of our customers require prompt delivery of products. This requires us to maintain sufficient inventory levels to satisfy anticipated customer demand. If near-term demand for our products declines, or if potential sales in any quarter do not occur as anticipated, our financial results could be adversely affected. Operating expenses are relatively fixed in the short term; therefore, a shortfall in quarterly revenues could significantly impact our financial results in a given quarter.

Our operating results may also fluctuate as a result of a number of other factors, including a decline in general economic and market conditions, foreign currency exchange rate movements, increased competition, customer order patterns, changes in product and services mix, timing differences between price decreases and product cost reductions, product warranty returns, expediting costs and announcements of new products by us or our competitors. Additionally, maintaining sufficient inventory levels to assure prompt delivery of our products increases the amount of inventory that may become obsolete and increases the risk that the obsolescence of this inventory may have an adverse effect on our business and operating results. Also, not maintaining sufficient inventory levels to assure prompt delivery of our products may cause us to incur expediting costs to meet customer delivery requirements, which may negatively impact our operating results in a given quarter.

Accordingly, our historical financial performance is not necessarily a meaningful indicator of future results, and, in general, management expects that our financial results may vary from period to period. 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. These factors have also been discussed in more detail in Item 1A of Part I in our most recent Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 24, 2015 with the SEC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates have not changed significantly from those detailed in our most recent Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 24, 2015 with the SEC.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 of Notes to Consolidated Financial Statements in Item 1 of this Form 10-Q for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein by reference.

RESULTS OF OPERATIONS THREE AND SIX MONTHS ENDED JUNE 30, 2015 COMPARED TO THREE AND SIX MONTHS ENDED JUNE 30, 2014

SALES

ADTRAN s sales decreased 9.1% from $176.1 million in the three months ended June 30, 2014 to $160.1 million in the three months ended June 30, 2015 and decreased 6.2% from $323.1 million in the six months ended June 30, 2014 to $303.0 million in the six months ended June 30, 2015. The decrease in sales for the three months ended June 30, 2015 is primarily attributable to a $7.8 million decrease in sales of our Internetworking products, a $7.6 million decrease in sales of our Broadband Access products, and a $1.2 million decrease in sales of our HDSL and other legacy products. The decrease in sales for the six months ended June 30, 2015 is primarily attributable to a $10.6 million decrease in sales of our Internetworking products, a $4.3 million decrease in sales of our Broadband Access

products, and a $5.6 million decrease in sales of our HDSL and other legacy products. Sales during the three and six months ended June 30, 2015 were also negatively impacted by the strengthening of the U.S. dollar against the Euro.

Table of Contents

Carrier Networks sales decreased 5.6% from $143.5 million in the three months ended June 30, 2014 to $135.4 million in the three months ended June 30, 2015, and decreased 3.9% from $261.6 million in the six months ended June 30, 2014 to $251.4 million in the six months ended June 30, 2015. The decrease in sales for the three and six months ended June, 2015 is primarily attributable to decreases in sales of our Broadband Access products and sales of our HDSL and other legacy products. The decrease in sales of our Broadband Access products is primarily attributable to the impact of the strengthening of the U.S. dollar against the Euro. The decrease in sales of HDSL and other legacy products for the three and six months ended June 30, 2015 has been expected as customers continue to upgrade their networks to deliver higher bandwidth services by migrating to newer technologies, including to our core products from our Broadband Access, Internetworking and Optical product lines. While we expect that revenues from HDSL and our other legacy products will continue to decline over time, these revenues may fluctuate and continue for years because of the time required for our customers to transition to newer technologies.

