ADTRAN INC
Form 10-Q
August 05, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Quarterly Period Ended June 30, 2016

OR

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the Transition Period from to

Commission File Number 0-24612

ADTRAN, Inc.

(Exact name of Registrant as specified in its charter)

Delaware	63-0918200
(State of Incorporation)	(I.R.S. Employer Identification No.)

901 Explorer Boulevard, Huntsville, Alabama 35806-2807

(Address of principal executive offices, including zip code)

(256) 963-8000

(Registrant's telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

Large Accelerated Filer	x	Accelerated Filer	o
Non accelerated Filer	o	Smaller Reporting Company	o

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date:

Class	Outstanding at July22, 2016
Common Stock, $.01 Par Value	48,398,992 Shares

ADTRAN, Inc.

Quarterly Report on Form 10-Q

For the Three and Six Months Ended June 30, 2016

Table of Contents

FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of ADTRAN. ADTRAN and its representatives may from time to time make written or oral forward-looking statements, including statements contained in this report, our other filings with the Securities and Exchange Commission (SEC) and other communications with our stockholders. Generally, the words, “believe,” “expect,” “intend,” “estimate,” “anticipate,” “will,” “may,” “could” and similar expressions identify forward-looking statements. We cau you that any forward-looking statements made by us or on our behalf are subject to uncertainties and other factors that could cause such statements to be wrong. A list of factors that could materially affect our business, financial condition or operating results is included under “Factors that Could Affect Our Future Results” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained in Item 2 of Part I of this report. They have also been discussed in Item 1A of Part I in our most recent Annual Report on Form 10-K for the year ended December 31, 2015 filed on February 24, 2016 with the SEC. Though we have attempted to list comprehensively these important factors, we caution investors that other factors may prove to be important in the future in affecting our operating results. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact each factor or a combination of factors may have on our business.

You are further cautioned not to place undue reliance on these forward-looking statements because they speak only of our views as of the date that the statements were made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADTRAN, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In thousands, except per share amounts)

	June 30, 2016	December 31, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	$70,914	$84,550
Short-term investments	50,867	34,396
Accounts receivable, less allowance for doubtful accounts of $19 at June 30, 2016 and December 31, 2015	89,386	71,917
Other receivables	11,676	19,321
Income tax receivable, net	2,405	-
Inventory, net	86,936	91,533
Prepaid expenses and other current assets	13,563	10,145
Deferred tax assets, net	18,488	18,924
Total Current Assets	344,235	330,786
Property, plant and equipment, net	74,115	73,233
Deferred tax assets, net	19,127	18,091
Goodwill	3,492	3,492
Other assets	9,340	9,276
Long-term investments	186,249	198,026
Total Assets	$636,558	$632,904
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	$59,211	$48,668
Unearned revenue	15,982	16,615
Accrued expenses	12,126	12,108
Accrued wages and benefits	15,702	12,857
Income tax payable, net	-	2,395
Total Current Liabilities	103,021	92,643
Non-current unearned revenue	6,437	7,965
Other non-current liabilities	25,476	24,236
Bonds payable	27,900	27,900
Total Liabilities	162,834	152,744
Commitments and contingencies (see Note 13)		

Stockholders' Equity		
Common stock, par value $0.01 per share; 200,000 shares authorized; 79,652 shares issued and 48,712 shares outstanding at June 30, 2016 and 79,652 shares issued and 49,558 shares outstanding at December 31, 2015	797	797
Additional paid-in capital	249,851	246,879
Accumulated other comprehensive loss	(8,695)	(8,969)
Retained earnings	912,536	906,772
Less treasury stock at cost: 30,940 and 30,094 shares at June 30, 2016 and December 31, 2015, respectively	(680,765)	(665,319)
Total Stockholders' Equity	473,724	480,160
Total Liabilities and Stockholders' Equity	$636,558	$632,904

