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ADTN.OQ - Preliminary Q3 2021 ADTRAN Inc Earnings and Business Outlook Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to ADTRAN's Pre-Announcement of Financial Results for the Third Quarter of 2021 Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

During the course of the conference call, ADTRAN representatives expect to make forward-looking statements, which reflect management's best judgment based on factors currently known. However, these statements involve risks and uncertainties, including the spread and impact of the COVID-19 pandemic, the ability of component supplies to align with customer demand, the successful development and market acceptance of our products, competition in the market for such products, the product and channel mix, component costs, freight and logistics costs, manufacturing efficiencies and other risks detailed in our annual report on Form 10-K for the year-end December 31, 2020 and quarterly report on Form 10-Q for the quarter ended June 30, 2021. The risks and uncertainties could cause actual results to differ materially from those in the forward-looking statements, which may be made during the call.

It is now my pleasure to turn the call over to Tom Stanton, Chief Executive Officer of ADTRAN. Please go ahead, sir.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Thank you, Dee. Good morning, everyone. We appreciate you joining us for our prerelease announcement for select third quarter financial results. With me today is ADTRAN's CFO, Mike Foliano. Following my opening remarks, Mike and I will take any questions that you may have.

The preliminary results for the third quarter that we will discuss during this call are subject to change as management and our external auditors have not completed our normal quarterly closing and related review procedures. Final results for the third quarter will be published on November 1, followed by a call on November 2.

Let me start by saying that we are seeing unprecedented demand for our solutions. During Q3, we recorded the highest order bookings for any quarter in our history. Bookings were up 43% year-over-year with a book-to-bill ratio of 1.43 for the quarter. This increased demand has been consistent throughout the year with a book-to-bill ratio of 1.34 for the first 3 quarters of this year.

The order growth rate was well balanced across our growth areas of fiber access platforms, in-home service delivery platforms and SaaS applications. These bookings included the first large order of our new Tier 1 fiber customer in Europe and our first order for RDOF-related fiber access deployments with our Tier 1 MSO customer here in the U.S.

In addition to the strong bookings during the quarter, we secured 2 new Tier 1 fiber operator awards in Europe. Both Tier 1 customers are new customers to ADTRAN. In addition to these awards, we have several additional large fiber access opportunities that we expect to close out soon.

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The demand we see in the U.S. and Europe continue to be aided by the unprecedented funding for fiber-based broadband in these markets, along with technology upgrade cycles and high-risk vendor swap-outs. In the U.S., a portion of the $9.2 billion in broadband funding from phase 1 of the Rural Digital Opportunity Fund, has started to get distributed to the winners of this auction. In addition to RDOF, much larger investments in fiber-based broadband are expected over the next 5 years due to funding from the American Rescue Plan Act and the proposed infrastructure bill. These funds are preliminary -- primarily targeted towards regional service providers where ADTRAN is seeing tremendous growth.

In Europe, over $35 billion public funding has been pledged for expanding high-speed broadband, along with a rapidly growing base of private investments, including in the U.K. and Germany, where ADTRAN has a strong presence. In addition to increased funding, we continue to see a shift away from high-risk vendors across Europe. With ADTRAN's industry-leading fiber access portfolio, we are well positioned to serve these customers.

Looking at the preliminary Q3 financials. Revenue for the quarter is expected to be $138 million, up 4% year-over-year. This revenue level was held back due to supply chain disruptions across our industry. Non-GAAP gross margins is expected to be 34.6%, and non-GAAP operating loss is expected to be $2.6 million.

Our revenue for the quarter fell in the lower end of the guidance range that we provided during the Q2 earnings call, while the gross margins and profitability were lower than we expected. We've provided a broader guidance range for Q3 than typical due to the strength in product demand and uncertainty in component supply. As noted earlier, the demand side exceeded our expectations while the component supply and supply chain expenses worsened as we progress through the quarter.

Excluding additional supply chain constraint-related expenses in the quarter, gross margins were within our third quarter guidance range. The supply chain challenges facing our industry are multifaceted, including rising costs for semiconductors, increased expedite fees to pull-in components due to extended lead times or decommits, sourcing of components from higher third-party sources and increased freight expenses. We do expect the supply shortages and freight expenses to improve in the first half of next year.

On the inventory side, we decreased our finished goods inventory from the previous quarter while increasing our raw materials inventory as we build up supply to minimize further disruptions to our supply chain. Looking ahead, we believe these challenges are peaking during the second half of this year and begin to normalize by mid-2022. We expect the impact on ADTRAN's results to be temporary given the future supply outlook, coupled with strong demand for our products.

