ADTRAN INC
Form 10-K
February 25, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS
PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended December 31, 2010

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 Number)*
901 Explorer Boulevard **Huntsville, Alabama 35806-2807**	**(256) 963-8000**
(Address of principal executive offices, including zip code)	(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	**Name of Each Exchange on which Registered**
Common Stock, par value $0.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Securities Exchange Act. Yes o No þ

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 12 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 þ 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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer þ 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 þ

The aggregate market value of the registrant s outstanding common stock held by non-affiliates of the registrant on June 30, 2010 was $1,693,956,687 based on a closing market price of $27.27 as quoted on the NASDAQ Global Select Market. There were 64,540,754 shares of common stock outstanding as of February 17, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2011 are incorporated herein by reference in Part III.

ADTRAN, Inc.
Annual Report on Form 10-K
For the Fiscal Year Ended December 31, 2010
Table of Contents

Item Number		Page Number
	PART I	
1.	Business	1
1A.	Risk Factors	12
1B.	Unresolved Staff Comments	22
2.	Properties	22
3.	Legal Proceedings	22
4A.	Executive Officers of the Registrant	22
	PART II	
5.	Market for Registrant_s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	24
6.	Selected Financial Data	25
7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
7A.	Quantitative and Qualitative Disclosures about Market Risk	39
8.	Financial Statements and Supplementary Data	40
9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	67
9A.	Controls and Procedures	67
9B.	Other Information	67
	PART III	
10.	Directors, Executive Officers and Corporate Governance	67
11.	Executive Compensation	68
12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	68

13.	Certain Relationships and Related Transactions and Director Independence	68
14.	Principal Accountant Fees and Services	68

PART IV

15.	Exhibits and Financial Statement Schedules	68
SIGNATURES		72
INDEX OF EXHIBITS		74

Exhibit 21
Exhibit 23
Exhibit 24
Exhibit 31
Exhibit 32
EX-101 INSTANCE DOCUMENT
EX-101 SCHEMA DOCUMENT
EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT

Table of Contents

PART I

ITEM 1. BUSINESS

Overview

ADTRAN, Inc. designs, manufactures, markets and services network access solutions for communications networks. Our solutions are widely deployed by providers of communications services (serviced by our Carrier Networks Division), and small and mid-sized enterprises (SMEs) (serviced by our Enterprise Networks Division), and enable voice, data, video and Internet communications across wireline and wireless networks. Many of these solutions are currently in use by every major United States and many global service providers, as well as by many public, private and governmental organizations worldwide.

We were incorporated under the laws of Delaware in November 1985, and commenced operations in January 1986. We are headquartered in Cummings Research Park in Huntsville, Alabama. The mailing address at our headquarters is 901 Explorer Boulevard, Huntsville, Alabama, 35806. The telephone number at that location is (256) 963-8000.

Products and Services

We maintain two operating divisions based on our product and service offerings: the Carrier Networks Division and the Enterprise Networks Division. These divisions serve two distinct markets and support sales globally, operating as two reportable segments. In 2010, sales of Carrier Networks products accounted for 78.6% of total revenue, while sales of Enterprise Networks products accounted for 21.4%. Sales to countries outside of the United States are included in these aggregate divisional figures, but when accounted for separately, comprise 5.3% of total revenue. For more financial information about these divisions and geographic areas, see Note 9 to the Consolidated Financial Statements included in this report.

Our Carrier Networks Division provides products and services used by service providers to deliver voice, data and video services to their customers premises and to mobile network cell sites. These products are located in central exchange offices or remote terminals, serving area interconnect locations and cell site locations for mobile networks.

Our Enterprise Networks Division provides products and services used by enterprise customers to construct voice, data and video networks within the customer s site or among distributed sites. Our combined product portfolio for both divisions consists of approximately 1,800 high-speed network access and communication devices. Our products typically connect two ends of a circuit and serve to transmit, route, and/or switch the data, voice, and/or video traffic traveling across that circuit. The bandwidth requirements of the circuit, along with the type of technology being used, determine the type of equipment needed.

Both of our divisions are positioned with product and service offerings that compete in many segments of the global telecommunications industry and, specifically, in the areas of Ethernet and Internet Protocol (IP) based networks. As networks migrate to IP-based architectures to deliver and utilize higher bandwidth services, ADTRAN® has strengthened its technologies in its primary growth areas: Broadband Access, Optical Access and Internetworking.

For a discussion of risks associated with our products see Risk Factors We must continue to update and improve our products and develop new products in order to compete and to keep pace with improvements in telecommunications technology , and Risk Factors If our products do not interoperate with our customers networks, installations may be delayed or cancelled, which could harm our business , in Item 1A of this report.

Network Access Infrastructure for Advanced Services

Networks are continuing to undergo a fundamental shift from circuit-based technologies to packet-based technologies, and converged networks are being implemented to address voice, video and data requirements in an effort to become more efficient. When voice was the dominant type of traffic in the network, networks were engineered to carry voice, integrating data into the architecture as necessary. Today, data is the dominant traffic type, and networks are evolving to increase bandwidth and transport data, voice and video in an integrated architecture. As networks migrate toward integrated communications and entertainment services, service providers and businesses alike are transitioning their networks to packet-based technologies, such as Ethernet and IP. We are well positioned to support both existing services and newer advanced services in the all integrated world of Ethernet and IP.

We develop, market, and support high-speed network access solutions for use across IP, Asynchronous Transfer Mode (ATM), and Time Division Multiplexed (TDM) architectures in both wireline and wireless network applications. Our solutions, including services and support, are used to deploy new broadband networks and to upgrade slower,

established networks using copper, fiber, and wireless technologies both in the United States and abroad.

Table of Contents

Our three major product categories are Carrier Systems, Business Networking and Loop Access.

Carrier Systems products are used by communications service providers to provide last mile access in support of data, voice and video services to consumers and enterprises. The Carrier Systems category includes our broadband access products comprised of Total Access® 5000 multi-service access and aggregation platform products, Total Access 1100/1200 Series Fiber-To-The-Node (FTTN) products, and Digital Subscriber Line Access Multiplexer (DSLAM) products. Our broadband access products are used by service providers to deliver high-speed Internet access, Voice over Internet Protocol (VoIP), IP Television (IPTV), and/or Ethernet services from the central office or remote terminal locations to customer premises. The Carrier Systems category also includes our optical access products. These products consist of optical access multiplexers including our family of OPTI products and our Optical Networking Edge (ONE) products. Optical access products are used to deliver higher bandwidth services, or to aggregate large numbers of low bandwidth services for transportation across fiber optic infrastructure. Total Access 1500 products, 303 concentrator products, M13 multiplexer products, and a number of mobile backhaul products are also included in the Carrier Systems product category.

Business Networking products provide access to telecommunication services, facilitating the delivery of converged services and Unified Communications to the SME market. The Business Networking category includes Internetworking products and Integrated Access Device (IAD) products. Internetworking products consist of our Total Access IP Business Gateways, Optical Network Terminals (ONTs), and NetVanta product lines. NetVanta products include multi-service routers, managed Ethernet switches, IP Private Branch Exchange (PBX) products, IP phone products, Unified Communications solutions, Unified Threat Management (UTM) solutions and Carrier Ethernet Network Terminating Equipment (NTE).

Loop Access products are used by carrier and enterprise customers for access to copper-based telecommunications networks. The Loop Access category includes products such as: Digital Data Service (DDS) and Integrated Services Digital Network (Total Reach) products, High bit-rate Digital Subscriber Line (HDSL) products including Total Access 3000 HDSL and Time Division Multiplexed-Symmetrical HDSL (TDM-SHDSL) products, T1/E1/T3, Channel Service Units/Data Service Units, and TRACER fixed wireless products.

In addition, we identify sub-categories of product revenues, which we divide into growth products, representing our primary growth areas, and traditional products. Our growth products consist of Broadband Access and Optical Access products (included in Carrier Systems) and Internetworking products (included in Business Networking) and our traditional products include HDSL products (included in Loop Access) and other products not included in the aforementioned growth products.

Carrier Networks

Carrier services continue to evolve to next generation networks, and carrier service providers are generating additional revenue by connecting greater numbers of customers to their infrastructure by offering broadband digital services. Our Carrier Networks Division supplies the network access products, services and support that these service providers require to connect their customers to core transmission and switching networks. Specifically, we deliver fiber and copper-based solutions that enable these types of services. Our customer base includes all of the Major Service Providers (which includes United States Incumbent Local Exchange Carriers (ILECs), Competitive Local Exchange Carriers (CLECs), and Cable MSOs), many independent operating companies, Utilities, Municipalities, major international carriers and wireless service providers. We have focused on opportunities in North America, with increasing emphasis on expanding into the Asia-Pacific region, Caribbean, Latin America, Europe, the Middle East and Africa.

Services enabled using our systems include traditional voice services, VoIP, IPTV, RF Video, high-speed Internet access and data services based upon Ethernet, frame relay, TDM, and ATM networks, connecting the network with user components such as switches, routers, gateways, IADs, PBXs, and telephone key systems. ADTRAN devices, deployed at the business site, are enabling carriers to provide Ethernet services to SMEs and distributed enterprises. Our solutions provide a complete end-to-end solution for carriers by supporting both new fiber-based infrastructure and also allowing them to reuse their existing copper infrastructure, lowering their overall costs to deploy advanced Ethernet services to SMEs and distributed enterprises.

