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<<Analyst, Needham &Co.>>

Without any further do, we'll get going with the next session. We are very please to have Roger Shannon with us, he's SVP of Finance and CFO of ADTRAN. So let's just jump right into Roger. Maybe first just wanted to sort of frame that the last quarterly report and not a great reaction in the market to it, but I think it's really around the guide. So you guys had a very healthy growth rate for the first nine months of the year, I think it's actually 14% an aggregate for the first nine months of the year. Fourth quarter guide was kind of flat to maybe slightly down year-over-year admittedly off a tougher comp maybe than the first part of the year, but how do you think about that fourth quarter guide. The puts and takes in it, what are some of the sort of headwinds, upside, downside opportunities, could you just frame that for us. Thank you.

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

Sure. And I guess the first point as you mentioned is a tougher comp against the fourth quarter of last year. If you remember from our International business particularly our large Tier 1 in Europe. It had been sort of quiet have been down second half of 2015, first half of 2016 as they had been working on their vectoring project finishing that rollout and focused on footprints outside of that trans footprint. They came back to us in Q3 2016 somewhat unexpectedly with the – an order for some LAN CORD increases. And then they carried over into Q4, so that really started to pick up in Q4 of last year. So what we saw in 2016 really was a kind of a muted Q3 to Q4 decline compared to what we've historically see.

So when you – if you look at that on the five year trend like we do, like I'm sure most people do that. Number going from Q3 to Q4 with last year's impact built in was decreased a little bit. It tends to be really more in the 11% to 15% range. So when we looked at Q4 this year, what we talked about was – what we see is some, likely services constraints on our build out in the quarter, and what we mean by that is mostly one probably knows we've had a significant build out this year with the U.S. Tier 1 is doing a vectoring rollout project. Those projects have I guess different port counts, different complexities depending on where it is and the particulars of the site.

What is scheduled for implementation, installation in Q4 tends to be those more complex sites that takes more engineering work. So when we say – we say capacity constrained, I mean you could ask how – how could that be head your record quarter in services in Q3. The build out in Q3 with that customer was focused on simpler sites versus Q4 on what's on the schedule is more of these higher port count vectoring sites. So again, I think the expectation – so obviously just now you give guidance one quarter, I think the expectation was probably a little stronger than what you normally see based on just the experience of Q4 last year.

<<Analyst, Needham &Co.>>

Got it. That's helpful. And I know you don't give guidance beyond really one quarter, formal guidance, but you tend to give some longer term targets around margins. I'm just wondering when you think about the longer term growth rates of that trend obviously, even with some disruptive 4Q you can have a nice kind of roughly double digit growth, top line growth rate this year. How do you think about the business longer term in terms of its growth rate beyond 2017?

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

So, as you've said 2017 has been very strong year for us. We had record quarters in Q1 and Q2, which obviously went through our record first half. Very strong Q3, we thought particularly in the services business. And we thought consistently about just the trend that we see that really started beginning of 2016 and we are very optimistic about kind of given the demand from the consumers for speed and access whether it be – getting additional capacity and utilization that have installed copper-based or moved to fiber or also the cable where we're looking to be a much more meaningful player through our acquisition last year of active GPON in our fiber products which we're leveraging with those MSO customers and expanding our reach there.

So there a number of opportunities that we've talked about kind of around the globe. We've made an announcement fairly recently about an award in Australia for DPUs and G.fast. There is a G.fast build out in the U.S. which we expect to start next year with major Tier 1. Of course, we've talked quite a bit about the NGPON 2 product – project with also with the U.S. Tier 1. So with there are a number of opportunities seeking and lining up that we are just working to execute on. In our business as you know it tends to be lumpy. It tend to not have a big backlog which you look at it is more build and ship.

There is no more, certainly more of a focus on our part on the Mosaic Cloud Platform and software aspects that as well, which brings a different element in to the business. So again, I think we remain very constructive on the cycle and in the next two years out and we – and try to capitalize on that especially when you think about the 5G opportunities just the tremendous number of small cells that are going to be required from that due to just the propagation of that signal and those are going to require terminations. So we think that's an opportunity where we have a very strong offering and a great business case.