In summary, the demand for our solutions is at an all-time high, and we expect that demand to continue given the broadband investment tailwinds, our competitive position, the ramping of our existing customer demand and new customer awards. As you would expect, we are working closely with our customers to fulfill required demand, and we remain in good standing with all of them. In short, our long-term strategy remains unchanged, and the outlook for our business continues to grow.

Looking at the fourth quarter. We expect a similar supply environment as to that, that we saw in the third quarter. And although we expect bookings to remain robust, revenue is expected at this point to be similar to the Q3 levels. We will provide additional details and an update on our earnings call, November 2.

With that background, I would now like to open up for any questions that you may have. Dee?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Michael Genovese of WestPark Capital.

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Michael Edward Genovese - *WestPark Capital, Inc., Research Division - MD & Senior Research Analyst of Communications Equipment*

Can you hear me?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes.

Michael Edward Genovese - *WestPark Capital, Inc., Research Division - MD & Senior Research Analyst of Communications Equipment*

Okay. Perfect. Great. So first question, I mean, the book-to-bill is impressive. I guess we're used to you being more of a book-and-ship company. So it seems like there's a transition going to being more of a backlog-driven company. Can you talk about the duration of those orders? Like how many are in the next 6 months, 12 months or beyond that, roughly?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes. We do have orders that are placed out as long as 12 months. The majority of the orders are much closer than that. I'm going to give you kind of some color for that. I had mentioned last quarter on the call that we had enough in orders requested in the quarter as we had the phone call to actually meet consensus for the quarter. And being as we didn't meet consensus for the quarter, you can imagine that grew, but the booking rate actually grew substantially, too. So I'm at the same point today. I entered the fourth quarter with more than enough to meet what our expectations had been and what consensus has been for the fourth quarter. At the very beginning of the quarter, I could have actually exceed that. So we have a lot of near-term demand that we're working with customers to make sure we understand what's required and kind of what I'd like to -- have to and make sure that they're not building inventory positions, but the majority of that demand is within the first 6 months. Does that answer your question, though?

Michael Edward Genovese - *WestPark Capital, Inc., Research Division - MD & Senior Research Analyst of Communications Equipment*

Yes. Very helpful. Okay. I guess I wanted to -- if we could get any more detail on the Tier 1s. I think you said they were in Europe. Are these PTTs with country names sort of associated with them in Western Europe type of customers? Or are they different type of Tier 1?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Western Europe customers, both of them are multinational, which means that they cover multiple countries. Does that answer your question?

Michael Edward Genovese - *WestPark Capital, Inc., Research Division - MD & Senior Research Analyst of Communications Equipment*

Okay. So they wouldn't exactly be in the similar -- like the same categories as BT and DT? They're a little bit slightly different, I guess, if I try to -- if you can follow up on...

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

The market there is different because there is more kind of -- you have PTTs, Tier 1s that are within a country -- are leading in the country. And you also have carriers that may be in France and in Germany and overbuilding in Germany, and there are carriers that, for instance, cover all the Nordics. And so they're multinational. In size and scope with the spend that they have, I think they're very much consistent with what we would see with the BT or DT.

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Michael Edward Genovese - *WestPark Capital, Inc., Research Division - MD & Senior Research Analyst of Communications Equipment*

Got it. Okay. Great. Very helpful again.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

In general -- saying in general, I think one of them is that kind of scope. One of them is probably a little smaller than that.

Michael Edward Genovese - *WestPark Capital, Inc., Research Division - MD & Senior Research Analyst of Communications Equipment*

Perfect. Okay. And last question for me. I just want to dig in more on the supply constraints and sort of ask two ways if this question makes sense. But are you seeing the constraints -- you mentioned semiconductors. So it sounds like maybe it's more high end, but is it more on high-end parts or more cheap, low-end parts that are hard to get a hold of? And then as another way, do you think that these are common supply chain parts with you and your competitors? Or do you feel like these are company-specific parts where these issues are happening?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes. So everybody has their own different inventory situation. So I don't want to speak too much for competitors, but I'll tell you from our perspective. We entered the quarter with the majority of the issues being kind of those high-end semiconductors that everybody knows about. As we kind of got into the quarter, what you're talking about absolutely happened where some of the lower-end kind of glue logic chips became very scarce. And ultimately, I think that was probably the only piece that hurt us the most. And definitely, everybody is trying to get those. Expedite fees and surcharges were definitely higher than we'd ever seen before. So it's actually both. But I would say that the second portion, this glue logic stuff, this is really the first quarter where it had gotten to be so pronounced.