Service Provider Networks

Telecommunications networks are transitioning from traditional TDM and circuit-switched technology to IP and Ethernet-based packet networks that offer services such as high-speed Internet access, VoIP, and IPTV. We design solutions that allow service providers to leverage existing network assets, by providing a migration path to new broadband technologies and services.

Continued competition from cable and wireless providers is forcing traditional wireline service providers to react with price incentives, service bundling, and network investments and modifications. ADTRAN products, services and support enable wireline providers to offer higher Internet access speeds as well as VoIP and IPTV. Our multi-service access and aggregation platforms are used to provide multi-Gigabit Ethernet capability, increasing rates within the access network. Our optical technologies enable subscriber access solutions for Fiber-To-The-Premises and FTTN architectures. To offer higher speed DSL services in support of delivering Internet access and IPTV, carriers are shortening copper loop lengths in order to increase bandwidth and gain a competitive advantage. Our multi-service access and aggregation platform and the FTTN series of outside plant DSLAM products are used to shorten copper loop lengths so that wireline providers can deliver higher-speed network services.

Table of Contents

Our products marketed under the Total Access® brand fit the decentralized networking model that most carriers are using today both in the United States and abroad. Currently, these products comprise the flagship product line for the Carrier Networks Division and offer service providers a single platform that can accommodate demand for a variety of high-speed Internet, voice, data and video services from businesses and residential customers. These modular, scalable, and geographically distributed products offer advantages such as lower start-up costs, more flexible service deployment, greater network interface options, increased bandwidth, grow-as-you-go modularity, and centralized network management. We provide Total Access products that connect to fiber optic and copper network backbones, making them suitable for installation in many parts of the network and enabling deployment of a wide range of voice, video and data services around the world. The Total Access® products and other ADTRAN products are accepted by the USDA Rural Utilities Service (RUS) as suitable for use in RUS-financed telecommunications systems. Deployed in central offices, remote terminals, or multi-tenant units, the system encompasses carrier-class solutions for fiber and copper broadband multi-service access, DSL access, Carrier Ethernet access, and narrowband multi-service access.

Advanced IP Services

For wireline service providers, our broadband access products provide the ability to increase bandwidth and improve the quality of services to customers. These products are used in high-density central office applications, along with lower density applications that include remote terminals and outside plant deployments. Also, these products are available in models that are temperature hardened for use in harsh, outside-plant environments and provide support for Ethernet delivery of advanced IP services over fiber or copper as well as legacy TDM and ATM networks.

High-speed Residential Services

Designed with fiber deployment in mind, the ADTRAN Total Access 5000 provides high-capacity switching and bandwidth for ultra-broadband services. Optical Line Terminals (OLTs) provide either a full 2.5 Gbps of dedicated bandwidth per Passive Optical Network (PON) or up to 1 Gbps per end user, enabling the delivery of advanced solutions like IPTV across an all-Ethernet architecture. ADTRAN s Total Access 300 series family of Optical Network Terminals (ONTs) provides carriers with different delivery options for residential, business and mobile backhaul opportunities. The Total Access 5000 offers the industry s most comprehensive set of broadband solutions from an all-Ethernet platform.

Our leading Total Access® DSLAMS allow service providers to realize ultra-broadband speeds over their existing copper infrastructure, economically securing the broadband connection to the home and enabling the delivery of advanced communications and entertainment services. Capabilities like Very-high-data-rate Digital Subscriber Line (VDSL2) and other technology enhancements that are actively being developed will help Service Providers overcome the challenge of using their existing copper facilities to compete with service offerings of 100Mb and higher without the need to invest in or overcome the obstacles associated with Fiber-to-the Premises (FTTP) architectures.

The Total Access® 1100 Series broadband access products provide an innovative approach to the successful deployment of FTTN architectures. Recognizing the technological and economic barriers of traditional cabinet-based DSL deployments, ADTRAN designed this product series to eliminate the need for expensive cabinet enclosures, heat exchangers and site construction, which account for a large portion of the total cost of deployment. In many cases, Total Access® 1100 Series DSLAMs can deliver FTTN-based services for significantly less than traditional cabinet-based systems. This allows carriers to more economically utilize the capacity of the existing copper network over the last mile.

Metro Ethernet Services

Metro Ethernet is growing with the proliferation of packet-based infrastructure in both enterprise and carrier networks. The implementation of Ethernet throughout the communications network provides benefits in equipment and operational savings. Gigabit speeds are increasingly becoming available throughout the access network, but they are far from being widespread. Ethernet s increasing presence throughout the network is driving costs down, further increasing availability to business customers. We provide Metro Ethernet Forum (MEF) compliant products that enable the delivery of these services.

ADTRAN has a complete portfolio of solutions for Carrier Ethernet services utilizing Fiber (EoF), Copper (EoCu) and TDM (EoTDM). These solutions enable cost-effective business Ethernet service delivery across all kinds of network infrastructure. The ADTRAN Total Access 5000 supports standards-based copper pair bonding of xDSL loops for

direct Ethernet service delivery. Leveraging a complete end-to-end solution with the NetVanta 800 and NetVanta 8000 Series of network termination equipment, the Total Access 5000 also offers an innovative approach to delivering Ethernet services by aggregating bonded copper, bonded circuits, and fiber while supporting multi-megabit rates for MEF certified carrier Ethernet circuits. This combination allows carriers to ubiquitously offer Ethernet services across the entire network, enabling new revenue-generating services for businesses.

Table of Contents

Optical Access

Optical Networking Edge (ONE) has been added to our product portfolio to enable high performance optical services at the edge of the network. The ADTRAN ONE solutions combine right sized core optical services like Wave Division Multiplexing (WDM), Scalable Carrier Ethernet, Optical Transport Node (OTN), and SONET/SDH with high-speed access services under the Total Access® 5000 multi-service access and aggregation platform.

Our OPTI® product family includes a multi-service provisioning platform, the OPTI-6100®, delivering high-speed Ethernet (addressing DS1/E1, DS3/E3, OC-3/STM-1, OC-12/STM-4, OC-48, and 10/100/1000Mb) connectivity and transport to cellular sites using a variety of fiber optic ring architectures. Our OPTI-3® fiber multiplexer provides OC-3 capacity in terminal mode and DS3 range extension applications. The OPTI-6100® MX (medium) chassis consolidates discrete optical and multiplexer network elements into one, small chassis that addresses DS1/E1, DS3/E3, STS-1, OC-3/STM-1 bandwidths, and Ethernet services delivery to the subscriber. Our OPTI-6100® LMX (large) chassis provides high-density termination options and utilizes many common modules from the other OPTI® chassis. The OPTI-6100® SMX (small) chassis provides a very compact chassis for low-density applications, with a variety of mounting options to meet unique customer requirements. Our solutions provide for optical transport in very compact enclosures for cell site traffic backhaul and feature single fiber operation for maximum facility utilization and integration with the ADTRAN Total Access® family of products and associated multiplexers.

All of these products enable wireless and wireline service providers to more efficiently handle network traffic by consolidating multiple circuits into a single facility, to upgrade their networks to support next-generation services, and to improve backhaul efficiency. These devices provide a migration path from TDM systems to Ethernet/IP networks and also support techniques for bonding multiple physical circuits into a single virtual circuit.

Business-class Services

HDSL is a common technique for delivering bandwidth at rates of 1.544 Mbps (known as the DS1 or T1 rate) for infrastructure support, business customer services, and wireless network mobile backhaul services. The T1 interface is universally accepted throughout the United States, and HDSL is the most common method of delivering the T1 interface in nearly every application. ADTRAN HDSL products are manufactured in a variety of configurations for use in every major DS1 deployment platform for voice and data services.

SHDSL products were developed to provide symmetrical solutions for the transport of high-speed business-class services. The International Telecommunications Union (ITU), Alliance for Telecommunications Industry Solutions (ATIS), and the European Telecommunications Standards Institute (ETSI) have established standards for 2-wire and 4-wire SHDSL solutions.

We contributed significantly to ITU, ATIS, and ETSI SHDSL standards. Because of this involvement, we delivered the industry s first SHDSL customer device. Our SHDSL products, like many of our products, are standards-based, which ensures interoperability with other standards-based products.

Service and Support

In addition to our product portfolio and standard pre- and post-sales technical support, the CN division offers a variety of professional services to provide customers with deployment, maintenance and management services. Deployment service offerings include engineering, installation, configuration, turn-up and test, training, and project management services, as well as pre-assembled and wired rack and cabinet assemblies. Maintenance services are designed to protect customers networks from unnecessary downtime such as managed spares, extended warranty, and remote or on-site technical support beyond standard warranty coverage. Management services facilitate remote management and monitoring of the service providers networks.

Network Management

As communications solutions and networks become more complex, the need for carrier-class management systems becomes vital to ensure operational efficiencies. A system level view is necessary and service awareness is increasingly important. We develop and support systems to centralize the configuration, provisioning, and management of our network access products. These systems are used to configure, monitor, and control ADTRAN equipment installed in the network. The systems ensure communication with the service provider s central management system to reduce technician dispatches and operating costs.