Enterprise Networks sales decreased 24.3% from $32.7 million in the three months ended June 30, 2014 to $24.7 million in the three months ended June 30, 2015, and decreased 16.2% from $61.5 million in the six months ended June 30, 2014 to $51.6 million in the six months ended June 30, 2015. The decrease in sales for the three and six months ended June 30, 2015 is primarily attributable to decreases in sales of our Internetworking products. The decrease in sales of our Internetworking products for the Enterprise Networks division was primarily attributable to continued weakness in our IP gateway product segment, primarily in our CLEC customer base. Internetworking product sales attributable to Enterprise Networks were 93.1% and 93.5% of the division s sales in the three and six months ended June 30, 2015, compared to 95.0% and 94.7% in the three and six months ended June 30, 2014. Legacy products primarily comprise the remainder of Enterprise Networks sales. Enterprise Networks sales as a percentage of total sales decreased from 18.6% and 19.0% for the three and six months ended June 30, 2014 to 15.4% and 17.0% for the three and six months ended June 30, 2015.

International sales, which are included in the Carrier Networks and Enterprise Networks amounts discussed above, decreased 29.5% from $79.1 million in the three months ended June 30, 2014 to $55.7 million in the three months ended June 30, 2015, and decreased 13.7% from $133.4 million in the six months ended June 30, 2014 to $115.1 million in the six months ended June 30, 2015. International sales, as a percentage of total sales, decreased from 44.9% and 41.3% for the three and six months ended June 30, 2014 to 34.8% and 38.0% for the three and six months ended June 30, 2015. The decrease in international sales for the three and six months ended June 30, 2015 is primarily attributable to a decrease in sales in the EMEA region, Latin America and the Asia-Pacific region. The decrease in sales in the EMEA region is primarily attributable to the strengthening of the U.S. dollar against the Euro during the three and six months ended June 30, 2015.

Carrier System product sales decreased $9.8 million and $8.9 million in the three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014. The decrease for the three months ended June 30, 2015 is primarily attributable to a $7.6 million decrease in Broadband Access product sales and a $2.8 million decrease in legacy product sales. The decrease for the six months ended June 30, 2015 is primarily attributable to a $4.3 million decrease in Broadband Access product sales and a $4.9 million decrease in legacy product sales. The decreases for the three and six months ended June 30, 2015 are primarily attributable to the factors discussed above.

Business Networking product sales decreased $7.8 million and $10.3 million in the three and six months ended June 30, 2015 compared to the three and six months ended June 30, 2014. The decrease for the three months ended June 30, 2015 is primarily attributable to a $7.8 million decrease in Internetworking product sales. The decrease for the six months ended June 30, 2015 is primarily attributable to a $10.6 million decrease in Internetworking product sales. The decreases for the three and six months ended June 30, 2015 are primarily attributable to the factors discussed above.

Loop Access product sales increased $1.6 million in the three months ended June 30, 2015 compared to the three months ended June 30, 2014, and decreased $1.0 million in the six months ended June 30, 2015 compared to the six months ended June 30, 2014. The increase for the three months ended June 30, 2015 is primarily attributable to a $1.6 million increase in HDSL product sales. The decrease for the six months ended June 30, 2015 is primarily attributable to a $0.6 million decrease in HDSL product sales. The changes for the three and six months ended June 30, 2015 are primarily attributable to the factors discussed above.

Table of Contents

COST OF SALES

As a percentage of sales, cost of sales increased from 50.7% in the three months ended June 30, 2014 to 57.4% in the three months ended June 30, 2015, and increased from 49.1% in the six months ended June 30, 2014 to 55.8% in the six months ended June 30, 2015. The increase for the three months ended June 30, 2015 is primarily attributable to the strengthening of the U.S. dollar against the Euro, growth in our service-related material sales in the U.S. market, and customer mix. The increase in the six months ended June 30, 2015 is primarily attributable to the strengthening of the U.S. dollar against the Euro, growth in our service-related material sales in the U.S. market, and product to services mix.

Carrier Networks cost of sales, as a percent of division sales, increased from 52.6% in the three months ended June 30, 2014 to 59.6% in the three months ended June 30, 2015, and increased from 50.5% in the six months ended June 30, 2014 to 58.4% in the six months ended June 30, 2015. The increases for the three and six months ended June 30, 2015 are primarily attributable to the strengthening of the U.S. dollar against the Euro, growth in service-related material sales in the U.S. market, customer mix, and customer price movements to achieve market share position.