See notes to consolidated financial statements

3

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In thousands, except per share amounts)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
Sales				
Products	$138,549	$144,098	$262,432	$273,603
Services	24,152	16,040	42,473	29,370
Total Sales	162,701	160,138	304,905	302,973
Cost of sales				
Products	67,844	84,210	131,917	155,770
Services	15,902	7,682	28,239	13,394
Total Cost of Sales	83,746	91,892	160,156	169,164
Gross Profit	78,955	68,246	144,749	133,809
Selling, general and administrative expenses	32,866	32,123	63,651	63,187
Research and development expenses	31,277	35,479	60,765	68,015
Operating Income	14,812	644	20,333	2,607
Interest and dividend income	927	908	1,782	1,841
Interest expense	(142)	(149)	(287)	(297)
Net realized investment gain	1,110	3,255	2,838	6,370
Other expense, net	(251)	(547)	(132)	(900)
Income before provision for income taxes	16,456	4,111	24,534	9,621
Provision for income taxes	(6,228)	(1,567)	(9,292)	(3,760)
Net Income	$10,228	$2,544	$15,242	$5,861
Weighted average shares outstanding – basic	48,831	51,822	49,026	52,607
Weighted average shares outstanding – diluted	49,048	51,917	49,218	52,742
Earnings per common share – basic	$0.21	$0.05	$0.31	$0.11
Earnings per common share – diluted	$0.21	$0.05	$0.31	$0.11
Dividend per share	$0.09	$0.09	$0.18	$0.18

See notes to consolidated financial statements

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net Income	$10,228	$2,544	$15,242	$5,861
Other Comprehensive Income (Loss), net of tax:				
Net unrealized losses on available-for-sale securities	(165)	(1,783)	(420)	(2,286)
Defined benefit plan adjustments	22	72	67	140
Foreign currency translation	(601)	872	627	(2,446)
Other Comprehensive Income (Loss), net of tax	(744)	(839)	274	(4,592)
Comprehensive Income, net of tax	$9,484	$1,705	$15,516	$1,269

See notes to consolidated financial statements

ADTRAN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	$15,242	$5,861
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,689	7,256
Amortization of net premium on available-for-sale investments	376	1,578
Net realized investment gain	(2,838)	(6,370)
Net loss on disposal of property, plant and equipment	5	160
Stock-based compensation expense	3,109	3,114
Deferred income taxes	(354)	(1,743)
Tax benefit from stock option exercises	-	(23)
Excess tax benefits from stock-based compensation arrangements	-	38
Changes in operating assets and liabilities:		
Accounts receivable, net	(17,192)	(2,003)
Other receivables	7,876	(119)
Inventory	4,938	(14,254)
Prepaid expenses and other assets	(4,263)	(1,433)
Accounts payable	10,354	30,938
Accrued expenses and other liabilities	1,474	2,175
Income tax payable/receivable, net	(4,799)	(3,961)
Net cash provided by operating activities	20,617	21,214
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,679)	(5,392)
Proceeds from disposals of property, plant and equipment	-	8
Proceeds from sales and maturities of available-for-sale investments	109,993	120,422
Purchases of available-for-sale investments	(112,903)	(62,626)
Net cash provided by (used in) investing activities	(9,589)	52,412
Cash flows from financing activities:		
Proceeds from stock option exercises	541	833
Purchases of treasury stock	(16,579)	(49,307)
Dividend payments	(8,860)	(9,509)
Excess tax benefits from stock-based compensation arrangements	-	(38)
Net cash used in financing activities	(24,898)	(58,021)
Net increase (decrease) in cash and cash equivalents	(13,870)	15,605
Effect of exchange rate changes	234	(1,829)
Cash and cash equivalents, beginning of period	84,550	73,439

Cash and cash equivalents, end of period	$70,914	$87,215
Supplemental disclosure of non-cash investing activities:		
Purchases of property, plant and equipment included in accounts payable	$554	$270

See notes to consolidated financial statements

ADTRAN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of ADTRAN®, Inc. and its subsidiaries (ADTRAN) have been prepared pursuant to the rules and regulations for reporting on Quarterly Reports on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. The December 31, 2015 Consolidated Balance Sheet is derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

In the opinion of management, all adjustments necessary to fairly state these interim statements have been recorded and are of a normal and recurring nature. The results of operations for an interim period are not necessarily indicative of the results for the full year. The interim statements should be read in conjunction with the financial statements and notes thereto included in ADTRAN's Annual Report on Form 10-K for the year ended December 31, 2015, filed on February 24, 2016 with the SEC.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Our more significant estimates include the obsolete and excess inventory reserves, warranty reserves, customer rebates, determination of the deferred revenue components of multiple element sales agreements, estimated costs to complete obligations associated with deferred revenues, estimated income tax provision and income tax contingencies, the fair value of stock-based compensation, impairment of goodwill, valuation and estimated lives of intangible assets, estimated pension liability, fair value of investments, and the evaluation of other-than-temporary declines in the value of investments. Actual amounts could differ significantly from these estimates.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 31, 2017, and interim periods within those fiscal years, with early adoption permitted for reporting periods beginning after December 15, 2016. Subsequently, the FASB issued ASUs in 2016 containing implementation guidance related to ASU 2014-09, including: ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations; ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, which is intended to clarify two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance; and ASU 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients, which contains certain provisions and practical expedients in response to identified implementation issues. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. We plan to adopt ASU 2014-09 and the related ASUs on January 1, 2018, and we are currently evaluating the transition method that will be elected and the impact that the adoption of ASU 2014-09 will have on our financial position, results of operations and cash flows.