<<Analyst, Needham &Co.>>

Great. You mentioned a number of opportunities that love to drill down into a little bit. First of all, CenturyLink, I think it's been a real strong contributor this year of that vectoring program you mentioned. Lots of concerns for a lot of other equipment suppliers around there are depending mergers. The level three and in fact a lot of equipment suppliers have been affected by that. So it doesn't seem like you have been yet. What's your sort of best view into how that progresses into next year, any sense of any disruptions yet or, as far as you can see is it still kind of clear sailing with that vectoring deployment.

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

No I think that is a question. And you point out others have seen some of that. We are – our expectation is the budget setting process as you result to the integration will likely take longer than expected into longer than typical and as you know the Tier 1 tend to be a little later than some of the smaller guys coming out with their budgets in the beginning of the year. So we're – we are taking a wait and see approach that we do think it will be a little longer in the year before that budget is finalized and their priorities are laid out. So I agreed that is a question going into next year.

<<Analyst, Needham &Co.>>

Got it. But as far as what you've heard from them on that program no change in terms of their intentions look forward, you're concerned about the budgeting timing.

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

I have not heard anything about a change in their priority. But again I think that's to be determined based on what impact – the level three people that are coming in have and how they set their priorities.

<<Analyst, Needham &Co.>>

So you also mentioned G.fast program, and I think you've mentioned that it is with AT&T and that you began shipping this year, I think for the out of region portion of that there's also an in region portion. But the sense is that this will be a growing opportunity overtime from the revenue perspective that you kind of just for getting into it this year. Can you kind of frame that up for us that the magnitude you saw this year and then the timing of that perhaps facing to both in region and out of region, and how that kind of fringe you think into next year and beyond?

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

Sure. So we started shipping out of region in the second quarter. We are still expecting in region to start shipping potentially some in fourth quarter, but by the beginning of next year kind of ramping into the start of next year. Our conversations with that customer they remain very optimistic about – probably about this technology. They have a commitment is everyone knows for a number of fiber homes passed, G.fast with fiber to the basement or utility cause, it counts as a fiber pass. So it's just very well suited for these MDUs that have obviously have installed copper or installed coax to where we run the fiber to DPU to the side of the building and pick up that technology, pick up that infrastructure and deliver that gigabit technology into the MDU.

So they – everything that we're hearing from them is that they remain very committed and optimistic about this and they are starting to market that. So we'll see, but there's something that

we expect to increase in 2018 and we've talked about that on our last call about – the growing into the mid-year toward the second half of the year especially.

<<Analyst, Needham &Co.>>

Sure. Another you've brought up was in Australia nbn and on the last call – on the Q3 call actually sounded a little bit more optimistic in terms of the timing around that that it might actually come a little sooner than you thought before. Can you give us a sense of what's going on there? What are you doing for nbn, the timing of when you might see start seeing material revenue from that?

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

Again that's another one that we expect to start in 2018, they have a plan of million homes passed, there's been a couple of pressure releases out on the awards were ADTRAN has been awarded a percentage of their DPUs as well as the software with our Mosaic Cloud Platform. So again I think we – which stick with all what we talked about in the last call, we expect that to begin if not first, by second quarter of next year.

<<Analyst, Needham &Co.>>

Got it. And then that has some lags presumably 2018 and into 2019 – and beyond.

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

That's right.

<<Analyst, Needham &Co.>>

And then to jump into one more opportunity, you've mentioned an NG-PON2 trial, which is certainly we've been talking about for a little while now. At one point you thought, you might see sort of awards for that within this calendar year we're obviously kind of coming to the end of this calendar year, what are your thoughts on the potential timing of awards around that that major program.

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

Yes, I believe both finalists have gotten notification from Verizon of field trial awards. I know the competitor put out some press on that. We've talked about in our call as well. It is still progressing well, of course, you were talking about new technology in terms of tunable optics in the development thing goes along with that.