Enterprise Networks cost of sales, as a percent of division sales, increased from 42.6% in the three months ended June 30, 2014 to 45.2% in the three months ended June 30, 2015, and increased from 42.8% in the six months ended June 30, 2014 to 43.3% in the six months ended June 30, 2015. The increases for the three and six months ended June 30, 2015 are primarily attributable to customer mix and product to services mix.

An important part of our 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 may cause variations in our gross profit percentage due to timing differences between the recognition of cost reductions and the lowering of product selling prices.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased 4.9% from $33.8 million in the three months ended June 30, 2014 to $32.1 million in the three months ended June 30, 2015, and decreased 6.7% from $67.7 million in the six months ended June 30, 2014 to $63.2 million in the six months ended June 30, 2015. The decrease in selling, general and administrative expenses for the three months ended June 30, 2015 is primarily attributable to decreases in compensation expense and travel expense, partially offset by restructuring charges. These restructuring charges were primarily attributable to consolidation in our sales force. The decrease in selling, general and administrative expenses for the six months ended June 30, 2015 is primarily attributable to decreases in compensation expense, legal expense, and independent contractor expense, partially offset by restructuring charges.

As a percentage of sales, selling, general and administrative expenses increased from 19.2% in the three months ended June 30, 2014 to 20.1% in the three months ended June 30, 2015, and decreased from 21.0% in the six months ended June 30, 2014 to 20.9% in the six months ended June 30, 2015. Selling, general and administrative expenses as a percentage of sales may fluctuate whenever there is a significant fluctuation in revenues for the periods being compared.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses increased 5.4% from $33.7 million in the three months ended June 30, 2014 to $35.5 million in the three months ended June 30, 2015, and increased 2.7% from $66.2 million in the six months ended June 30, 2014 to $68.0 million in the six months ended June 30, 2015. The increases in research and

development expenses for the three and six months ended June 30, 2015 are primarily attributable to restructuring charges and engineering and testing expense. These restructuring charges were primary attributable to the consolidation of engineering resources.

As a percentage of sales, research and development expenses increased from 19.1% in the three months ended June 30, 2014 to 22.2% in the three months ended June 30, 2015, and increased from 20.5% in the six months ended June 30, 2014 to 22.4% in the six months ended June 30, 2015. Research and development expenses as a percentage of sales will fluctuate whenever there are incremental product development activities or a significant fluctuation in revenues for the periods being compared.

Table of Contents

We expect to continue to incur research and development expenses in connection with our new and existing products and our expansion into international markets. We continually evaluate new product opportunities and engage in intensive research and product development efforts which provides for new product development, enhancement of existing products and product cost reductions. We may incur significant research and development expenses prior to the receipt of revenues from a major new product group.

INTEREST AND DIVIDEND INCOME

Interest and dividend income decreased 13.9% from $1.1 million in the three months ended June 30, 2014 to $0.9 million in the three months ended June 30, 2015, and decreased 21.6% from $2.3 million in the six months ended June 30, 2014 to $1.8 million in the six months ended June 30, 2015. The decreases in interest and dividend income for the three and six months ended June 30, 3015 are primarily attributable to a reduction in investment principal partially offset by a slightly higher rate of return.

INTEREST EXPENSE

Interest expense, which is primarily related to our taxable revenue bond, remained constant at $0.1 million in the three months ended June 30, 2014 and 2015, and $0.4 million in the six months ended June 30, 2014 and $0.3 million in the six months ended June 30, 2015, as we had no substantial change in our fixed-rate borrowing. See Liquidity and Capital Resources below for additional information on our revenue bond.

NET REALIZED INVESTMENT GAIN

Net realized investment gain increased 39.1% from $2.3 million in the three months ended June 30, 2014 to $3.3 million in the three months ended June 30, 2015, and increased 40.6% from $4.5 million in the six months ended June 30, 2014 to $6.4 million in the six months ended June 30, 2015. The increases in realized investment gains for the three and six months ended June 30, 2015 are primarily attributable to increased gains from the sale of equity securities. See Investing Activities in Liquidity and Capital Resources below for additional information.