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

In November 2015, the FASB issued Accounting Standards Update No. 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17). ASU 2015-17 amends the existing guidance on income taxes to require the classification of all deferred tax assets and liabilities as non-current on the balance sheet. ASU 2015-17 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted. The guidance may be applied either prospectively, for all deferred tax assets and liabilities, or retrospectively to all periods presented. We have not selected a transition method or determined whether to early adopt ASU 2015-17 in 2016. Other than the revised balance sheet presentation of current deferred tax assets and liabilities, we do not believe the adoption of ASU 2015-17 will have a material impact on our financial position, results of operations and cash flows.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 requires an entity to recognize lease assets and lease liabilities on the balance sheet and to disclose key information about the entity's leasing arrangements. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. A modified retrospective approach is required. We are currently evaluating the impact that the adoption of ASU 2016-02 will have on our financial position, results of operations and cash flows.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (ASU 2016-09). ASU 2016-09 simplifies several aspects of accounting for share-based compensation arrangements, including income tax effects, the classification of tax-related cash flows on the statement of cash flows, and accounting for forfeitures. ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, including interim periods within those years. Early adoption is permitted. We are currently evaluating the impact that the adoption of ASU 2016-09 will have on our financial position, results of operations and cash flows.

During the first quarter of 2016, we adopted the following accounting standards, which had no material effect on our financial position, results of operations or cash flows:

In April 2015, the FASB issued Accounting Standards Update No. 2015-05, Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement (ASU 2015-05), which provides guidance on accounting for fees paid by a customer in a cloud computing arrangement. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The amendments may be applied either prospectively to all arrangements entered into or materially modified after the effective date or retrospectively. We adopted ASU 2015-05 during the first quarter of 2016 and will apply the new standard prospectively. The adoption of ASU 2015-05 did not have a material impact on our financial position, results of operations and cash flows.

2. INCOME TAXES

Our effective tax rate decreased from 39.1% in the six months ended June 30, 2015 to 37.9% in the six months ended June 30, 2016. The decrease in the effective tax rate between the two periods is primarily attributable to the research and development tax credit being made permanent.

3. PENSION BENEFIT PLAN

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

The following table summarizes the components of net periodic pension cost for the three and six months ended June 30, 2016 and 2015:

(In thousands)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Service cost	$310	$324	$607	$664
Interest cost	184	152	360	311
Expected return on plan assets	(271)	(250)	(530)	(511)
Amortization of actuarial losses	45	100	88	205
Net periodic pension cost	$268	$326	$525	$669

4. STOCK-BASED COMPENSATION

The following table summarizes the stock-based compensation expense related to stock options, restricted stock units (RSUs) and restricted stock for the three and six months ended June 30, 2016 and 2015, which was recognized as follows:

(In thousands)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Stock-based compensation expense included in cost of sales	$95	$53	$194	$143
Selling, general and administrative expense	788	723	1,557	1,414
Research and development expense	668	699	1,358	1,557
Stock-based compensation expense included in operating expenses	1,456	1,422	2,915	2,971
Total stock-based compensation expense	1,551	1,475	3,109	3,114
Tax benefit for expense associated with non-qualified options	(213)	(222)	(425)	(402)
Total stock-based compensation expense, net of tax	$1,338	$1,253	$2,684	$2,712

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

There were no options granted during the three months ended June 30, 2015. The weighted-average assumptions and value of options granted for the three and six months ended June 30, 2016 and the six months ended June 30, 2015 are as follows:

	Three and Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Expected volatility	34.74 %	38.75 %
Risk-free interest rate	1.33 %	1.46 %
Expected dividend yield	1.91 %	1.60 %
Expected life (in years)	6.26	6.47
Weighted-average estimated value	$ 5.42	$ 7.63

The fair value of our RSUs is calculated using a Monte Carlo Simulation valuation method. No RSUs were granted or vested during the three and six months ended June 30, 2016 and 2015. Twelve thousand RSUs were forfeited during the six months ended June 30, 2015.

