

## Market for the Registrant's Common Stock and Related Stockholder Matters

ADTRAN's Common Stock is traded on the NASDAQ National Market (NASDAQ) under the symbol "ADTN". As of January 31, 2001, ADTRAN had 422 shareholders of record and approximately 10,740 beneficial owners of shares held in street name. The following table shows the high and low sale prices for the Common Stock as reported by NASDAQ for the periods indicated:

### COMMON STOCK PRICES

(In \$)		
<b>2000 Quarters</b>	<b>High</b>	<b>Low</b>
First	\$80-1/2	\$49-1/16
Second	\$73	\$44-3/8
Third	\$73-1/4	\$41-1/8
Fourth	\$48-3/16	\$16-9/16
<b>1999 Quarters</b>	<b>High</b>	<b>Low</b>
First	\$25-1/2	\$15-3/4
Second	\$36-7/8	\$16
Third	\$42-11/16	\$33-3/8
Fourth	\$55-1/2	\$33-3/8

ADTRAN has operated with a policy of retaining earnings, presently intends to retain all future earnings for use in the development of our business, and we do not anticipate paying any cash dividends in the foreseeable future.

The following selected financial data concerning ADTRAN for and as of the end of each of the years in the five-year period ended December 31, 2000, are derived from the financial statements of ADTRAN, which have been audited by PricewaterhouseCoopers LLP, independent accountants. The selected financial data are qualified in their entirety by the more detailed information and financial statements, including the notes thereto. The financial statements of ADTRAN as of December 31, 2000 and 1999, and for each of the years in the three-year period ended December 31, 2000, and the report of PricewaterhouseCoopers LLP thereon, are included elsewhere in this report.

## Selected Financial Data

### INCOME STATEMENT DATA

(In thousands, except per share data)

Year Ended December 31	2000	1999	1998	1997	1996
Sales					
CN (Carrier Networks Division)	\$315,228	\$230,967	\$167,500	\$171,838	\$171,902
EN (Enterprise Networks Division)	147,721	136,240	119,059	93,497	78,219
<b>Total sales</b>	<b>462,949</b>	<b>367,207</b>	<b>286,559</b>	<b>265,335</b>	<b>250,121</b>
Cost of sales	233,430	178,629	130,010	130,254	129,953
<b>Gross profit</b>	<b>229,519</b>	<b>188,578</b>	<b>156,549</b>	<b>135,081</b>	<b>120,168</b>
Selling, general and administrative expenses	87,116	71,735	62,061	44,973	34,308
Research and development expenses	50,628	42,018	37,222	30,055	24,648
<b>Operating income</b>	<b>91,775</b>	<b>74,825</b>	<b>57,266</b>	<b>60,053</b>	<b>61,212</b>
Interest income	9,025	5,350	5,824	4,175	2,543
Interest expense	(1,802)	(2,312)	(2,287)	(1,839)	(895)
Other income (expense)	(4)	(673)	(188)	438	642
Net realized investment gains	84,040				
<b>Income before income taxes</b>	<b>183,034</b>	<b>77,190</b>	<b>60,615</b>	<b>62,827</b>	<b>63,502</b>
Provision for income taxes	62,231	26,244	20,306	22,618	23,682
<b>Net income</b>	<b>\$120,803</b>	<b>\$50,946</b>	<b>\$40,309</b>	<b>\$40,209</b>	<b>\$39,820</b>
Earnings per common share-basic	\$3.13	\$1.33	\$1.03	\$1.03	\$1.03
Earnings per common share assuming dilution (1)	\$3.04	\$1.31	\$1.03	\$1.02	\$1.01
Weighted average shares outstanding	38,647	38,335	38,982	39,202	39,566
Weighted average shares outstanding assuming dilution (1)	39,704	38,831	39,164	39,565	39,549

### BALANCE SHEET DATA

(In thousands, except per share data)

Year Ended December 31	2000	1999	1998	1997	1996
Working capital	\$257,636	\$181,147	\$150,535	\$149,184	\$140,510
Total assets	546,336	556,296	301,711	282,401	210,207
Total debt	50,000	50,000	50,000	50,000	20,000
Stockholders' equity	434,425	400,052	231,389	212,037	172,879

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.

See Notes 1 and 12 of Notes to Financial Statements.

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## Overview

ADTRAN, Inc. ("ADTRAN") designs, develops, manufactures, markets and services a broad range of high-speed digital transmission products utilized by providers of telecommunications services (served by ADTRAN's Carrier Networks Division or CN) and corporate end-users (served by ADTRAN's Enterprise Networks Division or EN) to implement advanced digital data services over existing telephone networks. We currently sell our products to a large number of carriers, including all Regional Bell Operating Companies ("RBOCs"), and to private and public enterprises worldwide.

ADTRAN's sales have increased each year due primarily to increases in the number of units sold to both new and existing customers. These annual sales increases reflect our strategy of increasing unit volume and market share through the introduction of succeeding generations of products having lower selling prices and increased functionality as compared both to the prior generation of a product and to the products of competitors. An important part of ADTRAN's strategy is to engineer the reduction of the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. As a part of this strategy, we seek in most instances to be a low-cost, high-quality provider of products in our markets. ADTRAN's success to date is attributable in large measure to our ability to design our products initially with a view to their subsequent re-design, allowing both increased functionality and reduced manufacturing costs in each succeeding product generation. This strategy enables ADTRAN to sell succeeding generations of products to existing customers while increasing our market share by selling these enhanced products to new customers.

While ADTRAN has experienced increased sales in each year, our operating results have fluctuated on a quarterly basis in the past, and operating results may vary significantly in future periods due to a number of factors. We operate with very little order backlog. A substantial majority of our sales in each quarter results from orders booked in that quarter and firm purchase orders released in that quarter by customers under agreements containing non-binding purchase commitments. Furthermore, a majority of customers typically require prompt delivery of products. This results in a limited backlog of orders for these products and requires us to maintain sufficient inventory levels to satisfy anticipated customer demand. If near-term demand for ADTRAN's products declines, or if potential sales in any quarter do not occur as anticipated, our financial results may be adversely affected. Operating expenses are relatively fixed in the short term; therefore, a shortfall in quarterly revenues could impact ADTRAN's financial results significantly in a given quarter. Further, maintaining sufficient inventory levels to assure prompt delivery of our products increases the amount of inventory which may become obsolete and increases the risk that the obsolescence of such inventory may have an adverse effect on our business and operating results.

ADTRAN's operating results may also fluctuate as a result of a number of other factors, including increased competition, customer order patterns, changes in product mix, product warranty returns and announcements of new products by ADTRAN or our competitors. Accordingly, ADTRAN's historical financial performance is not necessarily a meaningful indicator of future results, and, in general, management expects that ADTRAN's financial results may vary from period to period. See Note 13 of Notes to Financial Statements.

This 2000 Annual Report contains "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which represent ADTRAN's expectations or beliefs, including, but not limited to, statements concerning (i) the business and financial outlook, (ii) our business, financial condition or results of operations, and (iii) our business strategy. When used in this 2000 Annual Report, the words "believe," "anticipate," "think," "intend," "will be," and similar expressions identify forward-looking statements. Such statements are subject to certain risks and uncertainties which could cause actual results to differ materially from those projected. Readers are cautioned not to place undue reliance on these forward-looking statements which speak only as of the date hereof. Readers are also urged to carefully review and consider the various disclosures, including, but not limited to, the dis-

closures described under the captions “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “2000 Compared to 1999,” and “Liquidity and Capital Resources,” and those discussed in ADTRAN’s filings with the Securities and Exchange Commission, as well as the general economic conditions and industry trends which could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements.