OTHER INCOME (EXPENSE), NET

Other income (expense), net, comprised primarily of miscellaneous income, gains and losses on foreign currency transactions, investment account management fees, and scrap raw material sales, changed from $0.8 million of expense in the three months ended June 30, 2014 to $0.5 million of expense in the three months ended June 30, 2015. The change in the three months ended June 30, 2015 is primarily attributable to a decrease in losses on foreign currency transactions during the second quarter of 2015. Other income (expense) changed from $0.7 million of expense in the six months ended June 30, 2014 to $0.9 million of expense in the six months ended June 30, 2015. The change in the six months ended June 30, 2015 is primarily attributable to losses on foreign currency transactions during the first quarter of 2015.

INCOME TAXES

Our effective tax rate increased from 34.2% in the six months ended June 30, 2014 to 39.1% in the six months ended June 30, 2015. The increase in the effective tax rate between the two periods is primarily attributable to the release of a valuation allowance attributable to a foreign subsidiary in 2014.

NET INCOME

As a result of the above factors, net income decreased $11.9 million from $14.4 million in the three months ended June 30, 2014 to $2.5 million in the three months ended June 30, 2015, and decreased $18.1 million from $24.0 million in the six months ended June 30, 2014 to $5.9 million in the six months ended June 30, 2015.

As a percentage of sales, net income decreased from 8.2% in the three months ended June 30, 2014 to 1.6% in the three months ended June 30, 2015, and decreased from 7.4% in the six months ended June 30, 2014 to 1.9% in the six months ended June 30, 2015.

Table of Contents

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

We intend to finance our operations with cash flow from operations. We have used, and expect to continue to use, the cash generated from operations for working capital, purchases of treasury stock, shareholder dividends, and other general corporate purposes, including (i) product development activities to enhance our existing products and develop new products and (ii) expansion of sales and marketing activities. We believe our cash and cash equivalents, investments and cash generated from operations to be adequate to meet our operating and capital needs for at least the next 12 months.

At June 30, 2015, cash on hand was $87.2 million and short-term investments were $54.1 million, which resulted in available short-term liquidity of $141.3 million. At December 31, 2014, our cash on hand of $73.4 million and short-term investments of $46.9 million resulted in available short-term liquidity of $120.4 million. The increase in short-term liquidity from December 31, 2014 to June 30, 2015 is primarily attributable to a reallocation of our investments to provide additional funds for our short-term cash needs, which includes operating activities, capital expenditures, purchase of treasury stock, and shareholder dividends.

Operating Activities

Our working capital, which consists of current assets less current liabilities, increased 3.7% from $232.1 million as of December 31, 2014 to $240.7 million as of June 30, 2015. The quick ratio, defined as cash, cash equivalents, short-term investments, and net accounts receivable, divided by current liabilities, decreased from 1.75 as of December 31, 2014 to 1.60 as of June 30, 2015. The current ratio, defined as current assets divided by current liabilities, decreased from 2.95 as of December 31, 2014 to 2.67 as of June 30, 2015. The changes in our working capital, quick ratio and current ratio are primarily attributable to increases in cash, inventory, and short-term investments, and a decrease in unearned revenue, partially offset by an increase in accounts payable.

Net accounts receivable increased 0.7% from $88.5 million at December 31, 2014 to $89.1 million at June 30, 2015. Our allowance for doubtful accounts was $0.1 million at December 31, 2014 and $21 thousand at June 30, 2015. Quarterly accounts receivable days sales outstanding (DSO) decreased from 57 days as of December 31, 2014 to 51 days as of June 30, 2015. The change in net accounts receivable is due to changes in customer mix and the timing of sales and collections during the quarter. Certain international customers can have longer payment terms than U.S. customers. Other receivables decreased from $33.3 million at December 31, 2014 to $31.4 million at June 30, 2015. The decrease in other receivables is primarily attributable to the timing of filing returns and collections of VAT receivables in our international subsidiaries. Other receivables will also fluctuate due to the timing of shipments and collections for materials supplied to our contract manufacturers during the quarter.