We have added the Advanced Operational Environment (AOE) set of products to provide integrated end-to-end service aware network management tools that enhance network planning, service activation, service assurance, and decision support tools for our customers operations. Our Total Access® Element Management System is an all-Java application that provides configuration, performance, network assurance, and provisioning functions for ADTRAN Total Access® products.

Table of Contents

Enterprise Networks

Our Enterprise Networks Division encompasses a comprehensive internetworking solutions portfolio that delivers converged services, Unified Communications (UC) and Unified Threat Management (UTM) to the SME market. Small and medium businesses and geographically dispersed enterprises use these products for their voice and data service requirements. Our carrier customers bundle our solutions into their service offerings for their SME customers. These products are typically installed in equipment rooms and wiring closets, to connect headquarters, branch offices, and telecommuters to the corporate voice and data infrastructure. A small to medium business generally refers to an organization with fewer than 500 employees. These organizations can be a single location or geographically dispersed with many locations, including home offices. These businesses and service providers use our internetworking products to implement a high performance, reliable network for converged services, Unified Communications and Unified Threat Management.

Marketed under the brand names Total Access® and NetVanta®, our solutions are known for their high performance, reliability and high availability making them the preferred solutions for the delivery of converged IP services. The Enterprise Network solutions portfolio provides the infrastructure required for a SME to utilize converged IP services, Unified Communications and Unified Threat Management. The solutions portfolio includes multi-service routers, managed Layer 2/3 switches, IP Business Gateways (IPBGs), FTTx ONTs, Wireless Access Points (WAPs), IP PBXs, IP phones, UC and security solutions. Our solutions enable the SME end user to migrate their existing infrastructure thus preserving their investment; or to replace their legacy system with an IP-based solution.

We view the development and continued evolution of our operating system as critical to our success in bringing to market feature-rich, highly reliable, high-performance solutions. As such, the ADTRAN Operating System (AOS) is common across our internetworking products, optimizing our product development resources and minimizing time to market for new products and features. It also ensures common configuration practices, policies, protection schemes, and management interfaces for our carrier customers providing a Total Cost of Ownership (TCO) advantage.

Our solutions and roadmaps are closely aligned with our customers strategic service offerings. Our solutions enable our customers to offer high-performance, feature-rich managed and unmanaged converged IP services (data, voice, unified communications and security features) to the SME. Our solutions offer a wide variety of LAN and WAN connectivity options, ranging from analog to fiber, supporting different geographic locations in their enterprise and wide area networks, as well as local area networks requiring switching, routing and voice capabilities. Many of the products available from the Enterprise Networks Division reach the SME end user through their service provider as these products are typically installed by the service provider at the customer premises as part of a bundled service package.

Data Solutions

ADTRAN multi-service routers move data between networked computers over public or private IP, Frame Relay, MultiProtocol Label Switching leased-line infrastructures or carrier-supplied Ethernet services. These devices include features to route traffic between multiple destinations, secure the network against cyber attacks, ensure the privacy of data as it is transported across the Internet, and restore communications in the event of equipment or network failure. ADTRAN multi-service routers provide Internet access and interconnect corporate locations and when deployed in the workgroup environment with our managed Layer 2 and Layer 3 (L2/L3) Ethernet switches provide connectivity from the WAN to the end user s desktop computer and IP Phone. ADTRAN s managed L2/L3 switches range in speeds up to multi-Gigabit and include Power over Ethernet (PoE) options.

Our NetVanta multi-service router products include both modular and fixed-configuration solutions. The NetVanta router portfolio offers a wide assortment of business-class features including: Quality of Service (QoS), Firewall, VPN, Network Performance Monitoring, Cable Diagnostics and Voice Quality Monitoring (VQM). These features enable carriers to offer the highest quality of service with a TCO advantage.

The ADTRAN NetVanta portfolio also includes wireless solutions for the SME market. With 802.11WiFi capabilities, the NetVanta 1335 multi-service access router with integrated WiFi and NetVanta 150 wireless access device address the increasing demands for wireless solutions, allowing businesses to streamline and improve operational efficiencies, expand customer service offerings, and increase flexibility for employees.

The NetVanta router portfolio supports 3G data services. The NetVanta 3G Network Interface Module (NIM) provides a wireless WAN capability for our NetVanta line of multi-service routers and provides a rapid, secure and cost-effective connectivity option when used in conjunction with one of our modular routers. A 3G data service allows customers to take advantage of flexible deployment options at broadband speeds from a single platform. The solution is ideal for a number of applications including use as a primary data service and/or a network failover option for SMEs.

Table of Contents

Voice Solutions

The network infrastructure for voice services, in recent years, has undergone a rapid evolution to an IP-based infrastructure, including the accelerated adoption of SIP trunking. SIP trunking is a packet-based service that dynamically consolidates all voice and data traffic over a single IP circuit and enables the SIP Service Provider to carry local, domestic and international long distance, and toll free calls, in addition to video, email, Internet, and other data. As a result, VoIP as a part of a converged services offering, represents an important revenue opportunity for service providers seeking to add new features, such as cloud applications and unified communications in order to retain and expand their subscriber base. ADTRAN Total Access and NetVanta IP Business Gateways (IPBGs) support this strategic direction, and are deployed by the service provider at the demarcation point on the customer premises. An ADTRAN IPBG combines the functionality of a voice gateway with a multi-service router and security features. Our products offer a highly integrated, cost-effective platform for delivering converged services to the SME customer.

Our Enterprise Networks Division solutions are widely regarded for their innovation, most notably our ability to integrate the functionality of multiple network elements into a single platform. This all-in-one strategy for the delivery of converged voice and data services enables a service provider to offer a SME customer converged services without the expense of replacing their current infrastructure, enabling the customer to migrate to a Hosted PBX service based on their timeline for investment. Supporting a SME s migration with a single platform provides the service provider with operational efficiencies, such as network management, and a TCO advantage.

The Enterprise Networks Division portfolio of voice products provides an industry-leading TCO advantage. Our voice products combine the highest level of feature integration with performance and reliability. This level of product innovation combined with our industry-leading warranty and product support enables the service provider an extended life cycle for our platforms in their customer s network.

Unified Communications and IP Telephony

Unified Communications (UC) solutions were added to the portfolio of ADTRAN Enterprise solutions in 2009, with the acquisition of Objectworld Communications Corporation, a Canadian-based company. Marketed under the name NetVanta Unified Communications, these solutions enable businesses with 75 to 2,000 employees to realize the benefits of UC. ADTRAN s NetVanta UC products deliver end-to-end unified communications that bridge the gap between telephony, desktop communications productivity and business processes. Referred to as Communications-Enabled Business Processes (CEBP), ADTRAN NetVanta UC solutions enable businesses with Microsoft Windows platforms to drive workforce productivity and improve customer service. ADTRAN s award-winning NetVanta UC Server enables CEBP while providing simplicity and value to businesses that want to make a smooth transition from simple telephony to a unified communications solution without sacrificing their PBX and Microsoft business systems investments. There are four platforms in the NetVanta UC solutions portfolio: NetVanta UC Server, NetVanta Business Application Server, NetVanta Enterprise Communications Server, and NetVanta Business Communications System.

The addition of UC solutions is a logical extension of our Enterprise portfolio enabling our customers to continue to look to ADTRAN as a total solution provider. Additionally, NetVanta UC solutions provide the flexibility to be customized and optimized to address the unique CEBP and customer service needs of a range of vertical markets such as banking, hospitality, education, healthcare, retail, and real estate.

ADTRAN s NetVanta 7000 Series is an innovative IP PBX solution with integration that results in a single box solution for small business communications needs. Scaling up to 100 users the NetVanta 7000 Series combines the features of an IP PBX with the functionality of an Ethernet switch, a multi-service router, security features and WAN connectivity.

At the end of 2010, ADTRAN expanded its solution portfolio further by entering the security market with the NetVanta 2000 Series of Unified Threat Management (UTM) security appliances. This UTM solution is a multi-tiered, security solution combining intrusion prevention, anti-virus and anti-spyware capabilities with application intelligence and control. ADTRAN s UTM product family enables end-user customers to combine high-performance, internetworking solutions with UTM to create a solution from, and supported by, a single vendor.

Configuration and Network Management

We develop and support network productivity tools and systems to centralize the configuration and management of our internetworking products. These tools aid in the management of networks powered by ADTRAN internetworking products and includes the nCommand MSP (Managed Service Provider) management platform. nCommand MSP streamlines a service provider s product life cycle management efforts including remote monitoring and management of ADTRAN NetVanta or Total Access solutions. A web-based platform, nCommand MSP simplifies new device deployment and enables Managed Service Providers, service providers and enterprise IT organizations to deliver on Service Level Agreements, improve customer service response times, reduce network downtimes and proactively monitor and report network performance, all while reducing operational costs.