## Results of Operations

The following table presents selected financial information derived from ADTRAN’s statements of income expressed as a percentage of sales for the years indicated.

### SELECTED FINANCIAL DATA

(Stated as % of sales)

Year Ended December 31	2000	1999	1998
Sales			
CN (Carrier Networks Division)	68.1%	62.9%	58.5%
EN (Enterprise Networks Division)	31.9	37.1	41.5
<b>Total sales</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Cost of sales	50.4	48.7	45.4
<b>Gross profit</b>	<b>49.6</b>	<b>51.3</b>	<b>54.6</b>
Selling, general and administrative expenses	18.8	19.5	21.7
Research and development expenses	10.9	11.4	13.0
<b>Operating income</b>	<b>19.9</b>	<b>20.4</b>	<b>19.9</b>
Interest income	1.9	1.5	2.0
Interest expense	(0.4)	(0.6)	(0.8)
Other income (expense)	0.0	(0.2)	0.1
Net realized investment gains	18.1	0.0	0.0
<b>Income before income taxes</b>	<b>39.5</b>	<b>21.0</b>	<b>21.2</b>
Provision for income taxes	13.4	7.1	7.1
<b>Net income</b>	<b>26.1%</b>	<b>13.9%</b>	<b>14.1%</b>

### 2000 Compared to 1999

#### Sales

ADTRAN’s sales increased 26.1% from \$367,207,000 in 1999 to \$462,949,000 in 2000. Sales for the CN division increased 36.4% from \$230,967,000 in 1999 to \$315,228,000 in 2000. CN sales, as a percentage of total sales, increased from 62.9% in 1999 to 68.1% in 2000. Sales of EN products increased 8.4% from \$136,240,000 in 1999 to \$147,721,000 in 2000. As a percentage of total sales, EN sales decreased from 37.1% in 1999 to 31.9% in 2000. In general, the increased sales resulted from increased sales volume to existing customers and from increased market penetration. The primary factors contributing to the increase in sales in 2000 were (i) additional market penetration for our HDSL products, (ii) continuing growth in demand for T1 products, (iii) continuing growth in sales of the ATLAS integrated access device, and (iv) the introduction of the Total Access™ product line (primarily directed to the CLEC market).

**Cost of Sales**

Cost of sales increased from \$178,629,000 in 1999 to \$233,430,000 in 2000. As a percentage of sales, cost of sales increased from 48.7% in 1999 to 50.4% in 2000. This increase was due primarily to a rise in material cost as a percentage of sales. CN cost of sales increased from \$122,158,000 in 1999 to \$168,342,000 in 2000. CN cost of sales as a percentage of CN sales increased from 52.9% in 1999 to 53.4% in 2000. EN cost of sales increased from \$56,472,000 in 1999 to \$65,058,000 in 2000. As a percentage of EN sales, EN cost of sales increased from 41.5% in 1999 to 44.1% in 2000. An important part of ADTRAN's 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 strategy sometimes results in variations in ADTRAN's gross profit margin due to timing differences between the lowering of product selling prices and the realization of cost reductions. In view of the rapid pace of new product introductions by ADTRAN, this strategy may result in variations in gross profit margins that, for any particular financial period, can be difficult to predict.

**Selling, General and Administrative Expenses**

Selling, general and administrative expenses increased 21.4% from \$71,735,000 in 1999 to \$87,116,000 in 2000. The net increase was due to expanding infrastructure on both sales and support personnel. However, as a percentage of sales, selling, general and administrative expenses decreased from 19.5% in 1999 to 18.8% in 2000. The decrease is due primarily to operating efficiencies, realized as a result of a larger sales base.

**Research and Development Expenses**

Research and development expenses increased 20.5% from \$42,018,000 in 1999 to \$50,628,000 in 2000. This increase was due to increased engineering costs associated with new product introductions and feature enhancement activities. As a percentage of sales, research and development expenses decreased from 11.4% in 1999 to 10.9% in 2000. ADTRAN continually evaluates new product opportunities and engages in intensive research and product development efforts. To date, ADTRAN has expensed all product research and development costs as incurred. Additionally, ADTRAN frequently invests heavily in up-front market development efforts prior to the actual commencement of sales of a major new product. As a result, ADTRAN may incur significant research and development expenses and selling, general and administrative expenses prior to the receipt of revenues from a major new product group. ADTRAN is presently incurring both research and development expenses and selling, general and administrative expenses in connection with its new products and its expansion into international markets.

**Interest Expense**

Interest expense decreased 22.0% from \$2,312,000 in 1999 to \$1,802,000 in 2000. ADTRAN currently pays interest on a \$50,000,000 revenue bond, the proceeds of which were used to expand our facilities in Huntsville, Alabama.

**Net Realized Investment Gains**

During July 2000, ADTRAN sold certain marketable equity securities (included in long-term investments in the accompanying condensed balance sheet) for \$91,900,000, net of transaction costs of \$4,706,000, resulting in a realized gain of \$85,368,000.

**Net Income**

As a result of the above factors, income before realized investment gains (net of income taxes) increased 28.2% from \$50,946,000 in 1999 to \$65,336,000 in 2000. As a percentage of sales, income before realized investment gains (net of income taxes) increased from 13.9% in 1999 to 14.1% in 2000. Net income increased from \$50,946,000 in 1999 to \$120,802,000 in 2000.

## 1999 Compared to 1998

### Sales

ADTRAN's sales increased 28.1% from \$286,559,000 in 1998 to \$367,207,000 in 1999. The increased sales resulted from increased sales volume to existing customers and from increased market penetration. Sales for the CN division increased 37.9% from \$167,500,000 in 1998 to \$230,967,000 in 1999. CN sales as a percentage of total sales increased from 58.5% in 1998 to 62.9% in 1999. Sales of EN products increased 14.4% from \$119,059,000 in 1998 to \$136,240,000 in 1999. As a percentage of total sales, EN sales decreased from 41.5% in 1998 to 37.1% in 1999. The primary factors leading to the increase in sales in 1999 were (i) additional market penetration for our HDSL products, (ii) continuing growth in demand for T1 products, (iii) continuing growth in sales of the ATLAS integrated access device, and (iv) the introduction of the Total Access™ product line (primarily directed to the CLEC market).

### Cost of Sales

Cost of sales increased from \$130,010,000 in 1998 to \$178,629,000 in 1999. As a percentage of sales, cost of sales increased only from 45.4% in 1998 to 48.7% in 1999. This increase was due primarily to a rise in material cost as a percentage of sales. CN cost of sales increased from \$75,926,000 in 1998 to \$122,157,000 in 1999. CN cost of sales as a percentage of CN sales increased from 45.3% in 1998 to 52.9% in 1999. This increase resulted from an increase in the importance of sales of HDSL products which, for a portion of 1999, were at a lower margin due to a delay in the transition from one generation of HDSL products to the succeeding generation. EN cost of sales increased from \$54,084,000 in 1998 to \$56,472,000 in 1999. As a percentage of EN sales, EN cost of sales decreased from 45.4% in 1998 to 41.5% in 1999. An important part of ADTRAN's 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 strategy sometimes results in variations in ADTRAN's gross profit margin due to timing differences between the lowering of product selling prices and the realization of cost reductions. In view of the rapid pace of new product introductions by ADTRAN, this strategy may result in variations in gross profit margins that, for any particular financial period, can be difficult to predict.

### Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 15.6% from \$62,061,000 in 1998 to \$71,735,000 in 1999. Beginning in the first quarter of 1997, ADTRAN embarked on a program of expanding infrastructure in both sales and support personnel for our expanded customer base and for increased initiatives in the EN and international markets, as well as for the introduction and marketing of more technically enhanced products. This expansion program continued throughout 1997 and through the third quarter of 1998, at which point ADTRAN determined that it had developed the sales and support capacity necessary to service our expanded revenue base. As a result, sales, general and administrative expense increased as a percentage of sales in 1998 compared to 1997 and decreased as a percentage of sales in 1999 compared to 1998. As a percentage of sales, selling, general and administrative expenses decreased from 21.7% in 1998 to 19.5% in 1999 because of operating efficiencies due to the larger sales base.

### Research and Development Expenses

Research and development expenses increased 12.9% from \$37,222,000 in 1998 to \$42,018,000 in 1999. This increase was due to increased engineering costs associated with new product introductions and feature enhancement activities. As a percentage of sales, research and development expenses decreased from 13.0% in 1998 to 11.4% in 1999. ADTRAN continually evaluates new product opportunities and engages in intensive research and product development efforts. To date, ADTRAN has expensed all product research and development costs as incurred. Additionally, ADTRAN frequently invests heavily in up-front market development efforts prior to the actual commencement of sales of a major new product. As a result, ADTRAN may incur significant research and development expenses and selling, general and administrative expenses prior to the receipt of revenues from a major new product group. ADTRAN is presently incurring both research and development expenses and selling, general and administrative expenses in connection with its new products and its expansion into international markets.

### **Interest Expense**

Interest expense increased 1.1% from \$2,287,000 in 1998 to \$2,312,000 in 1999. ADTRAN pays interest on a \$50,000,000 revenue bond, the proceeds of which were used to expand our facilities in Huntsville, Alabama.

### **Net Income**

As a result of the above factors, net income increased by 26.4% from \$40,309,000 in 1998 to \$50,946,000 in 1999. As a percentage of sales, net income decreased from 14.1% in 1998 to 13.9% in 1999.

### **Liquidity and Capital Resources**

ADTRAN committed to spend approximately an additional \$1,500,000 for finalizing the construction of Phase IV of our corporate headquarters in Huntsville, Alabama, which was completed in October 2000. Over the next several years, we expect to spend approximately an additional \$35,000,000 to equip Phase IV. Fifty million dollars of ADTRAN's Phase III expansion was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the "Authority"). The incentive program enables participating companies to generate Alabama corporate income tax credits that can be used to reduce the amount of Alabama corporate income taxes that would otherwise be payable. There can be no assurance that the State of Alabama will continue to make these corporate income tax credits available in the future, and therefore, ADTRAN may not realize the full benefit of these incentives. Through December 31, 2000, the Authority had issued \$50,000,000 of its taxable revenue bonds pursuant to the incentive program and loaned the proceeds from the sale of the bonds to ADTRAN. We are required to make payments to the Authority in amounts necessary to pay the principal of and interest on the Authority's Taxable Revenue Bond, Series 1995, as amended, currently outstanding in the aggregate principal amount of \$50,000,000. The bond matures on January 1, 2020, and bears interest at the rate of 45 basis points over the money market rate of First Union National Bank of Tennessee.

ADTRAN's working capital position improved from \$181,147,000 as of December 31, 1999 to \$257,636,000 as of December 31, 2000 due to cash generated from operations and the sale of certain marketable equity securities, as discussed below. ADTRAN has used, and expects to continue to use, the cash generated from operations for working capital and other general corporate purposes, including (i) product development activities to enhance its existing products and develop new products and (ii) the expansion of sales and marketing activities. Inventory increased 52.3% from December 31, 1999 to December 31, 2000. The increase is attributable to two factors: (i) our expectations of increased shipments to existing customers and (ii) increasing quantities of certain commodities in anticipation of market wide allocations. Accounts receivables increased 36.8% from December 31, 1999 to December 31, 2000. The increase is a result of our continued sales growth and extended payment terms for some of our major customers. Other receivables have increased due to the sale of raw materials to our subcontractors.

On March 31, 1997, the Board of Directors authorized ADTRAN to re-purchase up to 1,000,000 shares of our outstanding common stock. In October 1998, the Board approved the re-purchase of an additional 2,000,000 shares. As of December 31, 2000, we had re-purchased 1,121,417 shares of our common stock at a total cost of \$23,612,000.

Capital expenditures totaling \$32,540,000, \$36,237,000, and \$23,096,000 in 2000, 1999 and 1998, respectively, were used to expand our headquarters and to purchase equipment.

At December 31, 2000, ADTRAN's cash on hand of \$27,971,000, short-term investments of \$60,286,000 placed our potential cash availability at \$88,257,000.

We intend to finance our operations in the future with cash flow from operations and remaining borrowed taxable revenue bond proceeds. We believe these available sources of funds to be adequate to meet our operating and capital needs for the foreseeable future.

## Management's Responsibility for Financial Reporting

The accompanying financial statements and related notes of ADTRAN, Inc. were prepared by management, which has the primary responsibility for the integrity of the financial information therein. The statements were prepared in conformity with accounting principles generally accepted in the United States of America, appropriate in the circumstances and include amounts which necessarily are based on management's judgment. Financial information presented elsewhere in this report is consistent with that in the financial statements.

Management maintains a comprehensive system of internal accounting controls and relies on the system to discharge its responsibility for the integrity of the financial statements. This system provides reasonable assurance that corporate assets are safeguarded, and that transactions are recorded in such a manner as to permit the preparation of reliable financial information. Reasonable assurance recognizes that the cost of a system of internal accounting controls should not exceed the related benefits. This system of internal accounting controls is augmented by written policies and procedures and the careful selection and training of qualified personnel. As of December 31, 2000, management was aware of no material weaknesses in the ADTRAN system of internal accounting controls.

The financial statements have been audited by ADTRAN's independent certified public accountants, whose opinion is expressed on the following page. Their audit was conducted in accordance with auditing standards generally accepted in the United States of America, and as such, they obtained an understanding of ADTRAN's systems of internal accounting controls and conducted such tests and related procedures as they deemed necessary to arrive at an opinion on the fairness of presentation of the financial statements.



Mark C. Smith  
Chairman and CEO



John R. Cooper  
Vice President and CFO

## Report of Independent Accountants

To the Board of Directors and Stockholders of ADTRAN, Inc.