Quarterly inventory turnover increased from 3.5 turns as of December 31, 2014 to 3.8 turns as of June 30, 2015. Inventory increased 15.4% from December 31, 2014 to June 30, 2015. We expect inventory levels to fluctuate as we attempt to maintain sufficient inventory in response to seasonal cycles of our business ensuring competitive lead times while managing the risk of inventory obsolescence that may occur due to rapidly changing technology and customer demand.

Accounts payable increased 51.5% from $56.4 million at December 31, 2014 to $85.5 million at June 30, 2015. Accounts payable will fluctuate due to variations in the timing of the receipt of supplies, inventory and services and our subsequent payments for these purchases.

Investing Activities

Capital expenditures totaled approximately $5.4 million and $4.9 million for the six months ended June 30, 2015 and 2014, respectively. These expenditures were primarily used to purchase manufacturing and test equipment and computer software and hardware.

Our combined short-term and long-term investments decreased $56.8 million from $327.6 million at December 31, 2014 to $270.8 million at June 30, 2015. This decrease reflects the impact of our cash needs for capital expenditures, share repurchases, and dividends, as well as net realized and unrealized losses and amortization of net premiums on our combined investments, partially offset by additional funds available for investment provided by our operating activities and stock option exercises by our employees.

Table of Contents

We invest all available cash not required for immediate use in operations primarily in securities that we believe bear minimal risk of loss. At June 30, 2015 these investments included corporate bonds of $114.4 million, municipal fixed-rate bonds of $67.4 million, and municipal variable rate demand notes of $3.7 million. At December 31, 2014, these investments included corporate bonds of $111.3 million, municipal fixed-rate bonds of $127.8 million, and municipal variable rate demand notes of $2.5 million. As of June 30, 2015, our corporate bonds, municipal fixed-rate bonds, and municipal variable rate demand notes were classified as available-for-sale and had a combined duration of 1.0 years with an average credit rating of A. Because our bond portfolio has a high quality rating and contractual maturities of a short duration, we are able to obtain prices for these bonds derived from observable market inputs, or for similar securities traded in an active market, on a daily basis.

Our long-term investments decreased 22.8% from $280.6 million at December 31, 2014 to $216.7 million at June 30, 2015. Long-term investments at June 30, 2015 and December 31, 2014 included an investment in a certificate of deposit of $30.0 million, which serves as collateral for our revenue bond, as discussed below. We have various equity investments included in long-term investments at a cost of $28.9 million and $26.4 million, and with a fair value of $37.3 million and $38.3 million, at June 30, 2015 and December 31, 2014, respectively.

Long-term investments at June 30, 2015 and December 31, 2014 also included $16.5 million and $16.3 million, respectively, related to our deferred compensation plans, and $1.4 million and $1.5 million, respectively, of other investments carried at cost, consisting of interests in two private equity funds and an investment in a privately held telecommunications equipment manufacturer.

We review our investment portfolio for potential other-than-temporary declines in value on an individual investment basis. We assess, on a quarterly basis, significant declines in value which may be considered other-than-temporary and, if necessary, recognize and record the appropriate charge to write-down the carrying value of such investments. In making this assessment, we take into consideration qualitative and quantitative information, including but not limited to the following: the magnitude and duration of historical declines in market prices, credit rating activity, assessments of liquidity, public filings, and statements made by the issuer. We generally begin our identification of potential other-than-temporary impairments by reviewing any security with a fair value that has declined from its original or adjusted cost basis by 25% or more for six or more consecutive months. We then evaluate the individual security based on the previously identified factors to determine the amount of the write-down, if any. For the three and six months ended June 30, 2015 and 2014, other-than-temporary impairment charges were not significant.

Financing Activities

Dividends

In July 2003, our Board of Directors elected to begin declaring quarterly dividends on our common stock considering the tax treatment of dividends and adequate levels of Company liquidity. During the six months ended June 30, 2015, we paid dividends totaling $9.5 million.