The fair value of restricted stock is equal to the closing price of our stock on the date of grant. Two thousand shares of restricted stock were granted during the six months ended June 30, 2016. Two thousand shares of restricted stock vested during the three and six months ended June 30, 2015.

Stock-based compensation expense recognized in our Consolidated Statements of Income for the three and six months ended June 30, 2016 and 2015 is based on options, RSUs and restricted stock ultimately expected to vest, and has been reduced for estimated forfeitures. Estimated forfeitures for stock options are based upon historical experience and approximate 3.7% annually. We estimated a 0% forfeiture rate for our RSUs and restricted stock due to the limited number of recipients and historical experience for these awards.

As of June 30, 2016, total compensation expense related to non-vested stock options, RSUs and restricted stock not yet recognized was approximately $11.5 million, which is expected to be recognized over an average remaining recognition period of 2.4 years.

The following table is a summary of our stock options outstanding as of December 31, 2015 and June 30, 2016 and the changes that occurred during the six months ended June 30, 2016:

(In thousands, except per share amounts)	Number of Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life In Years	Aggregate Intrinsic Value
Options outstanding, December 31, 2015	7,108	$ 21.97	6.42	$ 3,284
Options granted	1	$ 18.83		
Options exercised	(33)	$ 16.58		
Options forfeited	(42)	$ 17.88		
Options expired	(54)	$ 25.65		
Options outstanding, June 30, 2016	6,980	$ 22.00	5.93	$ 6,522
Options vested and expected to vest, June 30, 2016	6,865	$ 22.09	5.88	$ 6,260
Options exercisable, June 30, 2016	4,420	$ 24.35	4.44	$ 2,298

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between the closing price of our stock on the last trading day of the quarter and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2016. The aggregate intrinsic value will change based on the fair market value of our stock.

The total pre-tax intrinsic value of options exercised during the three and six months ended June 30, 2016 was $0.1 million.

5. INVESTMENTS

At June 30, 2016, we held the following securities and investments, recorded at either fair value or cost.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Deferred compensation plan assets	$11,516	$1,628	$(49)	$13,095
Corporate bonds	54,044	149	(61)	54,132
Municipal fixed-rate bonds	16,889	59	-	16,948
Asset-backed bonds	23,526	53	(6)	23,573
Mortgage/Agency-backed bonds	19,214	44	(39)	19,219
U.S. Government bonds	33,498	308	-	33,806
Variable rate demand notes	11,740	-	-	11,740
Marketable equity securities	32,948	1,901	(1,478)	33,371
Available-for-sale securities held at fair value	$203,375	$4,142	$(1,633)	$205,884
Restricted investment held at cost				30,000
Other investments held at cost				1,232
Total carrying value of available-for-sale investments				$237,116

At December 31, 2015, we held the following securities and investments, recorded at either fair value or cost.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Deferred compensation plan assets	$11,325	$1,575	$(66)	$12,834
Corporate bonds	58,328	20	(734)	57,614
Municipal fixed-rate bonds	26,414	28	(18)	26,424
Asset-backed bonds	19,281	2	(44)	19,239
Mortgage/Agency-backed bonds	15,463	1	(91)	15,373
U.S. Government bonds	35,646	-	(248)	35,398
Marketable equity securities	31,643	4,301	(1,693)	34,251
Available-for-sale securities held at fair value	$198,100	$5,927	$(2,894)	$201,133
Restricted investment held at cost				30,000
Other investments held at cost				1,289
Total carrying value of available-for-sale investments				$232,422

As of June 30, 2016, our corporate bonds, municipal fixed-rate bonds, asset-backed bonds, mortgage/agency-backed bonds, and U.S. government bonds had the following contractual maturities:

(In thousands)	Corporate	Municipal	Asset-

	bonds	fixed-rate bonds	backed bonds	Mortgage / Agency- backed bonds	U.S. Government bonds
Less than one year	$ 20,729	$ 10,473	$-	$ 4,972	$ 2,953
One to two years	24,884	4,488	822	2,569	7,481
Two to three years	6,099	1,536	9,077	2,058	11,344
Three to five years	2,420	451	10,991	-	12,028
Five to ten years	-	-	2,506	1,036	-
More than ten years	-	-	177	8,584	-
Total	$ 54,132	$ 16,948	$23,573	$ 19,219	$ 33,806