In our opinion, the accompanying balance sheets and the related statements of income, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of ADTRAN, Inc. at December 31, 2000 and 1999, and the results of its operations and its cash flows for each of the three years in the period ending December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

PricewaterhouseCoopers LLP  
Birmingham, Alabama  
January 25, 2001

## Financial Statements

### BALANCE SHEETS

At December 31	2000	1999
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$27,971,313	\$ 37,522,337
Short-term investments	60,286,332	41,080,776
Accounts receivable, less allowance for doubtful accounts of \$813,003 and \$1,018,400 in 2000 and 1999, respectively	82,133,831	60,036,876
Other receivables	35,862,774	4,436,862
Inventory	89,252,729	58,568,773
Prepaid expenses	4,032,438	1,410,286
Deferred income taxes	4,505,008	4,069,937
<b>Total current assets</b>	<b>304,044,425</b>	<b>207,125,847</b>
Property, plant and equipment, net	123,713,176	104,587,755
Other assets	469,000	220,000
Long-term investments	118,109,404	244,362,579
<b>Total assets</b>	<b>\$546,336,005</b>	<b>\$556,296,181</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 34,113,832	\$ 12,773,848
Accrued expenses	8,560,073	7,108,248
Income taxes payable	3,734,234	6,096,459
<b>Total current liabilities</b>	<b>46,408,139</b>	<b>25,978,555</b>
Bonds payable	50,000,000	50,000,000
Deferred income taxes	15,342,435	80,265,155
<b>Total liabilities</b>	<b>111,750,574</b>	<b>156,243,710</b>
Minority interest in subsidiary	160,000	
<b>Stockholders' equity</b>		
Common stock, par value \$.01 per share; 200,000,000 shares authorized; 39,446,644 shares issued in 2000 and in 1999	394,466	394,466
Additional paid-in capital	96,707,263	93,564,326
Accumulated other comprehensive income	19,870,288	116,000,000
Retained earnings	332,905,389	212,103,128
	<b>449,877,406</b>	<b>422,061,920</b>
Less treasury stock at cost: 733,192 and 1,047,330 shares in 2000 and 1999, respectively	(15,451,975)	(22,009,449)
<b>Total stockholders' equity</b>	<b>434,425,431</b>	<b>400,052,471</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$546,336,005</b>	<b>\$556,296,181</b>

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF INCOME

Year ended December 31	2000	1999	1998
Sales	\$462,948,721	\$367,207,437	\$286,558,950
Cost of sales	233,429,280	178,629,643	130,009,879
<b>Gross profit</b>	<b>229,519,441</b>	<b>188,577,794</b>	<b>156,549,071</b>
Selling, general and administrative expenses	87,115,889	71,734,959	62,060,907
Research and development expenses	50,628,190	42,017,779	37,221,780
<b>Operating income</b>	<b>91,775,362</b>	<b>74,825,056</b>	<b>57,266,384</b>
Interest income	9,024,543	5,349,762	5,824,223
Interest expense	(1,802,158)	(2,311,667)	(2,286,821)
Other income (expense)	(4,125)	(672,920)	(188,530)
Net realized investment gains	84,040,126		
<b>Income before income taxes</b>	<b>183,033,748</b>	<b>77,190,231</b>	<b>60,615,256</b>
Provision for income taxes	62,231,487	26,244,677	20,305,606
<b>Net income</b>	<b>\$120,802,261</b>	<b>\$50,945,554</b>	<b>\$40,309,650</b>
Weighted average shares outstanding	38,647,288	38,334,507	38,981,558
Weighted average shares outstanding assuming dilution (1)	39,704,286	38,831,091	39,163,763
Earnings per common share – basic	\$3.13	\$1.33	\$1.03
Earnings per common share – assuming dilution (1)	\$3.04	\$1.31	\$1.03

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.  
The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years ended December 31, 2000, 1999 and 1998

	Number of shares	Common Stock Par Value (\$0.01 per Share)	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Marketable Equity Securities	Total Stockholders' Equity
<b>Balance, December 31, 1997</b>	<b>39,381,264</b>	<b>\$393,813</b>	<b>\$92,995,338</b>	<b>\$120,847,924</b>	<b>(\$2,200,000)</b>	<b>\$0</b>	<b>\$212,037,075</b>
Net Income				40,309,650			40,309,650
Stock options exercised							
Various prices per share	42,215	422	57,836				58,258
Purchase of treasury stock:							
1,000,081 shares					(21,016,047)		(21,016,047)
<b>Balance, December 31, 1998</b>	<b>39,423,479</b>	<b>\$394,235</b>	<b>\$93,053,174</b>	<b>\$161,157,574</b>	<b>(\$23,216,047)</b>		<b>\$231,388,936</b>
Net Income				50,945,554			50,945,554
Unrealized gain on marketable securities (net of deferred tax of \$76,000,000)						116,000,000	116,000,000
Stock options exercised							
Various prices per share	23,165	231	192,462		1,532,589		1,725,282
Purchase of treasury stock:							
20,160 shares					(325,991)		(325,991)
Income tax benefit from exercise of Non-qualified stock options			318,690				318,690
<b>Balance, December 31, 1999</b>	<b>39,446,644</b>	<b>\$394,466</b>	<b>\$93,564,326</b>	<b>\$212,103,128</b>	<b>(\$22,009,449)</b>	<b>\$116,000,000</b>	<b>\$400,052,471</b>
Net Income				120,802,261			120,802,261
Change in unrealized gain on marketable securities (net of deferred tax of \$14,695,744)						(40,719,712)	(40,719,712)
Reclassification adjustment for amounts included in net income, (net of income tax of \$29,954,217)						(55,410,000)	(55,410,000)
Stock options exercised							
Various prices per share			140,217		6,627,900		6,768,117
Purchase of treasury stock:							
1,176 shares					(70,426)		(70,426)
Income tax benefit from exercise of Non-qualified stock options			3,002,720				3,002,720
<b>Balance, December 31, 2000</b>	<b>39,446,644</b>	<b>\$394,466</b>	<b>\$96,707,263</b>	<b>\$332,905,389</b>	<b>(\$15,451,975)</b>	<b>\$19,870,288</b>	<b>\$434,425,431</b>

During 2000 and 1999, ADTRAN issued 315,314 and 72,911 shares, respectively, of Treasury Stock to accommodate employee stock option exercise.

Comprehensive income in 2000 of \$140,672,549 consists of net income of \$120,802,261 and unrealized gain on marketable securities of \$19,870,288 (net of deferred tax).

Comprehensive income in 1999 of \$166,945,554 consists of net income of \$50,945,554 and unrealized gain on marketable securities of \$116,000,000 (net of deferred tax).

The accompanying notes are an integral part of these financial statements.