Debt

We have amounts outstanding under loans made pursuant to an Alabama State Industrial Development Authority revenue bond (the Bond) which totaled $30.0 million at June 30, 2015 and December 31, 2014. At June 30, 2015, the estimated fair value of the Bond was approximately $29.9 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor s credit rating of AAA. Included in long-term investments are restricted funds in the amount of $30.0 million at June 30, 2015 and December 31, 2014, which is a collateral deposit against the principal amount of the Bond. We have the right to set-off the balance of the Bond with the collateral deposit in order

to reduce the balance of the indebtedness. The Bond matures on January 1, 2020, and bears interest at the rate of 2% per annum. In conjunction with this program, we are eligible to receive certain economic incentives from the state of Alabama that reduce the amount of payroll withholdings we are required to remit to the state for those employment positions that qualify under this program. We are required to make payments in the amounts necessary to pay the interest on the amounts currently outstanding. It is our intent to make annual principal payments in addition to the interest amounts that are due. In connection with this decision, $1.2 million of the Bond has been classified as a current liability in accounts payable in the Consolidated Balance Sheet at June 30, 2015.

Table of Contents

Stock Repurchase Program

Since 1997, our Board of Directors has approved multiple share repurchase programs that have authorized open market repurchase transactions of up to 45.0 million shares of our common stock. This authorization will be implemented through open market or private purchases from time to time as conditions warrant. During the six months ended June 30, 2015, we repurchased 2.9 million shares of our common stock at an average price of $16.87 per share. As of June 30, 2015, we have the authority to purchase an additional 1.9 million shares of our common stock under the current plans approved by the Board of Directors.

Stock Option Exercises

To accommodate employee stock option exercises, we issued 0.1 million shares of treasury stock for $0.8 million during the six months ended June 30, 2015.

Off-Balance Sheet Arrangements and Contractual Obligations

We do not have off-balance sheet financing arrangements and have not engaged in any related party transactions or arrangements with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of or requirements for capital resources. During the six months ended June 30, 2015, there have been no material changes in contractual obligations and commercial commitments from those discussed in our most recent Annual Report on Form 10-K for the year ended December 31, 2014 filed on February 24, 2015 with the SEC.

We have committed to invest up to an aggregate of $7.9 million in two private equity funds, and we have contributed $8.4 million as of June 30, 2015, of which $7.7 million has been applied to these commitments.

FACTORS THAT COULD AFFECT OUR FUTURE RESULTS

The following are some of the risks that could affect our financial performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements:

Our operating results may fluctuate in future periods, which may adversely affect our stock price.

Our revenue for a particular period can be difficult to predict, and a shortfall in revenue may harm our operating results.

General economic conditions may reduce our revenues and harm our operating results.

Our exposure to the credit risks of our customers and distributors may make it difficult to collect accounts receivable and could adversely affect our operating results and financial condition.

We expect gross margin to vary over time, and our level of product gross margin may not be sustainable.

We must continue to update and improve our products and develop new products in order to compete and to keep pace with improvements in communications technology.

Our products may not continue to comply with evolving regulations governing their sale, which may harm our business.

Our failure or the failure of our contract manufacturers to comply with applicable environmental regulations could adversely impact our results of operations.

If our products do not interoperate with our customers networks, installations may be delayed or cancelled, which could harm our business.

The lengthy approval process required by major and other service providers for new products could result in fluctuations in our revenue.

We engage in research and development activities to improve the application of developed technologies, and as a consequence may miss certain market opportunities enjoyed by larger companies with substantially greater research and development efforts who may focus on more leading edge development.

We depend heavily on sales to certain customers; the loss of any of these customers would significantly reduce our revenues and net income.

Our strategy of outsourcing a portion of our manufacturing requirements to subcontractors located in various international regions may result in us not meeting our cost, quality or performance standards.

Our dependence on a limited number of suppliers for certain raw materials and key components may prevent us from delivering our products on a timely basis, which could have a material adverse effect on customer relations and operating results.

Table of Contents

We compete in markets that have become increasingly competitive, which may result in reduced gross profit margins and market share.