Operator

Your next question comes from the line of Bill Dezellem of Tieton Capital.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO & Chief Compliance Officer*

Relative to the bookings increase, bear with me as I try to get this question out, but does that actually improve your opportunity for revenues? Meaning that you can plan out better than you previously could because you have orders in hand, you know exactly what parts need to be ordered, and therefore, you can just deal with your own internal issues better that way?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Absolutely. I mean it's a bad problem to have. In light of visibility, it's a very good problem to have because, like I said, I can literally look through my backlog today. And if I could ship just a portion of my backlog, I mean, just not all my backlog, just a portion of the backlog, then I would be set from a financial perspective for Q4 fairly easily. And I would say that, that backlog is, as you can imagine -- well, you know the book-to-bill, so you kind of know what the backlog is and you know what the order rate is, which is substantially higher than anybody would have thought coming into this year. So the answer to your question is yes. But it's not so -- I mean even with that visibility, we're talking about semiconductors having on average, I think it's something as high as 70% or something like that of the semiconductors having 52-week lead times. So even though you have that visibility -- and we did jump on it early in the year. We actually started in the fourth quarter of last year. One of the problems we had is definitely demand outstripped our supply and even what our forecast were from a bookings perspective and being able to adjust like you normally do in almost any other time has just been very difficult to do. And then you have the addition of this glue logic coming in, which you typically, in

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normal times, would not even think about as being a constraint. And then you can have a lot of your inventory in place. But if you're missing 1 $0.40 chip, you have a problem. So that's the things that we're going through right now.

Michael K. Foliano - *ADTRAN, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

And Bill, on the supply side, what really compounds the problem is you've got suppliers now that although your orders have been out there for months and months, they're not willing to commit to an exact delivery date until they get within the same month that they plan to deliver. So although we've got visibility and orders are lined up, the hard part is just making sure all the commitments coincide so we can actually make the delivery.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes. It's really kind of unprecedented what we're seeing here. We literally will have orders that have been placed within the lead times of the manufacturer, and they will have been committed even. We will have gotten a receipt of the order and saying, yes, we're going to be able to ship it. And then within a month of when they're supposed to ship to us, they will decommit. Never seen that before. So it's very tough to plan when -- what you're betting on coming in is really no longer assured. That's still the minority of the products that we have, but it's definitely a problem. And it's typically your higher-end product or chips that those decommits happen on.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO & Chief Compliance Officer*

And so those decommits, is it your sense that someone else is coming in and just, frankly, creating an auction and you will pay more than anybody else so we'll take those chips instead? Or there's something actually happening on the supply front with the semiconductor manufacturer where they don't have the parts available? So if...

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

I think, I think it was in an auction, then I think that it'd be crazy for us not to participate in that auction. And we just don't see that much. There are people that are charging expedite fees and surcharges that are just making -- just -- I mean there is a supply and demand problem, and people are going to make money off of that. And there are third-party sources that are definitely trying to make money off of that. But when you really get to the real supply of the product itself and what's supposed to be coming in, you don't see that bidding kind of action happening. So my sense is, is that their ability to forecast what's coming from the fab has been substantially constrained. So they're kind of in a position of committing to things that they may not themselves have direct control over, and you'll see decommits because of that or you may see higher fallouts on a particular chip or something in there, having to make choices. But I really don't see them at the last minute saying, hey, if you pay 30% more, we'll ship it to you. I just haven't seen that happen.

William J. Dezellem - *Tieton Capital Management, LLC - President, CIO & Chief Compliance Officer*

I'm going to expose my ignorance here. But relative to the fabs, what would make their ability to predict the output from the fab any worse today than in the past?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

I think that the fabs are substantially constrained in supply. And as to why they can't nail that down on a wafer basis, I really don't know how they actually make those decisions. But I mean at the end of the day, this constrained problem is driven by fab supplies. It's not any particular chip vendor's problem. It's higher up the chain.

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Operator

(Operator Instructions)

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

With that, I don't see any additional questions. I appreciate everybody joining us on this call today. I'm sorry about the -- I guess we do have one more question from -- so go ahead, please, Dee.

Operator

Your next question comes from the line of B. Rod Hall of Goldman Sachs.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

This is Bala on for Rod. I just -- I wanted to ask a question about the price increases that you might be thinking about in terms of causing higher cost to customers, especially as you...

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Hello? I think we lost Rod.

Michael K. Foliano - *ADTRAN, Inc. - Senior VP of Finance, CFO & Corporate Secretary*

That was -- Bala, I think you cut out.