We're going back to our call from last quarter. We are really not projecting meaningful revenue for that least not in the first half of 2018. We expect field trials to start that customers still thinking through their business cases for that whether it be low cost Internet, which is I think is the initial used case this being discussed going through to residential or even mobile back haul. So I think there are still processing through that. It's not a surprise to us, just kind of taken longer than the original forecast that they have put out. Because it we're still working through the requirements and some of the things that they're wanting to accomplish right out the gate continue to evolve.

<<Analyst, Needham &Co.>>

Right understood. You had mentioned also on your historical very large customers in Germany, GB. If you can just kind of give us a sense and that's a customer that's sort of been a big chunk of your revenue for each of the last few years, it's kind of has somewhat has cycles and there's been kind of a couple components. One is sort of you've got your initial territory for kind of deploying vectoring, I think you've got some new territory last year.

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

That's right.

<<Analyst, Needham &Co.>>

And now, I think you're going to actually start doing some Super-Vectoring. So within those different moving pieces, how do you think about them, first of all in 2018 and then kind of longer term is 2018 or another year where you're kind of they're investing in your territory unlike perhaps your 2016 where they were kind of doing a lot of work in the other two regions?

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

Yes. So that one, I think we do have a good visibility into like I mentioned a few minutes ago it was focused outside of our footprint toward the second half of 2015 or pretty much most to 2016 as they finished some vectoring. We did have the Greenfield award beginning of this year Q1 of 2017. We see the transitioning into the Super-Vectoring build out in 2018, which we expect comes back into our footprint and then for 2019, they are also looking at G.fast and there was – we had some news out month or so back about an award we've been given that takes actually takes bonded Super-Vectoring from the node to the distribution point and then picks up Gfast at the DPU and the building and that cares that into the dwelling in it.

So that is – that's a preliminary award that we've gotten and we expect to start building out in 2019. So we think we have good visibility really into the future for their – where they're expecting to go in their footprint. We've also talked to – for some time about the business CPU product there again that's been delayed several times from their side. But that's something that we would hope to see start shipping in 2018.

And then the last thing that I mentioned would be the TAM, which has been very quiet from our major customer there in Mexico is a dealt through some regulatory issues and so have been very, very quiet over the course of 2017 even the end of 2016. We have a number of things that were in the lab with them that are still in the lab and well positioned. So we are looking forward to their kind of resuming their spending and build out once they clear their regulatory issues.

<<Analyst, Needham &Co.>>

Just a follow-up on that. So Telmex is sort of historically a very large customer of yours, I think they went a minimal I think any revenue in 2017 and you've mentioned they're kind of on pause, I think pending some regulatory clarity. Do you have any better visibility into that as we look into 2018 or is it still kind of they're waiting on some sort of clarity on their end?

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

I think there's been some incremental clarity around the American mobile part. Couple of things have come out over, the past couple months, I think they had a – what they would consider a win from the Supreme Court striking down part of what the Congress has passed as it relates to how they like competitors access their wireless network. But I haven't really – as of now I haven't really seen anything that as clarity yet to the Telmex side of that, but hopefully that this something that's been cleared out sooner than later.

<<Analyst, Needham &Co.>>

Got it. So about a minute left any questions from the audience. Okay, any closing thoughts in terms of the prospects for 2018, and how we should think about 2018 as we head into that?

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

Yes. I think it is continue in the theme of what we talked about there still is a very large consumer demand for speed and access that we don't see that changing the way that consumers demand their entertainment and their information is they wanted anywhere, anytime and very quickly. So I think that continues to play into a positive story for ADTRAN. There's absolute debate around the timing of 5G. But we think that products is going to require a lot of termination, a lot of access and that is a positive scenario for us as well. So we – our goal and our job is to execute on those.

<<Analyst, Needham &Co.>>

Got it. Okay. Thanks very much Roger.

<<Roger D. Shannon, Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer>>

Absolutely thank you.

<<Analyst, Needham &Co.>>

Thank you.