Our estimates regarding future warranty obligations may change due to product failure rates, shipment volumes, field service obligations and other rework costs incurred in correcting product failures. If our estimates change, the liability for warranty obligations may be increased or decreased, impacting future cost of goods sold.

Managing our inventory is complex and may include write-downs of excess or obsolete inventory.

The continuing growth of our international operations could expose us to additional risks, increase our costs and adversely affect our operating results and financial condition.

We may be adversely affected by fluctuations in currency exchange rates.

Our success depends on our ability to reduce the selling prices of succeeding generations of our products.

Breaches in our information systems could cause significant damage to our business and reputation.

Our failure to maintain rights to intellectual property used in our business could adversely affect the development, functionality, and commercial value of our products.

Software under license from third parties for use in certain of our products may not continue to be available to us on commercially reasonable terms.

We may incur liabilities or become subject to litigation that would have a material effect on our business.

Consolidation and deterioration in the competitive service provider market could result in a significant decrease in our revenue.

We depend on distributors who maintain inventories of our products. If the distributors reduce their inventories of these products, our sales could be adversely affected.

If we are unable to successfully develop and maintain relationships with system integrators, service providers, and enterprise value added resellers, our sales may be negatively affected.

If we fail to manage our exposure to worldwide financial and securities markets successfully, our operating results and financial statements could be materially impacted.

Changes in our effective tax rate or assessments arising from tax audits may have an adverse impact on our results.

We are required to periodically evaluate the value of our long-lived assets, including the value of intangibles acquired and goodwill resulting from business acquisitions. Any future impairment charges required may adversely affect our operating results.

Our success depends on attracting and retaining key personnel.

Regulatory and potential physical impacts of climate change and other natural events may affect our customers and our production operations, resulting in adverse effects on our operating results.

While we believe our internal control over financial reporting is adequate, a failure to maintain effective internal control over financial reporting as our business expands could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

The price of our common stock has been volatile and may continue to fluctuate significantly.

The foregoing list of risks is not exclusive. For a more detailed description of the risk factors associated with our business, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 24, 2015 with the SEC.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates, foreign currency rates and prices of marketable equity and fixed-income securities. The primary objective of the large majority of our investment activities is to preserve principal while at the same time achieving appropriate yields without significantly increasing risk. To achieve this objective, a majority of our marketable securities are investment grade, municipal fixed-rate bonds, municipal variable rate demand notes and municipal money market instruments denominated in U.S. dollars. Our investment policy provides limitations for issuer concentration, which limits, at the time of purchase, the concentration in any one issuer to 5% of the market value of our total investment portfolio.

Table of Contents

We maintain depository investments with certain financial institutions. Although these depository investments may exceed government insured depository limits, we have evaluated the credit worthiness of these financial institutions, and determined the risk of material financial loss due to exposure of such credit risk to be minimal. As of June 30, 2015, $84.4 million of our cash and cash equivalents, primarily certain domestic money market funds and foreign depository accounts, were in excess of government provided insured depository limits.

As of June 30, 2015, approximately $201.9 million of our cash and investments may be directly affected by changes in interest rates. We have performed a hypothetical sensitivity analysis assuming market interest rates increase or decrease by 50 basis points (bps) for an entire year, while all other variables remain constant. At June 30, 2015, we held $88.0 million of cash and investments where a change in interest rates would impact our interest income. A hypothetical 50 bps decline in interest rates as of June 30, 2015 would reduce annualized interest income on our cash and investments by approximately $0.4 million. In addition, we held $178.2 million of fixed-rate municipal bonds and corporate bonds whose fair values may be directly affected by a change in interest rates. A hypothetical 50 bps increase in interest rates as of June 30, 2015 would reduce the fair value of our municipal fixed-rate bonds and corporate bonds by approximately $0.9 million.