Operator

(Operator Instructions)

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Hello. Can you hear me?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Go ahead, Rod.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

This is Bala on for Rod. Can you guys hear me?

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Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes, we got you. Yes, sorry about that. Go ahead.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Question about price increases of your products in terms of passing on this higher cost to customers. I know that you are signing new customers and new projects. And I've got a follow-up.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Rod, you still there ? I think we lost you again.

Operator

Rod, please respond to the question.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I'm still here.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

So you said in terms of passing on price increases to the customer, I think that was your question.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Yes.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

So, our customers understand the supply situation. And I think there is the ability to move that pricing to customers depending on the competitive situation, of course, or kind of the -- what that customer may be buying and how impacted they are by the expedite fees. So we will utilize that capability where it exists.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Does that makes sense?

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Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

And maybe along the same -- Yes, I suppose. Maybe along the same lines, how are you thinking about prioritizing this limited supply that you got to customers? I know you've got lots of big customers. So suppose how about this -- how are you having this conversations with customers in terms of how you prioritize to different customers?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes. I think it's -- first of all, I think, they all know demand situation, which helps. I think they -- especially the larger customers are involved in discussions with some of the semiconductor manufacturers themselves, which helps, and we will get them involved where we think that, that may be beneficial. But in general, we're looking at what requirements are.

And if we look at like near-term requirements and what they have, if they're launching a service or if there's demand in a particular area, today, we've been able to manage that very successfully. And like I said, we haven't really -- we haven't lost any customers because of the supply issue. The sooner it gets over, the better, and there's no doubt that there have been constraints, and we've had to have backup plans. There are some products that we have gone through and continue to go through redesign of to make sure that those constraints are minimized. But so far, it's just been open dialogue directly with the customers and understanding what they need and what they can live with.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got it. If I may squeeze in one more. So is it Q4 revenue guidance flattish versus Q3? I know that you are heading into a seasonally weaker deployment periods in Q4 and maybe in Q1.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes, that's not -- no longer apropos. I got plenty of orders.

Bala Raghav Reddy - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

Got you. That makes sense. I suppose what I'm wondering is given that lots of decommits are happening, I suppose what gives you confidence that you'll be able to make at least flattish revenues in Q4 versus Q3?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

I mean it's -- the things that happened in Q3 -- I mean when we went into Q3, we felt good about the plan. And really, there were some kind of -- there are some supply and freight stuff that happened towards the very end of the quarter, which kind of made us not coming where we wanted to. But going through the quarter, we felt good about where we were with both supply and demand and freight. And then really in that last week, some decommits hit us. We had some power issues with one of our manufacturers in China, and we had some freight problems in the U.K. So there are just a myriad of things that kind of happened. But other than that, the plan would have been right where we expected it to be.

So I feel better that the -- actually in Shanghai, some of the supply constraints or some of the freight constraints are getting better. Some of the pricing is actually getting better, coming out of that lane. We do have more raw material coming into the quarter. That doesn't mean that we still won't be missing a chip here or there. But just in general, I think we feel better where we are in being able to make that solid. And like I said -- and we definitely have a broad backlog to pick from and products that we could ship. So we could still be surprised. We'll give you more color when we have our November call. The further we get into the quarter, of course, the better visibility we have.

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Operator

Your next question comes from the line of Paul Cowen -- Paul Silverstein of Cowen.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Tom, just some clarifications. Relative to your last response, if I heard you correctly, you said there were power issues with one of your manufacturers in China. And so I hear you reference some freight issues in the U.K. Or am I kind of missing something?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes, there were some freight issues, yes, in the U.K. There are freight issues -- at the end of the last quarter, freight was kind of very hectic. But yes, there were some freight issues. But like I said, there are myriad of different things that kind of happened at the end of the quarter or at least last quarter.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And I appreciate -- or maybe I don't appreciate the dramatic extent of the complexity in managing the supply chain. But I thought I also heard you say that you've seen some of those freight constraints improve, in particular with respect to China, and some pricing improvement. If that's the case -- and again, I understand that there are many, many variables here. But given that there's been some improvement and given the strength of your order book -- and I recognize you're still going through the numbers. But given that, why is your outlook for the fourth quarter just relatively flat with the third? If there's been some improvement at least of appreciable extent in terms of both pricing and those supply constraints given the strength of your order book, shouldn't that translate to a better outlook?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

It should. It should. But I will tell you the variability of both supply and freight on kind of -- the variability on the supply thing is a weekly, if not daily thing. The variability I'm afraid is kind of more of a weekly thing. And although it's better right now, I can't tell you as we move into November that it will necessarily be better. There are a lot of just different dynamics that are happening. When they start clearing the ports out in California, we don't know what exactly what that will do to the lanes where people have been actually holding up shipping into Long Beach in some other areas because there was no port for them to land in. And that -- once that loosens up, what will that do to that actual lane? So there's just a lot of different things that could happen. And what we're trying to do is make sure that we give you a solid number that you can understand and bank on. If it continues to improve into our November call, then we'll revise the numbers at that point.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. Just 2 additional clarifications, if I may.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Sure.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

The numbers clearly indicate, if I did the math right, you had a $10 million sequential increase in COGS on a $5 million sequential decline in revenue.

