



NEWS RELEASE

## ADTRAN, Inc. Reports Results for the Third Quarter 2016 and Declares Quarterly Cash Dividend

2016-10-18

HUNTSVILLE, Ala.--(BUSINESS WIRE)--Oct. 18, 2016-- ADTRAN, Inc. (NASDAQ:ADTN) reported results for the third quarter 2016. For the quarter, sales were \$168,890,000 compared to \$158,078,000 for the third quarter of 2015. Net income was \$12,415,000 compared to \$7,067,000 for the third quarter of 2015. Earnings per share, assuming dilution, were \$0.26 compared to \$0.14 for the third quarter of 2015. Non-GAAP earnings per share were \$0.26 compared to \$0.19 for the third quarter of 2015. The reconciliation between GAAP earnings per share, diluted, and non-GAAP earnings per share, diluted, is in the table provided.

ADTRAN Chief Executive Officer Tom Stanton stated, "Our revenue performance for the quarter exceeded expectations with total revenue increasing 7% over the same period last year. I am particularly pleased to see our international business grow 42 percent over the previous quarter and 7 percent year-over-year, driven by stronger broadband access sales in Europe. I am also pleased with the continued growth in our services business which increased 35 percent over the previous quarter and grew 63 percent year-over-year as we execute on our leading market position in CAF II and vectoring solutions and services. We continue to believe that ADTRAN's ability to help service providers grow revenue, reduce costs, accelerate buildout and transition to a software-defined access network is proving to be a catalyst for change within the industry."

The Company also announced that its Board of Directors declared a cash dividend for the third quarter of 2016. The quarterly cash dividend is \$0.09 per common share to be paid to holders of record at the close of business on November 3, 2016. The ex-dividend date is November 1, 2016, and the payment date is November 17, 2016.

The Company confirmed that its third quarter conference call will be held Wednesday, October 19, 2016, at 9:30

a.m. Central Time. This conference call will be web cast live through StreetEvents.com. To listen, simply visit the Investor Relations site at [www.adtran.com](http://www.adtran.com) or [www.streetevents.com](http://www.streetevents.com) approximately 10 minutes prior to the start of the call and click on the conference call link provided.

An online replay of the conference call will be available for seven days at [www.streetevents.com](http://www.streetevents.com). In addition, an online replay of the conference call, as well as the text of the Company's earnings release, will be available on the Investor Relations site at [www.adtran.com](http://www.adtran.com) for at least 12 months following the call.

ADTRAN, Inc. is a leading global provider of networking and communications equipment. ADTRAN's products enable voice, data, video and Internet communications across a variety of network infrastructures. ADTRAN solutions are currently in use by service providers, private enterprises, government organizations, and millions of individual users worldwide. For more information, please visit [www.adtran.com](http://www.adtran.com).

For more information, contact the company at 800 9ADTRAN (800 923-8726) or via email at [info@adtran.com](mailto:info@adtran.com). On the Web, visit [www.adtran.com](http://www.adtran.com).

This press release contains forward-looking statements which reflect management's best judgment based on factors currently known. However, these statements involve risks and uncertainties, including the successful development and market acceptance of new products, the degree of competition in the market for such products, the product and channel mix, component costs, manufacturing efficiencies, and other risks detailed in our annual report on Form 10-K for the year ended December 31, 2015. These risks and uncertainties could cause actual results to differ materially from those in the forward-looking statements included in this press release.

## Condensed Consolidated Balance Sheet

(Unaudited)

(In thousands)

	September 30, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	\$ 66,292	\$ 84,550
Short-term investments	55,516	34,396
Accounts receivable, net	101,822	71,917
Other receivables	12,159	19,321
Income tax receivable, net	540	-
Inventory	96,034	91,533
Prepaid expenses and other current assets	14,477	10,145
Deferred tax assets, net	17,963	18,924
<b>Total Current Assets</b>	<b>364,803</b>	<b>330,786</b>

Property, plant and equipment, net	78,078	73,233
Deferred tax assets, net	17,263	18,091
Goodwill	3,492	3,492
Other assets	13,548	9,276
Long-term investments	178,379	198,026
<b>Total Assets</b>	<b>\$ 655,563</b>	<b>\$ 632,904</b>
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 67,399	\$ 48,668
Unearned revenue	15,744	16,615
Accrued expenses	16,010	12,108
Accrued wages and benefits	16,468	12,857
Income tax payable, net	-	2,395
<b>Total Current Liabilities</b>	<b>115,621</b>	<b>92,643</b>
Non-current unearned revenue	7,105	7,965
Other non-current liabilities	26,740	24,236
Bonds payable	27,900	27,900
<b>Total Liabilities</b>	<b>177,366</b>	<b>152,744</b>
<b>Stockholders' Equity</b>	<b>478,197</b>	<b>480,160</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 655,563</b>	<b>\$ 632,904</b>

## Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
<b>Sales</b>				
Products	\$ 136,277	\$ 138,120	\$ 398,709	\$ 411,723
Services	32,613	19,958	75,086	49,328
<b>Total Sales</b>	<b>168,890</b>	<b>158,078</b>	<b>473,795</b>	<b>461,051</b>
<b>Cost of Sales</b>				
Products	70,988	75,969	202,905	231,739
Services	22,094	11,460	50,333	24,854
<b>Total Cost of Sales</b>	<b>93,082</b>	<b>87,429</b>	<b>253,238</b>	<b>256,593</b>
<b>Gross Profit</b>	<b>75,808</b>	<b>70,649</b>	<b>220,557</b>	<b>204,458</b>
Selling, general and administrative expenses	33,716	30,016	97,367	93,203
Research and development expenses	31,962	32,561	92,727	100,576
<b>Operating Income</b>	<b>10,130</b>	<b>8,072</b>	<b>30,463</b>	<b>10,679</b>
Interest and dividend income	910	839	2,692	2,680
Interest expense	(143)	(151)	(430)	(448)
Net realized investment gain	1,316	2,060	4,154	8,430
Other income (expense), net	(246)	52	(378)	(848)
Gain on bargain purchase of a business	3,550	-	3,550	-
<b>Income before provision for income taxes</b>	<b>15,517</b>	<b>10,872</b>	<b>40,051</b>	<b>20,493</b>
Provision for income taxes	(3,102)	(3,805)	(12,394)	(7,565)
<b>Net Income</b>	<b>\$ 12,415</b>	<b>\$ 7,067</b>	<b>\$ 27,657</b>	<b>\$ 12,928</b>

Weighted average shares outstanding - basic	48,470	49,862	48,839	51,682
Weighted average shares outstanding - diluted <sup>(1)</sup>	48,678	49,927	49,036	51,792
Earnings per common share - basic	\$ 0.26	\$ 0.14	\$ 0.57	\$ 0.25
Earnings per common share - diluted <sup>(1)</sup>	\$ 0.26	\$ 0.14	\$ 0.56	\$ 0.25

<sup>(1)</sup> Assumes exercise of dilutive stock options calculated under the treasury stock method.

## Consolidated Statements of Comprehensive Income

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net Income	\$ 12,415	\$ 7,067	\$ 27,657	\$ 12,928
Other Comprehensive Income (Loss), net of tax:				
Unrealized gains (losses) on available-for-sale securities	258	(4,291)	(162)	(6,577)
Defined benefit plan adjustments	36	71	103	211
Foreign currency translation	575	(1,351)	1,202	(3,797)
Other Comprehensive Income (Loss), net of tax	869	(5,571)	1,143	(10,163)
Comprehensive Income, net of tax	\$ 13,284	\$ 1,496	\$ 28,800	\$ 2,765

## Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 27,657	\$ 12,928
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,260	10,765
Amortization of net premium on available-for-sale investments	489	2,085
Net realized gain on long-term investments	(4,154)	(8,430)
Net loss on disposal of property, plant and equipment	21	189
Gain on bargain purchase of a business	(3,550)	-
Stock-based compensation expense	4,601	4,788
Deferred income taxes	(447)	(2,332)
Tax impact from stock option exercises	(16)	(40)
Excess tax benefits from stock-based compensation arrangements	-	(3)
Change in operating assets and liabilities:		

Accounts receivable, net	(29,370)	)	843	)
Other receivables	7,475	)	10,532	)
Inventory	(683)	)	(14,945)	)
Prepaid expenses and other assets	(5,180)	)	(1,665)	)
Accounts payable	16,363	)	13,687	)
Accrued expenses and other liabilities	7,307	)	(3,996)	)
Income tax payable/receivable, net	(2,941)	)	(1,137)	)
Net cash provided by operating activities	27,832	)	23,269	)
Cash flows from investing activities:				
Purchases of property, plant and equipment	(12,684)	)	(7,843)	)
Proceeds from disposals of property, plant and equipment	-	)	122	)
Proceeds from sales and maturities of available-for-sale investments	141,103	)	189,728	)
Purchases of available-for-sale investments	(139,181)	)	(113,227)	)
Acquisition of business	(943)	)	-	)
Net cash provided by (used in) investing activities	(11,705)	)	68,780	)
Cash flows from financing activities:				
Proceeds from stock option exercises	1,076	)	907	)
Purchases of treasury stock	(22,917)	)	(65,808)	)
Dividend payments	(13,230)	)	(13,989)	)
Excess tax benefits from stock-based compensation arrangements	-	)	3	)
Net cash used in financing activities	(35,071)	)	(78,887)	)
Net increase (decrease) in cash and cash equivalents	(18,944)	)	13,162	)
Effect of exchange rate changes	686	)	(2,914)	)
Cash and cash equivalents, beginning of period	84,550	)	73,439	)
Cash and cash equivalents, end of period	\$ 66,292	)	\$ 83,687	)
Supplemental disclosure of non-cash investing activities				
Purchases of property, plant and equipment included in accounts payable	\$ 1,174	)	\$ 1,303	)