## STATEMENTS OF CASH FLOWS

Year ended December 31	2000	1999	1998
<b>Cash flows from operating activities</b>			
Net income	\$120,802,261	\$50,945,554	\$40,309,650
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	13,418,843	10,546,594	9,002,669
Provision for warranty claims			1,506,432
Gain on sale of property, plant and equipment		(5,050)	
Gain on sale of long-term investments	(84,040,126)		
Loss on sale of short-term investments	141,233	417,749	24,367
Deferred income taxes	(16,411)	(683,237)	1,188,956
Income tax benefit from exercise of non-qualified stock options	3,002,720	318,690	
Change in operating assets:			
Accounts receivable	(22,096,955)	(13,448,557)	(5,681,432)
Inventory	(30,683,956)	7,131,803	(26,331,473)
Other receivables	(31,430,079)	(3,743,198)	(353,611)
Prepaid expenses	(2,622,152)	(55,920)	(206,078)
Other assets	(249,000)		(20,000)
Change in operating liabilities:			
Accounts payable	21,339,984	1,793,751	1,858,827
Income taxes payable	(2,362,225)	5,035,664	(3,518,550)
Accrued expenses	1,451,825	2,122,491	(1,036,560)
<b>Net cash provided by (used in) operating activities</b>	<b>(13,344,038)</b>	<b>60,376,334</b>	<b>16,743,197</b>
<b>Cash flows from investing activities</b>			
Expenditures for property, plant and equipment	(32,540,097)	(36,236,622)	(23,095,854)
Proceeds from the disposition of property, plant and equipment		5,050	
Proceeds from sale of long-term investments	86,009,950	3,893,832	
Purchase of long-term investments	(37,027,741)	(1,221,411)	(5,035,000)
Proceeds from sale of short-term investments	149,445,754	38,581,797	77,093,834
Purchase of short-term investments	(168,792,543)	(39,285,254)	(80,080,029)
<b>Net cash used in investing activities</b>	<b>(2,904,677)</b>	<b>(34,262,608)</b>	<b>(31,117,049)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of common stock	6,768,117	1,725,282	58,258
Purchase of treasury stock	(70,426)	(325,991)	(21,016,047)
<b>Net cash provided by (used in) financing activities</b>	<b>6,697,691</b>	<b>1,399,291</b>	<b>(20,957,789)</b>
Net increase (decrease) in cash and cash equivalents	(9,551,024)	27,513,017	(35,331,641)
<b>Cash and cash equivalents, beginning of year</b>	<b>37,522,337</b>	<b>10,009,320</b>	<b>45,340,961</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$27,971,313</b>	<b>\$37,522,337</b>	<b>\$10,009,320</b>
Supplemental disclosure of cash flow information			
Cash paid during the year for interest, net of capitalized interest of \$0, \$0 and \$35,172 in 2000, 1999 and 1998, respectively	\$1,802,158	\$2,311,667	\$2,276,495
Cash paid during the year for income taxes	\$61,760,406	\$22,094,478	\$23,964,517

### Non-Cash Transactions:

During 2000, ADTRAN recorded \$96,130,000 of unrealized losses related to its marketable equity securities. During 1999, ADTRAN recorded \$116,000,000 of unrealized gains related to its marketable equity securities. The accompanying notes are an integral part of these financial statements.

## Notes to Financial Statements

### 1 Summary of Significant Accounting Policies

ADTRAN, Inc. designs, develops, manufactures, markets, and services a broad range of high-speed digital transmission products utilized by providers of telecommunications services (serviced by ADTRAN's Carrier Networks Division or CN) and corporate end users (serviced by ADTRAN's Enterprise Networks Division or EN) to implement advanced digital data services over existing telephone networks. ADTRAN also customizes many of its products for private label distribution and for original equipment manufacturers to incorporate into their own products. Most of ADTRAN's CN and EN products are connected to the local loop, which is the large existing infrastructure of the telephone network, predominantly consisting of copper wireline, which connects end users to a Central Office, the facility that provides local switching and distribution functions. The balance of ADTRAN's products are used in the Central Office.

#### Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits, money market accounts, and short-term investments classified as held-to-maturity (see Note 2) with original maturities of three months or less.

#### Financial Instruments

The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the immediate or short-term maturity of these financial instruments. The carrying amount reported for bonds payable approximates fair value because the underlying instruments are at variable rates that re-price frequently.

Investments represent re-marketed preferred stocks, municipal bonds, and marketable equity securities. Re-marketed preferred stocks are designed to be marketed as money market instruments. These instruments' dividend rates reset on a short-term basis to maintain the price of the instruments at par. These instruments may be redeemed on the date the interest rate resets. The fair value of short-term investments is estimated based on quoted market prices (see Note 2). Realized gains or losses are computed under the specific identification method.

Long-term investments represent restricted money market funds (see Note 2), marketable equity securities, and other equity investments. The fair value of the restricted money market funds approximate fair value due to a variable interest rate. The marketable equity securities are reported at market value as determined by the most recently traded price of the securities at the balance sheet date, although the securities may not be readily marketable due to the size of the available market. Unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity. Realized gains and losses are computed under the specific identification method and are included in current income.

#### Inventory

Inventory is carried at the lower of cost or market, with cost being determined using the first-in, first-out method.

#### Property, Plant and Equipment

Property, plant and equipment, which is stated at cost, is depreciated using methods which approximate straight-line depreciation over the estimated useful lives of the assets. ADTRAN depreciates its building and land improvements from five to 39 years, office machinery and equipment from three to seven years, and its engineering machinery and equipment from three to seven years. Expenditures for repairs and maintenance are charged to expense as incurred; betterments which materially prolong the lives of the assets are capitalized. The cost of assets retired or otherwise disposed of and the related accumulated depreciation are removed from the accounts and the gain or loss on such disposition is included in income.

#### Long-Lived Assets

ADTRAN recognizes impairment losses on long-lived assets used in operations when indicators of impairment are present and the undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying values. There were no such losses recognized during 2000, 1999 and 1998.

**Research and Development Costs**

Research and development costs are expensed as incurred.

**Comprehensive Income**

Comprehensive income consists of net income and unrealized gains and losses on marketable equity securities, net of deferred taxes, and is presented in the Statements of Changes in Stockholders' Equity.

**Income Taxes**

ADTRAN utilizes the asset and liability method of accounting for income taxes which requires the establishment of deferred tax liabilities and assets, as measured by enacted tax rates, for all temporary differences caused when the tax basis of assets and liabilities differ from those reported in the financial statements.

**Interest in Subsidiary**

ADTRAN currently consolidates ADTRAN AG, a Switzerland-based subsidiary, and reflects the 25% minority interest as minority interest in the subsidiary in the accompanying balance sheet.

**Revenue Recognition**

Revenue is generally recognized upon shipment of the product to the customer or, in the case of remote customer located warehouses, upon delivery to the customer. Shipping fees are recorded as revenue and the related cost is included in cost of sales.

**Earnings Per Share**

Earnings per common share, and earnings per common share assuming dilution, are based on the weighted average number of common shares and, when dilutive, common equivalent shares outstanding during the year (see Note 12).

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Reclassifications**

Certain 1999 and 1998 amounts have been reclassified to conform to the 2000 financial statement presentation.

**Recently Issued Accounting Standards**

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS No. 138, requires all derivatives to be measured at fair value and recognized as either assets or liabilities on the balance sheet. Changes in such fair value are required to be recognized immediately in net income (loss) to the extent the derivatives are not effected as hedges. SFAS No. 133 is effective for fiscal years beginning after June 15, 2000, and is effective for interim periods in the initial year of adoption. ADTRAN does not currently hold any derivative financial instruments.

**2 Investments**

At December 31, 2000 and 1999, ADTRAN held the following securities as available-for-sale or held-to-maturity recorded at amortized cost which approximates market value, except certain long-term investments in marketable equity securities which are recorded at market value.