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Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Right.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

And I understand that the supply chain constraints have not improved. And it sounds like from the commentary that they worsened, but that would suggest either a dramatic worsening in supply chain, or alternatively, that you elected to pay up significantly in order to secure enough and to ship enough in order to hit the bottom end of your range. And I'm not trying to be argumentative here. I'm just trying to understand to what extent did you all elect to pay up significantly in order to obtain the bottom in that range, which dramatically adversely impacted profitability as measured by margins? To what extent was this just a function of a dramatic step up in pricing or it more of a cost effect?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes. I can tell you we did not buy material just to hit the bottom end of the range. And you can imagine that those material purchases happened kind of through the quarter. They weren't -- they didn't just happen in the last week and we said, let's try to hit the bottom end. And so that's not what happened. Without a doubt, expedite fees and third-party purchases and the cost of those third-party purchases went up dramatically in the quarter as well as freight, by the way. I mean freight was a fairly -- it was the highest we've ever paid for freight. That was not trying to hit a particular number to a large extent -- to the largest extent that was trying to make sure that we actually kept all of our customers in good standing. And that's the way we're thinking about it. I mean we've got unprecedented demand, a great customer reputation, great momentum within all of our customers. And we want to make sure that we hold that during this down period so that we can actually see all the benefits of it during normal times.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. One last clarification. Tom, quite a number of companies in networking, including yourself, focused on the carrier sector or carrier customer segment has spoken about customers providing extended well beyond the normal 90-day book-and-ship when many of you all talking about 4 to 6 quarters of visibility with an increasing number of customers trying to help you better manage your supply chain in order to be able to deliver against their requirements. From your commentary, it sounds like that's a minority of your business. It's not a meaningful portion at least. And it -- at the risk of asking a third question in terms of asking me to speak for others, what could account for the difference between what you're seeing and what others are seeing? Or am I mistaken in the way you describe your order book in terms of shipping?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

No. I would say that, that's true. I would say what's happening, though, is -- what we're seeing happen is they will give us in place -- and not all of them, but a material percentage -- a larger material percentage of our bookings are that way. So they will give us bookings that will go out 12 months. What has consistently happened through this year and definitely since the second quarter, but even in the first quarter. And in the first quarter, there were a lot of orders that were really placed kind of trying to extend their lead times and trying to reach out further. From that point on, I would say it's been a mix and probably more of pull-ins where people are trying to actually increase within lead times, even though they have placed these 12-month POs. And one of the problems is they don't understand the demand necessarily that well either. That's what they've always been better forecasting. So they'll lay in orders for projects that they know, but what has consistently happened pretty much across the board is the near-term demand has grown substantially and the bookings between their stated [lead] orders and now have gone up substantially, and that's happened every single quarter. So what that does is it gives you a large chunk that's out there for 12 months, but then you have even a large chunk that's coming in every month for basically ship it to me as soon as you can. So it's filled in that front end even more so than what those long-term orders are.

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Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. One final clarification. The 2 new wins, were those also Huawei displacement opportunities?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes. One of them is -- yes. Well, in both cases, it's Huawei displacing as an ongoing -- let me be careful how I say this. And those opportunities, I think that yes, there'll be 2 vendors and my sense will be that there will not be Eastern vendors, but I don't want to speak for the customer. And in one case, my sense would be that there'd be replacement as well for existing infrastructure. That's (inaudible)

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Huawei is one of 2 -- at least has been to date one of 2 vendors that each for broadband access to each of those 2 companies.

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes.

Paul Jonas Silverstein - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Okay. And you commented in the past that pricing for these non-U.S. deals are actually better because Huawei is being eliminated from consideration. Was that true here as well?

Thomas R. Stanton - *ADTRAN, Inc. - Chairman & CEO*

Yes, that remains a consistent theme. All right. With that, I see we're out of calls. I appreciate everybody for joining us today and look forward to talking to you in November.

Operator

Thank you. This concludes today's conference call. You may now disconnect.

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