Table of Contents

Service and Support

In addition to our product portfolio, we offer technical support services to help ensure that we are responsive to our customers who have deployed networking and infrastructure solutions. We provide pre- and post-sales technical support and a variety of training options. We offer installation and maintenance services designed to protect customers networks from unnecessary downtime. ADTRAN professional services, ADTRAN Custom Extended Services , branded as ACES, guarantees priority access to technical support engineers and on-site product replacement on a four-hour or next business day basis, depending on the service plan selected. Our service and support offerings are available to customers in both our Carrier Networks Division and Enterprise Networks Division.

Customers

We have a diverse customer base, which we segment based on the markets served, and typically within each of our two distinct divisions.

Customers of our **Carrier Networks Division** in the United States include Major Service Providers, independent telephone companies, competitive service providers, Internet service providers, Utilities, Municipalities, and wireless service providers.

The Carrier Networks Division also serves incumbent carriers and competitive service providers internationally in various regions.

Major Service Providers and many smaller providers require product approval prior to adopting a vendor s products for use in their networks. We are involved in a constant process of submitting new and succeeding generations of products for approval and ADTRAN products are widely deployed in these service provider networks.

Customers of our **Enterprise Networks Division** in the United States include Major Service Providers, independent telephone companies and competitive service providers. Additionally SME organizations purchase our solutions through a two-tier distribution channel. The two-tier distribution channel is comprised of several large distributor partners and an extensive network of value-added resellers (VARs) as described in Distribution, Sales and Marketing below. Furthermore, ADTRAN Enterprise solutions are deployed internationally in various regions. Vertical markets where our solutions are used include retail, food service, healthcare, finance, government, education, manufacturing, military, transportation, hospitality, and energy/utility.

Single customers comprising more than 10% of our revenue in 2010 include Qwest Communications International, Inc. at 20%, AT&T Inc. at 18%, and Verizon Communications, Inc. at 11%. The revenues from all of these customers are reported in both the Carrier Networks and Enterprise Networks segments. No other customer accounted for 10% or more of our sales in 2010.

For a discussion of risks associated with customers, service providers and approval processes, see Risk Factors The lengthy approval process required by major and other service providers for new products could result in fluctuations in our revenue , Risk Factors We depend heavily on sales to certain customers; the loss of any of these customers would significantly reduce our revenues and net income , and Risk Factors Consolidation and deterioration in the competitive service provider market could result in a significant decrease in our revenue , in Item 1A of this report.

Distribution, Sales and Marketing

We sell our **Carrier Networks** products in the United States through a combination of a direct sales organization and a distribution network. Our direct sales organization supports major accounts and has offices located throughout the United States. Sales to most competitive service providers and independent telephone companies are fulfilled through a combination of direct sales and major technology distribution companies such as KGP Logistics, Inc., Walker and Associates, Inc., and Power & Telephone Supply Company.

Prior to placing any orders, service providers require lengthy product qualification and standardization processes that can extend for several months or years. Orders, if any, are typically placed under single or multi-year supply agreements that are generally not subject to minimum volume commitments. Service providers generally prefer having two or more suppliers for most products, so individual orders are usually subject to competition based on some combination of total value, service, price, delivery, and other terms.

The majority of **Enterprise Networks** products are sold in the United States through a non-exclusive distribution network that consists, at the top level, of several major technology distributors, such as Walker and Associates, Inc., Ingram Micro, Inc., Jenne Distributors, Inc., Synnex Corporation and ScanSource, Inc. d/b/a Catalyst Telecom. These

organizations then distribute products to an extensive network of Value-Added Resellers (VARs), system integrators, and service providers.

VARs and system integrators may be affiliated with ADTRAN as channel partners, or they may purchase from a distributor in an unaffiliated fashion. Affiliated partners participate with us at various program levels based on sales volume and other factors to receive benefits such as product discounts, co-op advertising funds, technical support and training. We maintain field offices nationwide to support distributors, VARs and system integrators. The Enterprise Networks Division maintains a channel-based sales organization to manage our partners.

Table of Contents

A growing portion of our Enterprise Networks products are being sold to service providers for provisioning of hosted VoIP service offerings for SME branch office end users.

Outside of the United States, both Carrier and Enterprise products are sold through distribution arrangements customized for each region. Each region is supported by an ADTRAN field office that offers sales and support functions, and in some cases, warehousing and manufacturing support. In some regions, Carrier products are sold to carriers through our direct sales organization.

Our field sales organizations, distributors, and service provider customers receive support from headquarters-based marketing, sales, and customer support groups. Under certain circumstances, other headquarters personnel may become involved in sales and other activities.

Research and Development

Rapidly changing technologies, evolving industry standards, changing customer requirements, and continuing developments in communications service offerings characterize the markets for our products. Our continuing ability to adapt to these changes and to develop new and enhanced products that meet or anticipate market demand is a significant factor influencing our competitive position and our prospects for growth.

During 2010, 2009, and 2008, product development expenditures totaled $90.3 million, $83.3 million, and $81.8 million, respectively. Our product development activities are an important part of our strategy. Because of rapidly changing technology and evolving industry standards, we expect to sustain, and possibly increase, product development levels each year.

We strive to deliver innovative network access solutions that lower the total cost of deploying services, increase the level of performance achievable with established infrastructures, reduce operating and capital expense for our customers, increase network bandwidth and functionality, and extend network reach. Our development process is conducted in accordance with ISO 9001, TL 9000, and ISO 14001, which are international standards for quality and environmental management systems.

We develop most of our products internally, although we sometimes license intellectual property rights for use in certain products. Internal development gives us more control over design and manufacturing issues related to our products and closer control over product costs. Our ability to continually reduce product costs is an important part of our overall business strategy. Our product development efforts are often centered on entering a market with improved technology, allowing us to offer products at a price point lower than established market prices. We then compete for market share. We continually re-engineer successive generations of the product to improve our gross margin.

Product development activities focus on products to support both existing and emerging technologies in the telecommunications industry in segments of our markets that we consider viable revenue opportunities. We are actively engaged in developing and refining technologies to support data, voice, and video transport primarily over IP/Ethernet network architectures. Our work involves Ethernet transport, fiber optic transport, DSL transport (VDSL2, ADSL2+, ADSL, SHDSL, and HDSLx), access routing, Ethernet switching, integrated access, converged services, VoIP, network management, and professional services.

A centralized research function supports product development efforts company-wide. This group provides guidance to our various product design and engineering teams in digital signal processing technologies, computer simulation and modeling, CAD/CAM tool sets, custom semiconductor design, industry standards, and technological forecasting.

Many telecommunications issues, processes and technologies are governed by Standards Development Organizations (SDOs). These SDOs consist of representatives from various manufacturers, service providers, and testing laboratories working to establish specifications and compliance guidelines for emerging telecommunications technologies. We are an active participant in several SDOs, and have assisted with the development of worldwide standards in many technologies.

We continue to be involved in the evolution of Ethernet technology by participating in the Institute of Electrical and Electronics Engineers 802 LAN/MAN standards committee, the ITU-T and the MEF, which are standardizing technologies such as Carrier Ethernet traffic management, Ethernet Ring Protection Switching (ERPS), provider networking, Ethernet Operations, Administration and Management (OAM), and Connectivity Fault Management. In the past year, we have worked in the SDOs to bring more interoperability between GPON equipment. These efforts have included helping ATIS establish a new subcommittee focusing on optical access networks (NIPP-OAN) and

increasing our participation in GPON work in the Broadband Forum.

We are also involved in other standards development efforts related to maximizing the bandwidth potential of the copper pair to enable new applications. We contributed to the development of the VDSL2 ITU-Telecommunications (ITU-T) standard. Upon completion of the various wireline telecommunications standards, the industry-wide interoperability and performance testing requirements become the responsibility of the Broadband Forum (formerly DSL Forum). We have continued our contributions toward VDSL2 and ADSL2+ development through our work in the Broadband Forum.

Table of Contents

For a discussion of risks associated with our research and development activities, see Risk Factors We must continue to update and improve our products and develop new products in order to compete and to keep pace with improvements in telecommunications technology and Risk Factors We engage in research and development activities to improve the application of developed technologies, and as a consequence may miss certain market opportunities enjoyed by larger companies with substantially greater research and development efforts who may focus on more leading edge development , in Item 1A of this report.

Manufacturing and Operations

The principal steps in our manufacturing process include the purchase and management of materials, assembly, testing, final inspection, packing, and shipping. We purchase parts and components for the assembly of some products from a large number of suppliers through a worldwide sourcing program. In addition, we manage a process that identifies the components that are best purchased directly by contract manufacturers for use in the assembly of our products to achieve manufacturing efficiency, quality, and cost objectives. Certain key components used in our products are currently available from a single source, and other key components are available from only a limited number of sources. In the past, we have experienced delays in the receipt of certain key components, which has resulted in delays in related product deliveries. We attempt to manage these risks through developing alternative sources, by staging inventories at strategic locations, through engineering efforts designed to obviate the necessity of certain components, and by maintaining close contact and building long-term relationships with our suppliers.