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

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

At June 30, 2016, we held a $30.0 million restricted certificate of deposit, which is carried at cost. This investment serves as a collateral deposit against the principal amount outstanding under loans made to ADTRAN pursuant to an Alabama State Industrial Development Authority revenue bond (the Bond), which totaled $28.9 million at June 30, 2016 and December 31, 2015. At June 30, 2016, the estimated fair value of the Bond using a level 2 valuation technique was approximately $29.4 million, based on a debt security with a comparable interest rate and maturity and a Standard and Poor's credit rating of AAA. We have the right to set-off the balance of the Bond with the collateral deposit in order to reduce the balance of the indebtedness. The Bond matures on January 1, 2020, and bears interest at the rate of 2% per annum. In conjunction with this program, we are eligible to receive certain economic incentives from the state of Alabama that reduce the amount of payroll withholdings we are required to remit to the state for those employment positions that qualify under this program. We are required to make payments in the amounts necessary to pay the interest on the amounts currently outstanding. It is our intent to make annual principal payments in addition to the interest amounts that are due.

We review our investment portfolio for potential "other-than-temporary" declines in value on an individual investment basis. We assess, on a quarterly basis, significant declines in value which may be considered other-than-temporary and, if necessary, recognize and record the appropriate charge to write-down the carrying value of such investments. In making this assessment, we take into consideration qualitative and quantitative information, including but not limited to the following: the magnitude and duration of historical declines in market prices, credit rating activity, assessments of liquidity, public filings, and statements made by the issuer. We generally begin our identification of potential other-than-temporary impairments by reviewing any security with a fair value that has declined from its original or adjusted cost basis by 25% or more for six or more consecutive months. We then evaluate the individual security based on the previously identified factors to determine the amount of the write-down, if any. For the three and six months ended June 30, 2016 and 2015, other-than-temporary impairment charges were not significant.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2016	2015	2016	2015
Gross realized gains	$1,517	$3,459	$3,881	$6,604
Gross realized losses	$(407)	$(204)	$(1,043)	$(234)

As of June 30, 2016 and 2015, gross unrealized losses related to individual securities in a continuous loss position for 12 months or longer were not significant.

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

	Fair Value Measurements at June 30, 2016 Using			
(In thousands)	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 1,915	$ 1,915	$ -	$ -
Commercial Paper	15,996	-	15,996	-
Cash equivalents	17,911	1,915	15,996	-
Available-for-sale securities				
Deferred compensation plan assets	13,095	13,095	-	-
Available-for-sale debt securities				
Corporate bonds	54,132	-	54,132	-
Municipal fixed-rate bonds	16,948	-	16,948	-
Asset-backed bonds	23,573	-	23,573	-
Mortgage/Agency-backed bonds	19,219	-	19,219	-
U.S. Government bonds	33,806	33,806	-	-
Variable rate demand notes	11,740	-	11,740	-
Available-for-sale marketable equity securities				
Marketable equity securities – technology industry	4,386	4,386	-	-
Marketable equity securities – other	28,985	28,985	-	-
Available-for-sale securities	205,884	80,272	125,612	-
Total	$ 223,795	$ 82,187	$ 141,608	$ -

	Fair Value Measurements at December 31, 2015 Using			
(In thousands)	Fair Value	Quoted Prices in Active	Significant Other Observable	Significant Unobservable Inputs (Level 3)

		Market for Identical Assets (Level 1)	Inputs (Level 2)	
Cash equivalents				
Money market funds	$ 1,271	$ 1,271	$ -	$ -
Commercial Paper	11,696	-	11,696	-
Cash equivalents	12,967	1,271	11,696	-
Available-for-sale securities				
Deferred compensation plan assets	12,834	12,834	-	-
Available-for-sale debt securities				
Corporate bonds	57,614	-	57,614	-
Municipal fixed-rate bonds	26,424	-	26,424	-
Asset-backed bonds	19,239	-	19,239	-
Mortgage/Agency-backed bonds	15,373	-	15,373	-
U.S. Government bonds	35,398	35,398	-	-
Available-for-sale marketable equity securities				
Marketable equity securities – technology industry	5,384	5,384	-	-
Marketable equity securities – other	28,867	28,867	-	-
Available-for-sale securities	201,133	82,483	118,650	-
Total	$ 214,100	$ 83,754	$ 130,346	$ -

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

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

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

As of June 30, 2016, we had forward contracts outstanding with notional amounts totaling €6.0 million ($6.7 million), which mature in the third quarter of 2016.