## 2000 INVESTMENTS

<b>Short-term investments, available-for-sale</b>	
Municipal bonds	\$18,395,383
Money market funds	27,636,149
Commercial paper, U.S. Government securities and preferred stock	14,254,800
<b>Total short-term investments 2000</b>	<b>\$60,286,332</b>
<b>Long-term investments</b>	
Restricted money market funds (see Note 5)	\$50,000,000
Money market funds	5,141,267
Municipal bonds	15,045,137
Investment in marketable equity securities	42,113,192
Other equity investments	5,809,808
<b>Total long-term investments 2000</b>	<b>\$118,109,404</b>

## 1999 INVESTMENTS

<b>Short-term investments, available-for-sale</b>	
Municipal bonds	\$35,342,510
Commercial paper, U.S. Government securities and preferred stock	5,738,266
<b>Total short-term investments 1999</b>	<b>\$41,080,776</b>
<b>Long-term investments</b>	
Restricted money market funds (see Note 5)	\$50,000,000
Investment in marketable equity securities	193,828,577
Other equity investments	534,002
<b>Total long-term investments 1999</b>	<b>\$244,362,579</b>

## 3 Inventory

At December 31, 2000 and 1999, inventory consisted of the following:

<b>At December 31</b>	<b>2000</b>	<b>1999</b>
Raw materials	\$50,011,508	\$30,143,435
Work in process	12,606,275	15,763,155
Finished goods	26,634,946	12,662,183
	<b>\$89,252,729</b>	<b>\$58,568,773</b>

## 4 Property, Plant and Equipment

At December 31, 2000 and 1999, property, plant and equipment was comprised of the following:

<b>At December 31</b>	<b>2000</b>	<b>1999</b>
Land	\$ 4,263,104	\$ 4,263,104
Building	81,676,034	26,389,365
Construction in progress		44,248,566
Land improvements	9,499,352	9,499,352
Office machinery and equipment	34,584,859	24,590,473
Engineering machinery and equipment	47,112,131	36,013,355
	<b>177,135,480</b>	<b>145,004,215</b>
Less accumulated depreciation	(53,422,304)	(40,416,460)
	<b>\$123,713,176</b>	<b>\$104,587,755</b>

## 5 Alabama State Industrial Development Authority Financing

In conjunction with an expansion of its Huntsville, Alabama facility, ADTRAN was approved for participation in an incentive program offered by the State of Alabama Industrial Development Authority (the "Authority"). Pursuant to the program, on January 13, 1995, the Authority issued \$20,000,000 of its taxable revenue bonds and loaned the proceeds from the sale of the bonds to ADTRAN. The bonds were originally purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the "Bank"). First Union National Bank of Tennessee, Nashville, Tennessee (the "Bondholder") purchased the original bonds from the Bank and made further advances to the Authority bringing the total amount outstanding to \$50,000,000. An Amended and Restated Taxable Revenue Bond ("Amended and Restated Bond") was issued and the original financing agreement was amended. The Amended and Restated Bond bears interest, payable monthly, at the rate of 45 basis points over the money market rate of the Bondholder and matures on January 1, 2020. ADTRAN is required to make payments to the Authority in amounts necessary to pay the principal of and interest on the Amended and Restated Bond. Included in long-term investments is \$50,000,000, which is restricted for payment of principal of this bond.

## 6 Income Taxes

A summary of the components of the provision (benefit) for income taxes as of December 31 is as follows:

At December 31	2000	1999	1998
Current			
Federal	\$58,300,783	\$24,764,291	\$17,551,986
State	3,914,293	2,163,623	1,564,664
<b>Total current</b>	<b>62,215,076</b>	<b>26,927,916</b>	<b>19,116,650</b>
Deferred tax provision (benefit)	16,411	(683,237)	1,188,956
<b>Total provision for income taxes</b>	<b>\$62,231,487</b>	<b>\$26,244,677</b>	<b>\$20,305,606</b>

The provision for income taxes differs from the amounts computed by applying the federal statutory rate due to the following:

	2000	1999	1998
Tax provision computed at the federal statutory rate (35% in 2000, 1999 and 1998)	\$64,061,831	\$27,016,582	\$21,215,340
State income tax provision, net of federal benefit	2,544,290	1,406,353	1,017,032
Federal research credits	(2,970,013)	(1,880,205)	(1,650,877)
Tax exempt income	(1,060,586)		
Other	(344,035)	(298,053)	(275,889)
	<b>\$62,231,487</b>	<b>\$26,244,677</b>	<b>\$20,305,606</b>

Temporary differences which create deferred tax assets and liabilities at December 31, 2000 and 1999 are as follows:

At December 31	2000		1999	
	Current	Non-current	Current	Non-current
Property, plant and equipment		(\$4,611,379)		(\$4,265,155)
Investments		(10,731,056)		(76,000,000)
Accounts receivable	\$303,413		\$400,740	
Inventory	2,230,423		2,433,811	
Accruals	1,371,763		1,235,386	
Suspended research and development credit	599,409			
<b>Deferred tax asset (liability)</b>	<b>\$4,505,008</b>	<b>(\$15,342,435)</b>	<b>\$4,069,937</b>	<b>(\$80,265,155)</b>

No valuation allowance is deemed necessary by management, as the realization of recorded deferred tax assets is considered more likely than not.

## 7 Operating Leases

ADTRAN leases office space and equipment under operating leases, which expire at various dates through 2003. As of December 31, 2000, future minimum rental payments under the non-cancelable operating leases are approximated as follows:

2001	\$454,000
2002	265,000
2003	108,000
	<b>\$827,000</b>

Rental expense was approximately \$846,000, \$988,000 and \$908,000 in 2000, 1999 and 1998, respectively.

## 8 Employee Incentive Stock Option Plan and Director's Stock Option Plan

The Board of Directors of ADTRAN adopted the 1996 Employees Incentive Stock Option Plan (the "1996 Plan") effective February 14, 1996, as amended, under which 5,488,100 shares of common stock were reserved for issuance to certain employees and officers through incentive stock options and non-qualified stock options. ADTRAN currently has options outstanding under its 1986 Employee Incentive Stock Option Plan (the "1986 Plan"), which expired on February 14, 1996. Options granted under the 1996 Plan or the 1986 Plan generally become exercisable after one year of continued employment, normally pursuant to a five-year vesting schedule beginning on the first anniversary of the grant date. In 2000, the Board of Directors voted to reduce the vesting schedule to four years beginning on the first anniversary of the grant date for new grants effective January 2000. Expiration dates of options outstanding under the 1996 Plan and the 1986 Plan at December 31, 2000, range from 2001 to 2010.

The Board of Directors of ADTRAN adopted a Director's Stock Option Plan ("Director's Plan") effective October 31, 1995, as amended, under which 200,000 shares of common stock have been reserved. The Director's Plan is a formula plan to provide options to non-employee directors of ADTRAN. At December 31, 2000, 92,000 options had been granted under the Director's Plan. Expiration dates of options outstanding under the Director's Plan at December 31, 2000 range from 2005 to 2010.