We rely on subcontractors in Asia for assembly and testing of certain printed circuit board assemblies, sub-assemblies, chassis, enclosures and equipment shelves, and to purchase some of the raw materials used in such assemblies. We typically manufacture our low-volume, high-mix, or complex product assemblies at our manufacturing site in Huntsville, Alabama. We continue to build and test all new product prototypes and initial production units for our products in Huntsville, and later transfer the production of high-volume, low-mix assemblies to our subcontractors. Subcontract assembly operations can lengthen fulfillment cycle times, but we believe we can respond more rapidly to uncertainties in incoming order rates by selecting assembly subcontractors having significant reserve capacity and flexibility. We have consolidated our production to two subcontractors who have proven to be flexible and able to meet our quality requirements. We conduct the majority of all transactions with our foreign suppliers in United States currency.

Most shipments of products to customers occur from our facilities in Huntsville, Alabama. Our facilities are certified pursuant to the most current releases of ISO 9001, TL 9000, ISO 14001, and are Customs-Trade Partnership Against Terrorism certified. Our products are also certified to certain other telephone company standards, including those relating to emission of electromagnetic energy and safety specifications.

For a discussion of risks associated with manufacturing activities, see Risk Factors Our strategy of outsourcing a portion of our manufacturing requirements to subcontractors located in Asia may result in us not meeting our cost, quality or performance standards and Risk Factors Our dependence on a limited number of suppliers may prevent us from delivering our products on a timely basis, which could have a material adverse effect on customer relations and operating results , in Item 1A of this report.

Competition

We compete in markets for networking and communications equipment for service providers, businesses, government agencies, and other organizations worldwide. Our products and services support the transfer of data, voice and video across service providers fiber, copper, and wireless infrastructures, and across wide area networks, local area networks, and the Internet.

The markets for our products are intensely competitive. Numerous competitors exist in each of our product segments. Intense competitive conditions and recent declines in economic activity have resulted in competitor consolidations, bankruptcies and liquidations. Consumer acceptance of alternative communications technologies such as coaxial cable and cellular-based services that compete with our products has grown in recent years. Competition might further increase if new technologies emerge, new companies enter the market, or existing competitors expand their product lines.

For our **Carrier Networks Division**, factors influencing the markets in which we currently compete or may compete in the future include the ability to:

Help the customer solve networking problems within the confines of restrained capital budgets;
Offer globally competitive solutions against a different set of competitors than in the United States;
Deliver solutions that fit the distributed networking model being deployed by most service providers;
Deliver solutions for service provider networks as they increasingly focus on network transformation, convergence, and integration of services;
Deliver solutions at attractive price points;
Deliver reliability and redundancy, especially for higher bandwidth products;

Table of Contents

Adapt to new network technologies as they evolve;
Compete effectively against large firms with greater resources;
Deliver products when needed by the customer;
Deliver responsive customer service, technical support, and training; and
Assist customers requiring pre-assembled, turnkey systems and professional services.

Competitors of our Carrier Networks Division include large, established firms such as Alcatel-Lucent, Cisco Systems, Fujitsu Limited, Huawei, ZTE, Ericsson, Tellabs, and Nokia-Siemens. There are also a number of smaller, specialized firms with which we compete, such as Actelis, Hatteras, Zhone Technologies, Occam Networks, Calix Networks, and other privately held firms.

For our **Enterprise Networks Division**, factors influencing the markets in which we currently compete or may compete in the future include the ability to:

Satisfy the customer s need for a cost-efficient alternative to established internetworking suppliers;
Satisfy the customer s need to utilize the most cost-effective combination of transmission technologies to connect geographically dispersed locations;
Increase network performance and lower the customer s cost for communications services and equipment;
Add capacity and migrate to new or different technologies without a major system upgrade;
Continue to develop and support established platforms;
Offer products to address new networking technologies in a timely manner;
Deliver reliability and system backup, especially for higher bandwidth products;
Adapt to new network technologies as they evolve;
Deliver products when needed by the customer;
Deliver responsive customer service, technical support and training; and
Assist customers requiring hands-on installation and maintenance.

Competitors of our Enterprise Networks Division include Cisco Systems, Juniper Networks, Avaya, Hewlett Packard, Enterasys Networks, Extreme Networks, Allied Telesyn, and other smaller companies. Some of these companies compete in a single product segment, while others compete across multiple product lines.

For further discussion of risks associated with our competition, see Risk Factors We must continue to update and improve our products and develop new products in order to compete and to keep pace with improvements in telecommunications technology and Risk Factors We compete in markets that have become increasingly competitive, which may result in reduced gross profit margins and market share , in Item 1A of this report.

Backlog and Inventory

A substantial portion of our shipments in any fiscal period relate to orders received and shipped in that fiscal period for customers under agreements containing non-binding purchase commitments. Further, a significant percentage of orders require delivery within a few days. These factors normally result in very little order backlog or order flow visibility. We believe that because we fill a substantial portion of customer orders within the fiscal quarter of receipt, backlog is not a meaningful indicator of actual sales for any succeeding period.

To meet this type of demand, we have implemented advanced supply chain management systems to manage the production process. We maintain a substantial finished goods inventory. Our practice of maintaining sufficient inventory levels to assure prompt delivery of our products increases the amount of inventory that may become obsolete. The obsolescence of this inventory may require us to write down the value of the obsolete inventory, which may have an adverse effect on our operating results.

Table of Contents

Government Regulation

In the United States, our products must comply with various regulations and standards defined by the Federal Communications Commission and Underwriters Laboratories. Products sold internationally may be required to comply with regulations or standards established by telecommunications authorities in various countries, as well as those of certain international bodies. For instance, environmental legislation within the European Union (EU) may increase our cost of doing business internationally as we amend our products to comply with these requirements. The EU issued a Directive on the restriction of certain hazardous substances in electronic and electrical equipment (RoHS), enacted the Waste Electrical and Electronic Equipment (WEEE) Directive to mandate the funding, collection, treatment, recycling and recovery of WEEE by producers of electrical or electronic equipment into Europe, and enacted a regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH). We continue to implement measures to comply with the RoHS Directive, the WEEE Directive and the REACH Regulation as individual countries issue their implementation guidance.

For further discussion of risks associated with government regulation, see Risk Factors Our products may not continue to comply with the regulations governing their sale, which may harm our business and Risk Factors Regulatory and potential physical impacts of climate change may affect our customers and our production operations, resulting in adverse affects on our operating results , in Item 1A of this report.

Employees

As of December 31, 2010, we had 1,663 full-time employees in the United States and in our international subsidiaries located in Canada, Mexico, the Asia-Pacific region and Europe. None of our employees are represented by a collective bargaining agreement, nor have we ever experienced any work stoppage. We believe that our relationship with our employees is good.

We also utilize significant numbers of contractors and temporary employees in various manufacturing, engineering and sales capacities, domestically and internationally, as needed.

Intellectual Property

The ADTRAN corporate logo is a registered trademark of ADTRAN. The name ADTRAN is a registered trademark of ADTRAN. A number of our product identifiers and names also are registered. We also claim rights to a number of unregistered trademarks.

We have ownership of at least 264 patents related to our products and have approximately 126 additional patent applications pending, of which at least 5 have been approved and are in the process of being issued by the U.S. Patent and Trademark Office. The average remaining duration of our patents as of December 31, 2010 was approximately 12.7 years. We will continue to seek additional patents from time to time related to our research and development activities. We do not derive any material amount of revenue from the licensing of our patents.

We protect our intellectual property and proprietary rights in accordance with good legal and business practices. We believe, however, that our competitive success will not depend on the ownership of intellectual property, but instead will depend primarily on the innovative skills, technical competence, and marketing abilities of our personnel.

The communications industry is characterized by the existence of an ever-increasing volume of patent litigation and licensing activities. From time to time we receive and may continue to receive notices of claims alleging that we are infringing upon patents or other intellectual property. We cannot predict whether we will prevail in any claims or litigation over alleged infringements, or whether we will be able to license any valid and infringed patents, or other intellectual property, on commercially reasonable terms. It is possible that litigation may result in significant legal costs and judgments. Any intellectual property infringement claims, or related litigation against or by us, could have a material adverse effect on our business and operating results.

For a discussion of risks associated with our intellectual and proprietary rights, see Risk Factors Our failure to maintain rights to intellectual property used in our business could adversely affect the development, functionality, and commercial value of our products , in Item 1A of this report.

Available Information

A copy of this Annual Report on Form 10-K, as well as our Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to these reports, are available free of charge on the Internet at our web site, www.adtran.com, as soon as reasonably practicable (generally, within one day) after we electronically file these

reports with, or furnish these reports to, the Securities and Exchange Commission (SEC). The reference to our web site address does not constitute incorporation by reference of the information contained on the web site, which information should not be considered part of this document. You may also read and copy any materials we file with the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains our reports, proxy and information statements, and other information that we have filed electronically with the SEC.

Table of Contents

ITEM 1A. RISK FACTORS

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 and our other filings with the SEC and other communications with our stockholders. Generally, the words, believe, expect, intend, estimate, anticipate, w could and similar expressions identify forward-looking statements. We caution you that any forward-looking statements made by or on our behalf are subject to uncertainties and other factors that could cause these statements to be wrong. Some of these uncertainties and other factors are listed below. 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 combination of factors may have on our business.

You are further cautioned not to place undue reliance on those forward-looking statements because they speak only of our views as of the date 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.