The fair values of our derivative instruments recorded in the Consolidated Balance Sheet as of June 30, 2016 and December 31, 2015 were as follows:

(In thousands)	Balance Sheet Location	June 30, 2016	December 31, 2015
Derivatives Not Designated as Hedging Instruments (Level 2):			
Foreign exchange contracts – asset derivatives	Other receivables	$188	$ -

The change in the fair values of our derivative instruments recorded in the Consolidated Statements of Income during the three and six months ended June 30, 2016 and 2015 were as follows:

(In thousands)	Income Statement Location	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Derivatives Not Designated as Hedging Instruments:					
Foreign exchange contracts	Other income (expense)	$237	$(1,299)	$190	$177

7. INVENTORY

At June 30, 2016 and December 31, 2015, inventory consisted of the following:

(In thousands)	June 30, 2016	December 31, 2015
Raw materials	$35,761	$ 34,223
Work in process	2,322	2,893
Finished goods	48,853	54,417
Total	$86,936	$ 91,533

We establish reserves for estimated excess, obsolete, or unmarketable inventory equal to the difference between the cost of the inventory and the estimated fair value of the inventory based upon assumptions about future demand and market conditions. At June 30, 2016 and December 31, 2015, raw materials reserves totaled $18.0 million and $17.5 million, respectively, and finished goods inventory reserves totaled $9.8 million and $9.2 million, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill, all of which relates to our acquisition of Bluesocket, Inc., was $3.5 million at June 30, 2016 and December 31, 2015, and was previously recorded in our Enterprise Networks reportable segment. As a result of our new reporting structure, which is discussed further in Note 11, we reallocated goodwill from our Enterprise Networks reportable segment to our two, new reportable segments – Network Solutions and Services & Support. As a result, goodwill of $3.1 million and $0.4 million was reallocated to our Network Solutions and Services & Support reportable segments, respectively.

We evaluate the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. We have elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit to which the goodwill is assigned is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. If we determine that it is more likely than not that its fair value is less than its carrying amount, then the two-step impairment test will be performed. Based on the results of our qualitative assessment in 2015, we concluded that it was not necessary to perform the two-step impairment test. There have been no impairment losses recognized since the acquisition in 2011.

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

The following table presents our intangible assets as of June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016			December 31, 2015		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
Customer relationships	$5,925	$ (2,966)	$ 2,959	$5,828	$ (2,627)	$ 3,201
Developed technology	5,778	(4,767)	1,011	5,720	(4,329)	1,391
Intellectual property	2,340	(2,021)	319	2,340	(1,854)	486
Trade names	270	(270)	-	270	(265)	5
Total	$14,313	$ (10,024)	$ 4,289	$14,158	$ (9,075)	$ 5,083

Amortization expense, all of which relates to business acquisitions, was $0.4 million and $0.5 million for the three months ended June 30, 2016 and 2015, respectively, and $0.9 million and $1.0 million for the six months ended June 30, 2016 and 2015, respectively.

As of June 30, 2016, the estimated future amortization expense of our intangible assets is as follows:

(In thousands)	Amount
Remainder of 2016	$ 807
2017	1,162
2018	702

2019	308
2020	285
Thereafter	1,025
Total	$ 4,289

15

9. STOCKHOLDERS' EQUITY

A summary of the changes in stockholders' equity for the six months ended June 30, 2016 is as follows:

(In thousands)	Stockholders' Equity
Balance, December 31, 2015	$ 480,160
Net income	15,242
Dividend payments	(8,860)
Dividends accrued for unvested restricted stock units	(26)
Net unrealized losses on available-for-sale securities (net of tax)	(420)
Defined benefit plan adjustments	67
Foreign currency translation adjustment	627
Proceeds from stock option exercises	541
Purchase of treasury stock	(16,579)
Income tax effect of stock compensation arrangements	(137)
Stock-based compensation expense	3,109
Balance, June 30, 2016	$ 473,724

Stock Repurchase Program

Since 1997, our Board of Directors has approved multiple share repurchase programs that have authorized open market repurchase transactions of up to 50.0 million shares of our common stock, which will be implemented through open market or private purchases from time to time as conditions warrant. During the six months ended June 30, 2016, we repurchased 0.9 million shares of our common stock at an average price of $18.48 per share. As of June 30, 2016, we have the authority to purchase an additional 4.9 million shares of our common stock under the current plans approved by the Board of Directors.