Pertinent information regarding the stock plans is as follows:

### STOCK PLANS

	Number Of Options	Range of Exercise Prices	Weighted Average Exercise Price	Vesting Provisions
<b>Options outstanding, December 31, 1997</b>	<b>1,276,456</b>	<b>\$ .17 - \$65.75</b>	<b>\$32.24</b>	<b>Various</b>
Options granted	1,018,225	\$18.31 - \$26.25	\$21.46	Various
Options granted	10,250	\$30.50 - \$31.00	\$30.69	Various
Options cancelled	(45,370)	\$21.31 - \$65.75	\$35.61	Various
Options exercised	(42,215)	\$.17 - \$3.33	\$1.38	Various
<b>Options outstanding, December 31, 1998</b>	<b>2,217,346</b>	<b>\$ .50 - \$65.75</b>	<b>\$27.78</b>	<b>Various</b>
Options granted	504,000	\$18.13 - \$39.69	\$35.75	Various
Options granted	642,000	\$18.88 - \$65.75	\$36.05	Various
Options cancelled	(166,875)	\$21.28 - \$65.75	\$32.52	Various
Options exercised	(96,076)	\$.50 - \$31.75	\$17.96	Various
<b>Options outstanding, December 31, 1999</b>	<b>3,100,395</b>	<b>\$1.50 - \$65.75</b>	<b>\$30.88</b>	<b>Various</b>
Options granted	779,415	\$39.00 - \$69.81	\$67.82	Various
Options granted	616,185	\$21.25 - \$69.81	\$67.12	Various
Options cancelled	(130,840)	\$18.13 - \$69.81	\$37.36	Various
Options exercised	(315,314)	\$1.50 - \$65.75	\$21.47	Various
<b>Options outstanding, December 31, 2000</b>	<b>4,049,841</b>	<b>\$1.67 - \$69.81</b>	<b>\$44.02</b>	<b>Various</b>

The following table summarizes information about stock options outstanding at December 31, 2000:

#### OPTIONS OUTSTANDING

Range of Exercise Prices	Number Outstanding 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable 12/31/00	Weighted Average Exercise Price
\$1.67 - \$3.33	30,070	2.10	\$2.70	30,070	\$2.70
\$12.53 - \$21.31	793,525	9.14	\$21.15	267,250	\$20.94
\$21.81 - \$27.50	533,526	6.55	\$24.64	272,678	\$24.51
\$30.38 - \$46.25	1,131,070	8.25	\$36.35	255,102	\$36.51
\$49.56 - \$69.81	1,561,650	8.81	\$68.39	206,200	\$64.03
	<b>4,049,841</b>			<b>1,031,300</b>	

The options above were issued at exercise prices which approximate fair market value at the date of grant. At December 31, 2000, 1,413,660 options were available for grant under the plans. ADTRAN applies APB Opinion 25 and related interpretations in accounting for our stock plans. Accordingly, no compensation cost has been recognized related to stock options. Had compensation cost for ADTRAN's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, our net income and earnings per share would have been reduced to the pro forma amounts indicated below:

#### PRO FORMA NET INCOME & EARNINGS PER SHARE

	2000	1999	1998
Net income – as reported	\$120,802,261	\$50,945,554	\$40,309,650
Net income – pro forma	108,525,119	44,903,017	35,417,764
Earnings per share – as reported assuming dilution	\$3.04	\$1.31	\$1.03
Earnings per share – pro forma assuming dilution	\$2.73	\$1.16	\$0.90

The pro forma amounts reflected above are not representative of the effects on reported net income in future years because, in general, the options granted typically do not vest for several years and additional awards are made each year. The fair value of each option grant is estimated on the grant date using the Black-Scholes option-pricing model with the following weighted-average assumptions:

#### WEIGHTED AVERAGE ASSUMPTIONS

	2000	1999	1998
Dividend yield	0%	0%	0%
Expected life (years)	5	6	5
Expected volatility	55.4%	59.4%	59.1%
Risk-free interest rate	6.18%	5.69%	4.67%

### 9 Employee Benefit Plan

In March 1990, ADTRAN adopted an incentive savings plan (the "Savings Plan") for all of our employees. The Savings Plan provides certain employment benefits to all eligible employees and qualifies as a deferred arrangement under Section 401(k) of the Internal Revenue Code of 1986, as amended. ADTRAN matches one-half of a participant's contribution, limited to 5% of a participant's income. An employee's interest in ADTRAN's contributions becomes 100% vested at the date participation in the Savings Plan commenced. Charges to operations for the plan amounted to approximately \$1,368,000, \$1,288,000 and \$928,000 in 2000, 1999 and 1998, respectively.

## 10 Segment Information and Major Customers

ADTRAN operates two reportable segments – (i) Carrier Networks (CN) and (ii) Enterprise Networks (EN). The accounting policies of the segments are the same as those described in the "Summary of Significant Accounting Policies" (see Note 1) to the extent that such policies affect the reported segment information. ADTRAN evaluates the performance of its segments based on gross profit; therefore, selling, general and administrative costs, as well as research and development, interest income/expense, and provision for taxes, are reported on an entity-wide basis only. There are no inter-segment revenues.

The table below presents information about the reported sales and gross profit of ADTRAN for the years ended December 31, 2000, 1999 and 1998. Asset information by reportable segment is not reported, since ADTRAN does not produce such information internally.

### SALES BY MARKET SEGMENT

(In thousands)

Year ended December 31	2000		1999		1998	
	Sales	Gross Profit	Sales	Gross Profit	Sales	Gross Profit
CN	\$315,228	\$146,886	\$230,967	\$ 108,809	\$167,500	\$ 91,574
EN	147,721	82,663	136,240	79,769	119,059	64,975
<b>Total</b>	<b>\$462,949</b>	<b>\$229,519</b>	<b>\$367,207</b>	<b>\$188,578</b>	<b>\$286,559</b>	<b>\$156,549</b>

The following is sales information by geographic area for the years ended December 31, 2000, 1999 and 1998:

### SALES BY GEOGRAPHIC REGION

(In thousands)

	2000	1999	1998
United States	\$448,810	\$357,699	\$277,062
Foreign	14,139	9,508	9,497
	<b>\$462,949</b>	<b>\$367,207</b>	<b>\$286,559</b>

Sales of ADTRAN's transmission and test equipment to the Regional Bell Operating Companies (RBOCs) and GTE, also known as Incumbent Local Exchange Carriers (ILECs), amounted to approximately 56%, 55% and 49% of total sales during the years ended December 31, 2000, 1999 and 1998, respectively. ADTRAN's EN division sells a significant portion of its products to value added resellers through a multi-tier distribution system. Sales of this type amounting to 26%, 27% and 25% of ADTRAN's revenue for each of the years ended December 31, 2000, 1999 and 1998, respectively, were routed through four primary fulfillment distributors.

## 11 Commitments and Contingencies

ADTRAN has certain contingent liabilities resulting from litigation arising in the normal course of business. Although the outcome of any litigation can never be certain, it is ADTRAN's opinion that the outcome of such contingencies will not materially affect its business, operations, financial condition or cash flows.