The following are some of the risks that could affect our financial performance or could cause actual results to differ materially from those expressed or implied in our forward-looking statements:

Our operating results may fluctuate in future periods, which may adversely affect our stock price.

Our operating results have been and will continue to be subject to quarterly and annual fluctuations as a result of numerous factors. These factors include, but are not limited to:

- Fluctuations in demand for our products and services, especially with respect to significant network expansion projects undertaken by telecommunications service providers;
- Continued growth of communications network traffic and the adoption of communication services and applications by enterprise and consumer end users;
- Changes in sales and implementation cycles for our products and reduced visibility into our customers spending plans and associated revenue;
- Reductions in demand for our traditional products as new technologies gain acceptance;
- Our ability to maintain appropriate inventory levels and purchase commitments;
- Price and product competition in the communications and networking industries, which can change rapidly due to technological innovation;
- The overall movement toward industry consolidation among both our competitors and our customers;
- Our dependence on sales of our products by channel partners, the timing of their replenishment orders, the potential for conflicts and competition involving our channel partners and large end use customers and the potential for consolidation among our channel partners;
- Variations in sales channels, product cost or mix of products sold;
- Delays in receiving product acceptance from certain customers as defined under contract, for shipments near the end of a reporting period;
- Our ability to maintain high levels of product support;
- Manufacturing and customer order lead times;
- Fluctuations in our gross margin, and the factors that contribute to this as described below;
- Our ability to achieve cost reductions;
- The ability of our customers, channel partners, and suppliers to obtain financing or to fund capital expenditures;
- Our ability to execute on our strategy and operating plans;
- Benefits anticipated from our investments in engineering, sales and marketing activities;
- The effects of climate change; and

- The effects of political or economic conditions, terrorist attacks, acts of war, or other unrest in certain international markets.

Table of Contents

As a result, operating results for a particular future period are difficult to predict, and prior results are not necessarily indicative of results to be expected in future periods. Any of the above mentioned factors, or other factors discussed elsewhere in this document, could have a material adverse effect on our business, results of operations and financial condition that could adversely affect our stock price.

Our revenue for a particular period can be difficult to predict, and a shortfall in revenue may harm our operating results.

As a result of the many factors discussed in this report, our revenue for a particular quarter is difficult to predict and will fluctuate from quarter to quarter. Our typical pattern of customer orders requests product delivery within a short period following receipt of an order. Consequently, we do not typically carry a significant order backlog, and are dependent upon obtaining orders and completing delivery in accordance with shipping terms that are predominantly within each quarter to achieve our targeted revenues. Our net sales may grow at a slower rate than in previous quarters or may decline. Our ability to meet financial expectations could also be affected if the variable sales patterns seen in prior quarters recur in future quarters. We have experienced periods of time during which manufacturing issues have delayed shipments, leading to variable shipping patterns. In addition, to the extent that manufacturing issues and any related component shortages result in delayed shipments in the future, and particularly in quarters in which we and our subcontractors are operating at higher levels of capacity, it is possible that revenue for a quarter could be adversely affected, and we may not be able to remediate the conditions within the same quarter.

In the past, long manufacturing lead times have caused our customers to place the same order multiple times. This multiple ordering, along with other factors, may cause difficulty in predicting our sales and, as a result, could impair our ability to manage parts inventory effectively.

We plan our operating expense levels based primarily on forecasted revenue levels. These expenses and the impact of long-term commitments are relatively fixed in the short term. A shortfall in revenue could lead to operating results being below expectations because we may not be able to quickly reduce these fixed expenses in response to short-term business changes.

General economic conditions may reduce our revenues and harm our operating results.

Economic conditions in the latter part of 2008 and much of 2009 contributed to a slowdown in telecommunications industry spending, including specific market segments in which we operate. The potential reoccurrence of these trends and their duration and depth are difficult to predict. Capital spending for network infrastructure projects of our largest customers could be delayed or cancelled in response to reduced consumer spending, tight capital markets or declining liquidity trends. Sustained trends of this nature could have a material adverse affect on our revenues, results of operations and financial condition.

Our exposure to the credit risks of our customers and distributors may make it difficult to collect accounts receivable and could adversely affect our operating results and financial condition.

Most of our sales are on an open credit basis, frequently with payment terms of 30 to 45 days in the United States and typically longer in many geographic markets outside the United States. As our business in international regions expands, ADTRAN s total accounts receivable balance will likely increase. Our days sales outstanding could also increase as a result of greater mix of international sales. Additionally, international laws may not provide the same degree of protection against defaults on accounts receivable as provided under United States laws governing domestic transactions; therefore, as our international business grows, we may be subject to higher bad debt expense compared to historical trends. Overall, we monitor individual customer payment capability in granting such open credit arrangements, seek to limit such open credit to amounts we believe the customers can pay, and maintain reserves we believe are adequate to cover exposure for doubtful accounts. In the course of our sales to customers, we may encounter difficulty collecting accounts receivable and could be exposed to risks associated with uncollectible accounts receivable. We may be exposed to similar credit risks relating to collections from distributors of our products, and we apply similar processes to monitor and reserve for any exposures. The recent turmoil in the financial markets could impact certain of our customers ability to maintain adequate credit facilities with financial institutions, thereby potentially impacting their ability to pay their debts. While we attempt to monitor these situations carefully and attempt to take appropriate measures to collect accounts receivable balances, there are no assurances we can avoid accounts receivable write downs or write off of doubtful accounts. Such write-downs or write-offs could negatively

affect our operating results for the period in which they occur, and could potentially have a material adverse effect on our results of operations and financial condition.

Table of Contents

We expect gross margin to vary over time, and our level of product gross margin may not be sustainable.

Our level of gross margins may not be sustainable and may continue to be adversely affected by numerous factors, including:

- Changes in customer, geographic, or product mix, including the mix of configurations and professional services revenue within each product group;
- Introduction of new products by competitors, including products with price-performance advantages;
- Our ability to reduce product cost;
- Increases in material or labor cost;
- Expediting costs incurred to meet customer delivery requirements;
- Excess inventory and inventory holding charges;
- Obsolescence charges;
- Changes in shipment volume;
- Loss of cost savings due to changes in component pricing or charges incurred due to inventory holding periods if parts ordering does not correctly anticipate product demand;
- Lower than expected benefits from value engineering;
- Increased price competition, including competitors from Asia, especially China;
- Changes in distribution channels;
- Increased warranty cost;
- Liquidated damages costs relating to customer contractual terms; and
- Our ability to manage the impact of foreign currency exchange rate fluctuations relating to pricing to our international customers.

We must continue to update and improve our products and develop new products in order to compete and to keep pace with improvements in telecommunications technology.

The markets for our products are characterized by rapidly changing technology, evolving industry standards, and continuing improvements in the telecommunications service offerings of common service providers. If technologies or standards applicable to our products, or common service provider offerings based on our products, become obsolete or fail to gain widespread commercial acceptance, our existing products or products under development may become obsolete or unmarketable. Moreover, the introduction of products embodying new technologies, the emergence of new industry standards, or changes in common service provider offerings could adversely affect our ability to sell our products. For instance, we offer a large number of products that apply primarily to the delivery of high-speed digital communications over the local loop utilizing copper wire. We compete favorably with our competitors by developing a high-performance line of these products. We market products that apply to fiber optic transport in the local loop. We expect, however, that use of coaxial cable and mobile wireless access in place of local loop access will increase. Also, non-traditional providers, such as cable television companies, are increasing their presence in the local loop. To meet the requirements of these new delivery systems and to maintain our market position, we may have to develop new products or modify existing products.

Our sales and profitability in the past have, to a significant extent, resulted from our ability to anticipate changes in technology, industry standards and common service provider offerings, and to develop and introduce new and enhanced products. Our continued ability to adapt will be a significant factor in maintaining or improving our competitive position and our prospects for growth. We cannot assure that we will be able to respond effectively to changes in technology, industry standards, common service provider offerings or new product announcements by our competitors. We also cannot assure that we will be able to successfully develop and market new products or product enhancements, or that these products or enhancements will achieve market acceptance. Should the rate of decline in sales of certain traditional TDM based products exceed the rate of market acceptance and growth in sales of our newer IP-based products, our revenues may be adversely affected. Any failure by us to continue to anticipate or respond in a cost-effective and timely manner to changes in technology, industry standards, common service provider offerings, or new product announcements by our competitors, or any significant delays in product development or introduction, could have a material adverse effect on our ability to competitively market our products and on our revenues, results of operations and financial condition.

Table of Contents

Our products may not continue to comply with the regulations governing their sale, which may harm our business.

As discussed above under Business Government Regulation , in the United States, our products must comply with various regulations and standards defined by the Federal Communications Commission and Underwriters Laboratories. Products sold internationally may be required to comply with regulations or standards established by telecommunications authorities in various countries, as well as those of certain international bodies. Although we believe our products are currently in compliance with domestic and international standards and regulations in countries in which we currently sell, there can be no assurance that we will be able to design our products to comply with evolving standards and regulations in the future. Further, the cost of complying with the evolving standards and regulations, or the failure to obtain timely domestic or foreign regulatory approvals or certification such that we may not be able to sell our products where these standards or regulations apply, may adversely affect our results of operations and financial condition.