Stock Option Exercises

We issued 33 thousand shares of treasury stock during the six months ended June 30, 2016 to accommodate employee stock option exercises. The stock options had exercise prices ranging from $15.29 to $18.97. We received proceeds totaling $0.5 million from the exercise of these stock options during the six months ended June 30, 2016.

Dividend Payments

During the six months ended June 30, 2016, we paid cash dividends as follows (in thousands except per share amounts):

Record Date	Payment Date	Per Share Amount	Total Dividend Paid
February 4, 2016	February 18, 2016	$ 0.09	$ 4,453
April 28, 2016	May 12, 2016	$ 0.09	$ 4,407

Other Comprehensive Income

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

The following tables present changes in accumulated other comprehensive income, net of tax, by component for the three months ended June 30, 2016 and 2015:

(In thousands)	Three Months Ended June 30, 2016 Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total
Beginning balance	$1,677	$ (3,850)	$ (5,778)	$(7,951)
Other comprehensive income (loss) before reclassifications	481	-	(601)	(120)
Amounts reclassified from accumulated other comprehensive income	(646)	22	-	(624)
Net current period other comprehensive income (loss)	(165)	22	(601)	(744)
Ending balance	$1,512	$ (3,828)	$ (6,379)	$(8,695)

(In thousands)	Three Months Ended June 30, 2015 Unrealized Gains (Losses) on Available-for-Sale	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total

	Securities			
Beginning balance	$8,461	$ (5,689)	$ (6,600)	$(3,828)
Other comprehensive income (loss) before reclassifications	177	-	872	1,049
Amounts reclassified from accumulated other comprehensive income	(1,960)	72	-	(1,888)
Net current period other comprehensive income (loss)	(1,783)	72	872	(839)
Ending balance	$6,678	$ (5,617)	$ (5,728)	$(4,667)

17

The following tables present changes in accumulated other comprehensive income, net of tax, by component for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30, 2016			
(In thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total
Beginning balance	$1,932	$ (3,895)	$ (7,006)	$(8,969)
Other comprehensive income (loss) before reclassifications	1,239	-	627	1,866
Amounts reclassified from accumulated other comprehensive income	(1,659)	67	-	(1,592)
Net current period other comprehensive income (loss)	(420)	67	627	274
Ending balance	$1,512	$ (3,828)	$ (6,379)	$(8,695)

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

comprehensive income				
Net current period other comprehensive income (loss)	(2,286)	140	(2,446)	(4,592)
Ending balance	$6,678	$ (5,617)	$ (5,728)	$(4,667)

The following tables present the details of reclassifications out of accumulated other comprehensive income for the three months ended June 30, 2016 and 2015:

(In thousands)	Three Months Ended June 30, 2016	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income Is Presented
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$1,354	Net realized investment gain
Impairment expense	(295)	Net realized investment gain
Defined benefit plan adjustments – actuarial losses	(33)	(1)
Total reclassifications for the period, before tax	1,026	
Tax (expense) benefit	(402)	
Total reclassifications for the period, net of tax	$624	

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

(In thousands)	Three Months Ended June 30, 2015	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other	Affected Line Item in the Statement Where Net Income Is Presented

	Comprehensive Income	
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$3,264	Net realized investment gain
Impairment expense	(51)	Net realized investment gain
Defined benefit plan adjustments – actuarial losses	(105)	(1)
Total reclassifications for the period, before tax	3,108	
Tax (expense) benefit	(1,220)	
Total reclassifications for the period, net of tax	$1,888	

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

The following tables present the details of reclassifications out of accumulated other comprehensive income for the six months ended June 30, 2016 and 2015:

(In thousands)	Six Months Ended June 30, 2016	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income Is Presented
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$3,115	Net realized investment gain
Impairment expense	(395)	Net realized investment gain
Defined benefit plan adjustments – actuarial losses	(98)	[1]
Total reclassifications for the period, before tax	2,622	
Tax (expense) benefit	(1,030)	
Total reclassifications for the period, net of tax	$1,592	

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

(In thousands)	Six Months Ended June 30, 2015	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other	Affected Line Item in the Statement Where Net Income Is Presented