As of June 30, 2014, approximately $287.1 million of our cash and investments was subject to being directly affected by changes in interest rates. We have performed a hypothetical sensitivity analysis assuming market interest rates increase or decrease by 50 bps for the entire year, while all other variables remain constant. A hypothetical 50 bps decline in interest rates as of June 30, 2014 would have reduced annualized interest income on our cash, money market instruments and municipal variable rate demand notes by approximately $0.5 million. In addition, a hypothetical 50 bps increase in interest rates as of June 30, 2014 would have reduced the fair value of our municipal fixed-rate bonds and corporate bonds by approximately $1.4 million.

We are exposed to changes in foreign currency exchange rates to the extent that such changes affect our revenue and gross margin on revenue derived from some international customers, expenses, and assets and liabilities held in non-functional currencies related to our foreign subsidiaries. Our primary exposure to foreign currency exchange rates is with our German subsidiary, whose functional currency is the Euro, and our Australian subsidiary, whose functional currency is the Australian dollar. We are exposed to changes in foreign currency exchange rates to the extent of our German subsidiaries use of contract manufacturers and raw material suppliers whom we predominately pay in U.S. dollars. As a result, changes in currency exchange rates could cause variations in gross margin in the products that we sell in the EMEA region.

We have certain international customers who are invoiced or pay in a non-functional currency. Changes in the monetary exchange rates used to invoice such customers versus the functional currency of the entity billing such customers may adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions, when appropriate. We do not hold or issue derivative instruments for trading or other speculative purposes. The Saudi Arabian Riyal is the predominant currency of the customers who are billed in their local currency. Taking into account the effects of foreign currency fluctuations of the Riyal versus the Euro, a hypothetical 10% weakening of the Euro as of June 30, 2015 would provide a gain on foreign currency of approximately $0.3 million. Conversely, a hypothetical 10% strengthening of the Euro as of June 30, 2015 would provide a loss on foreign currency of approximately $0.3 million. All other non-functional currencies billed would result in a combined hypothetical gain or loss of $1.1 million if the U.S. dollar weakened or strengthened against the billing currencies. Any gain or loss would be partially mitigated by the forward contracts discussed in the following paragraph.

As of June 30, 2015, we had no material contracts, other than accounts receivable, accounts payable, and loans to a subsidiary, denominated in foreign currencies. As of June 30, 2015, we had forward contracts outstanding with

notional amounts totaling 39.0 million ($43.4 million), which mature at various times throughout 2015. The fair value of these forward contracts was a net liability of approximately $0.4 million as of June 30, 2015.

For further information about the fair value of our available-for-sale investments and our derivative and hedging activities as of June 30, 2015, see Notes 5 and 6 of Notes to Consolidated Financial Statements.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for ADTRAN. Our Chief Executive Officer and Interim Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures as of the end of the period covered by this quarterly report, have concluded that our disclosure controls and procedures are effective.

(b) *Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

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. There have been no material changes to the risk factors as disclosed in Item 1A of Part I of our most recent Annual Report on Form 10-K for the year ended December 31, 2014, filed on February 24, 2015 with the SEC.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth repurchases of our common stock for the months indicated:

Period		Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2015	April 30, 2015	543,896	$ 16.08	543,896	4,107,889
May 1, 2015	May 31, 2015	2,238,391	$ 16.77	2,238,391	1,869,498
June 1, 2015	June 30, 2015				1,869,498[(1)]
Total		2,782,287		2,782,287	

On May 14, 2014, our Board of Directors authorized the repurchase of an additional 5.0 million shares of our common stock (bringing the total shares authorized for repurchase to 45.0 million). This authorization is being implemented through open market or private purchases from time to time as conditions warrant.

(1) On July 14, 2015, our Board of Directors authorized the repurchase of an additional 5.0 million shares of our common stock (bringing the total shares authorized for repurchase to 50.0 million). This new authorization will be implemented through open market or private purchases from time to time as conditions warrant.

Table of Contents

ITEM 6. EXHIBITS

Exhibits.

Exhibit No.	Description
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB*	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document

* Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

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 5, 2015

/s/ Michael Foliano
Michael Foliano
Senior Vice President Global Operations,
Interim Chief Financial Officer, Treasurer and Secretary
(Interim Principal Financial Officer)

Table of Contents

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* Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.