Our failure or the failure of our contract manufacturers to comply with applicable environmental regulations could adversely impact our results of operations.

The manufacture, assembly and testing of our products may require the use of hazardous materials that are subject to environmental, health and safety regulations. Our failure or the failure of our contract manufacturers to comply with any of these applicable requirements could result in regulatory penalties, legal claims or disruption of production. In addition, our failure or the failure of our contract manufacturers to properly manage the use, transportation, emission, discharge, storage, recycling or disposal of hazardous materials could subject us to increased costs or liabilities. Existing and future environmental regulations may restrict our use of certain materials to manufacture, assemble and test products. Any of these consequences could adversely impact our results of operations by increasing our expenses and/or requiring us to alter our manufacturing processes.

If our products do not interoperate with our customers networks, installations may be delayed or cancelled, which could harm our business.

Our products must interface with existing networks, each of which may have different specifications, utilize multiple protocol standards and incorporate products from other vendors. Many of our customers networks contain multiple generations of products that have been added over time as these networks have grown and evolved. Our products may be required to interoperate with many or all of the products within these networks as well as future products in order to meet our customers requirements. If we find errors in the existing software or defects in the hardware used in our customers networks, we may have to modify our software or hardware to fix or overcome these errors so that our products will interoperate with the existing software and hardware. Such issues may affect our ability to obtain product acceptance from other customers. Implementation of product corrections involving interoperability issues could increase our costs and adversely affect our results of operations.

The lengthy approval process required by major and other service providers for new products could result in fluctuations in our revenue.

In the industry in which we compete, a supplier must first obtain product approval from a major or other service provider to sell its products to them. This process can last from six to 18 months, or longer, depending on the technology, the service provider, and the demand for the product from the service provider s subscribers. Consequently, we are involved in a constant process of submitting for approval succeeding generations of products, as well as products that deploy new technology or respond to new technology demands from a major or other service provider. We have been successful in the past in obtaining these approvals. However, we cannot be certain that we will obtain these approvals in the future or that sales of these products will continue to occur. Any attempt by a major or other service provider to seek out additional or alternative suppliers, or to undertake, as permitted under applicable regulations, the production of these products internally, could have a material adverse effect on our operating results. Furthermore, the delay in sales until the completion of the approval process, the length of which is difficult to predict, could result in fluctuations of revenue and uneven operating results from quarter to quarter or year to year.

We engage in research and development activities to improve the application of developed technologies, and as a consequence may miss certain market opportunities enjoyed by larger companies with substantially greater research and development efforts who may focus on more leading edge development.

A portion of our research and development activities are focused on the refinement and redefinition of access technologies that are currently accepted and commonly practiced, which may include emerging technologies not yet widely distributed across all networks. These research and development efforts result in improved applications of technologies for which demand already exists or is latent. We rarely engage in research projects that represent a vast departure from the current business practices of our key customers. This includes pioneering new services and participating in leading edge field trials or demonstration projects for new technologies. While we believe our strategy provides a higher likelihood of producing nearer term revenue streams, this strategy could reduce our ability to influence industry standards and share in the establishment of intellectual property rights associated with new technologies, and could result in lost revenue opportunities should a new technology achieve rapid and widespread market acceptance.

Table of Contents

We depend heavily on sales to certain customers; the loss of any of these customers would significantly reduce our revenues and net income.

Historically, a large percentage of our sales have been made to major service providers and larger independent telecommunications companies. In 2010, these customers continued to comprise over half of our revenue. As long as the major and larger independent telecommunications companies represent such a substantial percentage of our total sales, our future success will significantly depend upon certain factors which are not within our control, including:

- the timing and size of future purchase orders, if any, from these customers;
- the product requirements of these customers;
- the financial and operational success of these customers;
- the impact of legislative and regulatory changes on these customers;
- the success of these customers services deployed using our products; and
- the impact of work stoppages at these customers.

Sales to our large customers have, in the past, fluctuated and may fluctuate significantly from quarter to quarter and year to year. The loss of, or a significant reduction or delay in, sales to any such customer or the occurrence of sales fluctuations could have a material adverse effect on our business and results of operations. Further, any attempt by a major or other service provider to seek out additional or alternative suppliers or to undertake, as permitted under applicable regulations, the production of these products internally, could have a material adverse effect on our operating results.

There has been a trend toward industry consolidation in our markets for several years. We expect this trend to continue as companies attempt to strengthen or hold their market positions and as companies are acquired or are unable to continue operations. This could lead to variability in our operating results and could have a material adverse effect on our business, operating results, and financial condition. In addition, particularly in the service provider market, rapid consolidation will lead to fewer customers, with the effect that a loss of a major customer could have a material impact on our results that we would not have anticipated in a marketplace composed of more numerous participants.

Our strategy of outsourcing a portion of our manufacturing requirements to subcontractors located in Asia may result in us not meeting our cost, quality or performance standards.

We are heavily dependent on two subcontractors for the assembly and testing of certain printed circuit board assemblies, subassemblies, chassis, enclosures and equipment shelves, and the purchase of raw materials used in such assemblies. This reliance involves several risks, including the unavailability of, or interruptions in, access to certain process technologies and reduced control over product quality, delivery schedules, transportation, manufacturing yields and costs. We may not be able to provide product volumes to our subcontractors that are high enough to achieve sufficient cost savings. If shipments fall below forecasted levels, we may incur increased costs or be required to take ownership of excess inventory. Changes in international tariff structures could adversely impact our product costs. In addition, a significant component of maintaining cost competitiveness is the ability of our subcontractors to adjust their own costs to compensate for possible adverse exchange rate movements. To the extent that the subcontractors are unable to do so, and we are unable to procure alternative product supplies, then our own competitiveness and results of operations could be adversely impaired. These risks may be exacerbated by economic or political uncertainties, terrorist actions, the effects of climate change, natural disasters or pandemics in the foreign countries in which our subcontractors are located.

To date, we believe that we have successfully managed the risks of our dependence on these subcontractors through a variety of efforts, which include seeking and developing alternative subcontractors while maintaining existing relationships; however, we cannot assure you that delays in product deliveries will not occur in the future because of shortages resulting from this limited number of subcontractors or from the financial or other difficulties of these parties. Our inability to develop alternative subcontractors if and as required in the future, or the need to undertake required retraining and other activities related to establishing and developing a new subcontractor relationship, could result in delays or reductions in product shipments which, in turn, could have a negative effect on our customer relationships and operating results.

16

Table of Contents

Our dependence on a limited number of suppliers may prevent us from delivering our products on a timely basis, which could have a material adverse effect on customer relations and operating results.

Certain raw materials and key components used in our products are currently available from only one source, and others are available from only a limited number of sources. The availability of these raw materials and supplies is subject to market forces beyond our control. From time to time, there may not be sufficient quantities of raw materials and supplies in the marketplace to meet customer demand. Many companies utilize the same raw materials and supplies that we do in the production of their products. Companies with more resources than our own may have a competitive advantage in obtaining raw materials and supplies due to greater buying power. These factors can result in reduced supply, higher prices of raw materials, and delays in the receipt of certain of our key components, which in turn may generate increased costs, lower margins, and delays in product delivery, with a corresponding adverse effect on sales, customer relationships, and revenue. Furthermore, due to general economic conditions in the United States and globally, our suppliers may experience financial difficulties, which could result in increased delays, additional costs, or loss of a supplier. We attempt to manage these risks through developing alternative sources, by staging inventories at strategic locations, through engineering efforts designed to obviate the necessity of certain components, and by building long-term relationships and close contact with each of our suppliers; however, we cannot assure you that delays in or failures of deliveries of key components, either to us or to our contract manufacturers, and consequent delays in product deliveries, will not occur in the future.

The Security and Exchange Commission has proposed disclosure requirements regarding the use of conflict minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer s efforts to prevent the sourcing of such minerals and metals produced from those minerals. The implementation of these requirements could affect the sourcing and availability of metals used in the manufacture of a limited number of raw material parts contained in our products. This may reduce the number of suppliers who provide conflict free metals, and may affect our ability to obtain products in sufficient quantities or at competitive prices. Our material sourcing is broad based and multi-tiered, and we may not be able to conclusively verify the origins for all metals used in our products.

We compete in markets that have become increasingly competitive, which may result in reduced gross profit margins and market share.

The markets for our products are intensely competitive. Additional manufacturers have entered the markets in recent years to offer products in competition with us. Additionally, certain companies have, in recent years, developed the ability to deliver competing products using coaxial cable and cellular transmission, especially in high-density metropolitan areas. Competition would further increase if new companies enter the market or existing competitors expand their product lines. Some of these potential competitors may have greater financial, technological, manufacturing, sales and marketing, and personnel resources than we have. As a result, these competitors may be able to respond more rapidly or effectively to new or emerging technologies and changes in customer requirements, withstand significant price decreases, or devote greater resources to the development, promotion, and sale of their products than we can.

In addition, our present and future competitors may be able to enter our existing or future markets with products or technologies comparable or superior to those that we offer. An increase in competition could cause us to reduce prices, decrease our market share, require increased spending by us on product development and sales and marketing, or cause delays or cancellations in customer orders, any one of which could reduce our gross profit margins and adversely affect our business and results of operations.