	Comprehensive Income	
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$6,340	Net realized investment gain
Impairment expense	(73)	Net realized investment gain
Defined benefit plan adjustments – actuarial losses	(203)	[1]
Total reclassifications for the period, before tax	6,064	
Tax (expense) benefit	(2,381)	
Total reclassifications for the period, net of tax	$3,683	

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

20

The following table presents the tax effects related to the change in each component of other comprehensive income for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30, 2016			Three Months Ended June 30, 2015		
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$789	$ (308)	$ 481	$290	$ (113)	$ 177
Reclassification adjustment for amounts related to available-for-sale investments included in net income	(1,059)	413	(646)	(3,213)	1,253	(1,960)
Reclassification adjustment for amounts related to defined benefit plan adjustments included in net income	33	(11)	22	105	(33)	72
Foreign currency translation adjustment	(601)	-	(601)	872	-	872
Total Other Comprehensive Income (Loss)	$(838)	$ 94	$ (744)	$(1,946)	$ 1,107	$ (839)

The following table presents the tax effects related to the change in each component of other comprehensive income for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$2,031	$ (792)	$ 1,239	$2,520	$ (983)	$ 1,537

Reclassification adjustment for amounts related to available-for-sale investments included in net income	(2,720)	1,061	(1,659)	(6,267)	2,444	(3,823)
Reclassification adjustment for amounts related to defined benefit plan adjustments included in net income	98	(31)	67	203	(63)	140
Foreign currency translation adjustment	627	-	627	(2,446)	-	(2,446)
Total Other Comprehensive Income (Loss)	$36	$ 238	$ 274	$(5,990)	$ 1,398	$ (4,592)

21

10. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2016 and 2015 is as follows:

(In thousands, except per share amounts)	Three Months Ended June 30, 2016	2015	Six Months Ended June 30, 2016	2015
Numerator				
Net income	$10,228	$2,544	$15,242	$5,861
Denominator				
Weighted average number of shares – basic	48,831	51,822	49,026	52,607
Effect of dilutive securities				
Stock options	161	72	138	122
Restricted stock and restricted stock units	56	23	54	13
Weighted average number of shares – diluted	49,048	51,917	49,218	52,742
Net income per share – basic	$0.21	$0.05	$0.31	$0.11
Net income per share – diluted	$0.21	$0.05	$0.31	$0.11

Anti-dilutive options to purchase common stock outstanding were excluded from the above calculations. Anti-dilutive options totaled 5.6 million and 6.1 million for the three months ended June 30, 2016 and 2015, respectively, and 5.8 million and 5.7 million for the six months ended June 30, 2016 and 2015, respectively.

11. SEGMENT INFORMATION

In 2015, we began a realignment of our organizational structure to better match our market opportunities, technological development initiatives, and improve efficiencies. During the first quarter of 2016, our chief operating decision maker requested changes in the information that he regularly reviews for purposes of allocating resources and assessing performance. As a result, beginning with the quarter ended March 31, 2016, we began reporting our financial performance based on two, new reportable segments – Network Solutions and Services & Support. Network Solutions includes hardware products and next-generation virtualized solutions used in service provider or business networks, as well as prior-generation products. Services & Support includes our suite of ProCloud® managed services, network installation, engineering and maintenance services, and fee-based technical support and equipment repair/replacement plans.

We evaluate the performance of our new segments based on gross profit; therefore, selling, general and administrative expenses, research and development expenses, interest and dividend income, interest expense, net realized investment gain/loss, other income/expense and provision for taxes are reported on a company-wide, functional basis only. Historical financial information by reportable segment and category, as discussed below, has been recast to conform to our new reporting structure. There are no inter-segment revenues.

The following table presents information about the reported sales and gross profit of our reportable segments for the three and six months ended June 30, 2016 and 2015. We do not produce asset information by reportable segment; therefore, it is not reported.

	Three Months Ended			
	June 30, 2016		June 30, 2015	
(In thousands)	Sales	Gross Profit	Sales	Gross Profit
Network Solutions	$138,549	$70,705	$144,098	$59,888
Services & Support	24,152	8,250	16,040	8,358
Total	$162,701	$78,955	$160,138	$68,246

	Six Months Ended			
	June 30, 2016		June 30, 2015	
(In thousands)	Sales	Gross Profit	Sales	Gross Profit
Network Solutions	$262,432	$130,515	$273,603	$117,833
Services & Support	42,473	14,234	29,370	15,976
Total	$304,905	$144,749	$302,973	