## Supplemental Information

### Restructuring Expenses

(Unaudited)

(In thousands)

Restructuring expenses were recorded in the following Consolidated Statements of Income categories for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Restructuring expense included in cost of sales	\$ 1,307	\$ 9	\$ 1,307	\$ 107
Selling, general and administrative expense	637	194	637	838
Research and development expense	-	712	-	2,095
Restructuring expense included in operating expenses	637	906	637	2,933
Total restructuring expense	1,944	915	1,944	3,040
Provision for income taxes	(603)	(357)	(603)	(1,186)
Total restructuring expense, net of tax	\$ 1,341	\$ 558	\$ 1,341	\$ 1,854

## Supplemental Information

### Acquisition Related Expenses, Amortizations and Adjustments

(Unaudited)

(In thousands)

On August 4, 2011, we closed on the acquisition of Bluesocket, Inc., on May 4, 2012, we closed on the acquisition of the Nokia Siemens Networks Broadband Access business (NSN BBA), and on September 13, 2016, we closed on the acquisition of CommScope's active fiber business (CommScope). Acquisition related expenses, amortizations and adjustments for the three and nine months ended September 30, 2016 and 2015 for all three transactions are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Bluesocket, Inc. acquisition				
Amortization of acquired intangible assets	\$ 158	\$ 191	\$ 504	\$ 643
NSN BBA acquisition				
Amortization of acquired intangible assets	225	231	680	701
Amortization of other purchase accounting adjustments	114	101	194	395
Acquisition related professional fees, travel and other expenses	-	20	-	61
Subtotal NSN BBA acquisition	339	352	874	1,157
CommScope acquisition				
Amortization of acquired intangible assets	112	-	112	-
Amortization of other purchase accounting adjustments	84	-	84	-
Acquisition related professional fees, travel and other expenses	45	-	45	-
Subtotal CommScope acquisition	241	-	241	-
Total acquisition related expenses, amortizations and adjustments	738	543	1,619	1,800
Provision for income taxes	(261 )	(183 )	(562 )	(609 )
Total acquisition related expenses, amortizations and adjustments, net of tax	\$ 477	\$ 360	\$ 1,057	\$ 1,191

The acquisition related expenses, amortizations and adjustments above were recorded in the following Consolidated Statements of Income categories for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Revenue (adjustments to deferred revenue recognized in the period)	\$ -	\$ 65	\$ -	\$ 196
Cost of goods sold	169	7	189	52
Subtotal	169	72	189	248
Selling, general and administrative expenses	54	23	61	74
Research and development expenses	515	448	1,369	1,478
Subtotal	569	471	1,430	1,552
Total acquisition related expenses, amortizations and adjustments	738	543	1,619	1,800
Provision for income taxes	(261 )	(183 )	(562 )	(609 )
Total acquisition related expenses, amortizations and adjustments, net of tax	\$ 477	\$ 360	\$ 1,057	\$ 1,191

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Supplemental Information

Stock-based Compensation Expense

(Unaudited)

(In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock-based compensation expense included in cost of sales	\$ 88	\$ 59	\$ 282	\$ 202
Selling, general and administrative expense	765	812	2,322	2,226
Research and development expense	639	803	1,997	2,360
Stock-based compensation expense included in operating expenses	1,404	1,615	4,319	4,586
Total stock-based compensation expense	1,492	1,674	4,601	4,788
Tax benefit for expense associated with non-qualified options	(218 )	(218 )	(643 )	(620 )
Total stock-based compensation expense, net of tax	\$ 1,274	\$ 1,456	\$ 3,958	\$ 4,168

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Reconciliation of GAAP net income per share, diluted, to

Non-GAAP net income per share, diluted

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
GAAP earnings per common share – diluted	\$ 0.26	\$ 0.14	\$ 0.56	\$ 0.25
Restructuring expense	0.03	0.01	0.03	0.04
Acquisition related expenses, amortizations and adjustments	0.01	0.01	0.02	0.02
Stock-based compensation expense	0.03	0.03	0.08	0.08
Gain on bargain purchase of a business	(0.07 )	-	(0.07 )	-
Non-GAAP earnings per common share – diluted	\$ 0.26	\$ 0.19	\$ 0.62	\$ 0.39

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