## 12 Earnings Per Share

A summary of the calculation of basic and diluted earnings per share (EPS) for the years ended December 31, 2000, 1999 and 1998 is as follows:

### EARNINGS PER SHARE

Year Ended 2000	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<b>Basic EPS</b>			
Income available to common stockholders	\$120,802,261	38,647,288	\$3.13
<b>Effect of dilutive securities</b>			
Stock options		1,056,997	
<b>Diluted EPS</b>			
Income available to common stockholders (with dilution) for assumed options exercised	\$120,802,261	39,704,286	\$3.04*
<b>Year Ended 1999</b>			
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<b>Basic EPS</b>			
Income available to common stockholders	\$50,945,554	38,334,507	\$1.33
<b>Effect of dilutive securities</b>			
Stock options		496,584	
<b>Diluted EPS</b>			
Income available to common stockholders (with dilution) for assumed options exercised	\$50,945,554	38,831,091	\$1.31
<b>Year Ended 1998</b>			
	Income (Numerator)	Shares (Denominator)	Per-Share Amount
<b>Basic EPS</b>			
Income available to common stockholders	\$40,309,650	38,981,558	\$1.03
<b>Effect of dilutive securities</b>			
Stock options		182,205	
<b>Diluted EPS</b>			
Income available to common stockholders plus assumed conversions	\$40,309,650	39,163,763	\$1.03

\*ADTRAN reported a realized investment gain from the sale of certain marketable equity securities, resulting in an after tax gain of \$55,410,000 (\$1.39 per share assuming dilution). Earnings on a per share basis before the realized investment gain, assuming dilution, for the twelve months ended December 31, 2000 was \$1.65.

The following options were outstanding during the respective year shown below, but were not included in the computation of that year's diluted EPS because the options' exercise price was greater than the average market price of the common shares shown below:

### OUTSTANDING OPTIONS

Options Granted	Exercise Price	Expiration	Options Granted	Exercise Price	Expiration	Options Granted	Exercise Price	Expiration
2000			1999			1998		
226,400	\$56.25-\$65.75	2006	46,000	\$31.75-\$46.25	2005	58,450	\$31.75-\$46.25	2005
4,000	\$65.75	2009	276,000	\$39.75-\$65.75	2006	307,400	\$30.50-\$65.75	2006
1,316,150	\$40.00-\$69.81	2010	23,100	\$37.88-\$42.72	2007	31,900	\$27.50-\$42.72	2007
			1,083,710	\$36.06-\$51.44	2009	28,500	\$26.25-\$30.38	2008

### 13 Summarized Quarterly Financial Data (Unaudited)

The following table presents unaudited quarterly operating results for each of ADTRAN's last eight fiscal quarters. This information has been prepared by ADTRAN on a basis consistent with our audited financial statements and includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for a fair presentation of the data.

#### UNAUDITED QUARTERLY OPERATING RESULTS

(In thousands, except for per share amounts)

2000: Three months ended	March 31	June 30	September 30	December 31
Net sales	\$99,470	\$114,447	\$127,277	\$121,755
Gross profit	54,404	61,670	65,953	47,492
Operating income	24,470	27,249	30,219	9,837
(2)Net income	16,794	18,648	76,868	8,493
(1)Earnings per common share assuming dilution	\$.42	\$.47	\$1.93	\$.22
Earnings per common share	\$.44	\$.48	\$1.99	\$.22

1999: Three months ended	March 31	June 30	September 30	December 31
Net sales	\$77,163	\$88,507	\$97,067	\$104,470
Gross profit	39,494	43,356	50,463	55,265
Operating income	13,226	15,530	21,223	24,846
Net income	9,111	10,716	14,150	16,969
(1)Earnings per common share assuming dilution	\$.24	\$.28	\$.36	\$.43
Earnings per common share	\$.24	\$.28	\$.37	\$.44

(1) Assumes exercise of dilutive stock options calculated under the treasury stock method.

(2) Net Income for Q3 2000 includes the realized gain from sale of certain marketable equity securities, resulting in an after tax gain of \$55,410,000.

## Directors & Executive Officers

### **Mark C. Smith**

Chairman of the Board and Chief Executive Officer of the Company

### **Lonnie S. McMillian**

Senior Vice President – Engineering, Secretary and Director of the Company

### **Howard A. Thrailkill**

President, Chief Operating Officer and Director of the Company

### **W. Frank Blount**

Director of the Company, Chairman and Chief Executive Officer of Cypress Communications, Inc., a leading building-centric communications provider, Chairman and Chief Executive Officer of JI Ventures, Inc., a high-tech venture capital fund, and Retired Chief Executive Officer of Telstra Corporation, LTD, Australia's principal telecommunications company

### **William L. Marks**

Director of the Company, Chairman of the Board and Chief Executive Officer of Whitney Holding Corp., the holding company for Whitney National Bank of New Orleans

### **Roy J. Nichols**

Director of the Company, Vice Chairman of the Board, Co-Chairman and acting Chief Executive Officer of InnoVerity, Inc., a software development company specializing in business intelligence applications

### **James L. North**

Director of the Company, Counsel to the Company since it commenced operations in 1986, attorney with James L. North & Associates, Birmingham, Alabama

### **John R. Cooper**

Vice President – Finance, Chief Financial Officer, and Treasurer

### **Danny J. Windham**

Vice President and General Manager – Enterprise Networks

### **Thomas R. Stanton**

Vice President and General Manager – Carrier Networks

### **M. Melvin Bruce**

Vice President – Carrier Networks Engineering

### **Robert A. Fredrickson**

Vice President – Carrier Networks Sales

### **P. Steven Locke**

Vice President – Carrier Networks Marketing

### **James D. Butler**

Vice President – Enterprise Networks Sales

### **Everette R. Ramage**

Vice President – Enterprise Networks Engineering

### **Steven L. Harvey**

Vice President – Competitive Service Providers Sales

### **Kevin W. Schneider**

Vice President – Technology

### **Charles A. O'Donnell**

Vice President – Quality

### **Jude T. Panetta**

Vice President – Operations

## General Information

### TRANSFER AGENT

First Union National Bank  
Charlotte, North Carolina

### INDEPENDENT AUDITORS

PricewaterhouseCoopers LLP  
Birmingham, Alabama

### GENERAL COUNSEL

James L. North, Attorney at Law  
Birmingham, Alabama

### SPECIAL COUNSEL

Long Aldridge & Norman LLP  
Atlanta, Georgia

### FORM 10-K

The 2000 Annual Report on Form 10-K (without exhibits) as filed with the Securities and Exchange Commission is available to stockholders without charge upon written request to:

Investor Relations  
ADTRAN, Inc.  
901 Explorer Boulevard  
P.O. Box 140000  
Huntsville, Alabama 35814-4000  
256 963-8611 or  
256 963-8220

### ANNUAL MEETING

The 2001 Annual Meeting of Shareholders will be held at ADTRAN headquarters, 901 Explorer Boulevard, Huntsville, Alabama, on Friday, April 20, 2001, at 10:30 a.m. Central time.



ADTRAN is an ISO 9001 registered company.



ADTRAN is a TL 9000 registered company.

ADTRAN, Inc. is committed to utilize Minority Business Enterprises (MBE), Woman-Owned Business Enterprises (WBE) and Disabled Veteran Business Enterprises (DVBE) whenever possible and practical for procurements supporting ADTRAN and our customers.

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Columbus, OH	Pittsburgh, PA
Concord, NH	Portland, OR
Dallas, TX	Providence, RI
Denver, CO	Raleigh, NC
Detroit, MI	Richmond, VA
Harrisburg, PA	Sacramento, CA
Houston, TX	San Antonio, TX
Indianapolis, IN	San Diego, CA
Las Vegas, NV	San Francisco, CA
Lincoln, NE	San Jose, CA
Kansas City, KS	Seattle, WA
Los Angeles, CA	St. Louis, MO
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