Our estimates regarding future warranty obligations may change due to product failure rates, shipment volumes, field service obligations and other rework costs incurred in correcting product failures. If our estimates change, the liability for warranty obligations may be increased or decreased, impacting future cost of goods sold.

Our products are highly complex, and we cannot assure you that our extensive product development, manufacturing and integration testing will be adequate to detect all defects, errors, failures and quality issues. Quality or performance problems for products covered under warranty could adversely impact our reputation and negatively affect our operating results and financial position. The development and production of new products with high complexity often involves problems with software, components and manufacturing methods. If significant warranty obligations arise

due to reliability or quality issues arising from defects in software, faulty components, or manufacturing methods, our operating results and financial position could be negatively impacted by:

- costs associated with fixing software or hardware defects;
- high service and warranty expenses;
- high inventory obsolescence expense;

Table of Contents

delays in collecting accounts receivable;
payment of liquidated damages for performance failures; and
a decline in sales to existing customers.

Managing our inventory is complex and may include write-downs of excess or obsolete inventory.

Managing our inventory of components and finished products is complicated by a number of factors, including the need to maintain a significant inventory of certain components that are in short supply, that must be purchased in bulk to obtain favorable pricing or that require long lead times. These issues may result in our purchasing and maintaining significant amounts of inventory, which if not used or expected to be used based on anticipated production requirements, may become excess or obsolete. Any excess or obsolete inventory could also result in sales price reductions and/or inventory write-downs, which could adversely affect our business and results of operations.

We may pursue acquisitions, which may expose us to a number of risks. If we are unable to mitigate these risks, our business may be negatively impacted.

We may acquire or invest in other businesses or enter into joint ventures to expand our product portfolio, acquire intellectual property, or extend our presence in certain markets. Any such acquisition may require the use of cash, the issue or assumption of debt, or the issue of equity, and may result in significantly increased financing costs or result in the dilution of existing shareholder interests. The acquisition process and subsequent integration of new investments may divert management s attention from normal daily operations of the business and cause harm to our existing operations. These investments may result in impairment charges and other cost amortizations. We cannot assure that revenues from acquired investments will offset additional costs incurred. If we are unable to successfully address the potential risks associated with these transactions, they may result in a negative impact on our business, results of operations and financial condition.

Increased sales volume in international markets could result in increased costs or loss of revenue due to factors inherent in these markets.

We are in the process of expanding into international markets, which represented 5.3% of our net sales for 2010, and we anticipate increased sales from these markets. We currently maintain regional sales offices in each of the following locations: Melbourne and Sydney, Australia; Montreal, Ottawa, and Toronto, Canada; Mexico, D.F., Mexico; Hong Kong and Beijing, China; Singapore; and Theale, United Kingdom. A number of factors inherent to these markets expose us to significantly more risk than domestic business, including:

local economic and market conditions;
exposure to unknown customs and practices;
potential economic or political unrest, terrorist actions, the effects of climate change, natural disasters or pandemics;
foreign currency exchange rate exposure;
unexpected changes in, or impositions of, legislative or regulatory requirements;
less regulation of patents or other safeguards of intellectual property; and
difficulties in collecting accounts receivable and local government s inability to enforce lawful business practices.

Any of these factors, or others of which we are not currently aware, could result in increased costs of operation or loss of revenue.

We may be adversely affected by fluctuations in currency exchange rates.

Historically our sales to international customers and purchases from international suppliers have been transacted in United States currency; therefore, we have not entered into foreign currency forward contracts or other hedging instruments. As our international sales increase or as utilization of international suppliers expands, we may transact additional business in currencies other than United States currency. As a result, we will be subject to the possibility of greater effects of foreign currency exchange translation on our financial statements. Sales contract commitments and accounts receivable balances based on foreign currency expose us to potential risk of loss as the value of the United States dollar fluctuates over time. In addition, for those countries outside the United States where we have significant sales or significant purchases of supplies, devaluation in the local currency could make our products more expensive for customers to purchase or increase our operating costs, thereby adversely affecting our competitiveness. In the

future, we may enter into foreign currency forward contracts or other hedging instruments to protect against reductions in value and the volatility of future cash flows caused by changes in foreign currency exchange rates. If used, the contracts and other hedging instruments will be intended to reduce, but not eliminate, the impact of foreign currency exchange rate movements; therefore, we generally would not anticipate hedging all outstanding foreign currency risk. There can be no assurance that exchange rate fluctuations in the future will not have a material adverse effect on our revenue from international sales, manufacturing costs, results of operations and financial condition.

Table of Contents

Our success depends on our ability to reduce the selling prices of succeeding generations of our products.

Our strategy is to attempt to increase unit sales volumes and market share each year by introducing succeeding generations of products having lower selling prices and increased functionality as compared to prior generations of products. To maintain or increase our revenues and margins while continuing this strategy, we must continue, in some combination, to increase sales volumes of existing products, introduce and sell new products, or reduce our per unit costs at rates sufficient to compensate for the reduced revenue effect of continuing reductions in the average sales prices of our products. We cannot assure you that we will be able to maintain or increase revenues or margins by increasing unit sales volumes of our products, introducing and selling new products, or reducing unit costs of our products.

Our failure to maintain rights to intellectual property used in our business could adversely affect the development, functionality, and commercial value of our products.

Our future success depends in part upon our proprietary technology. Although we attempt to protect our proprietary technology by contract, trademark, copyright and patent registration, and internal security, these protections may not be adequate. Furthermore, our competitors can develop similar technology independently without violating our proprietary rights. From time to time we receive and may continue to receive notices of claims alleging that we are infringing upon patents or other intellectual property. Any of these claims, whether with or without merit, could result in significant legal fees; divert our management s time, attention and resources; delay our product shipments; or require us to enter into royalty or licensing agreements. We cannot predict whether we will prevail in any claims or litigation over alleged infringements, or whether we will be able to license any valid and infringed patents, or other intellectual property, on commercially reasonable terms. If a claim of intellectual property infringement against us is successful and we fail to obtain a license or develop or license non-infringing technology, our business, financial condition, and operating results could be affected adversely.

Software under license from third parties for use in certain of our products may not continue to be available to us on commercially reasonable terms.

We integrate third-party software into certain of our products. Licenses for this technology may not be available or continue to be available to us on commercially reasonable terms. Difficulties with third party technology licensors could result in termination of such licenses, which may result in increased costs or require us to purchase or develop a substitute technology. Difficulty obtaining and maintaining third-party technology licenses may disrupt development of our products and increase our costs, which could harm our business.

We may incur liabilities or become subject to litigation that would have a material effect on our business.

In the ordinary course of business, we accept purchase orders, and enter into sales and other related contracts, for the marketing, sale, manufacture, distribution, or use of our products and services. We may incur liabilities relating to our performance under such agreements, or which result from damage claims arising from certain events as outlined within the particular contract. While we attempt to structure all agreements to include normal protection clauses, such agreements may not always contain, or be subject to, maximum loss clauses, and liabilities arising from them may result in significant adverse changes to our results of operations and financial condition.

In the ordinary course of business, we may be subject to various legal proceedings and claims, including employment disputes, patent claims, disputes over contract agreements and other commercial disputes. In some cases, claimants seek damages, or other relief, such as royalty payments related to patents, which, if granted, could require significant expenditures. Any such disputes may be resolved before trial, or if litigated, may be resolved in our favor; however, the cost of claims sustained in litigation, and costs associated with the litigation process, may not be covered by our insurance. Such costs, and the demands on management time during such an event, could harm our business and have a material adverse effect on our liquidity, results of operations and financial condition.

Table of Contents

Consolidation and deterioration in the competitive service provider market could result in a significant decrease in our revenue.

We sell a moderate volume of products directly or indirectly to competitive service providers who compete with the established ILECs. The competitive service provider market is experiencing a process of consolidation. Many of our competitive service provider customers do not have a strong financial position and have limited ability to access the public financial markets for additional funding for growth and operations. If one or more of these competitive service providers fail, we could face a loss in revenue and an increased bad debt expense, due to their inability to pay outstanding invoices, as well as the corresponding decrease in customer base and future revenue. Furthermore, significant portions of our sales to competitive service providers are made through independent distributors. The failure of one or more competitive service providers could also negatively affect the financial position of a distributor to the point that the distributor could also experience business failure and/or default on payments to us.

We depend on distributors who maintain inventories of our products. If the distributors reduce their inventories of these products, our sales could be adversely affected.

We work closely with our distributors to monitor channel inventory levels and ensure that appropriate levels of product are available to resellers and end users. If our distributors reduce their levels of inventory of our products, our sales would be negatively impacted during the period of change.

If we are unable to successfully develop relationships with system integrators, service providers, and enterprise value added resellers, our sales may be negatively affected.

As part of our sales strategy, we are targeting system integrators (SIs), service providers (SPs), and enterprise value added resellers (VARs). In addition to specialized technical expertise, SIs, SPs and VARs typically offer sophisticated service capabilities that are frequently desired by enterprise customers. In order to expand our distribution channel to include resellers with such capabilities, we must be able to provide effective support to these resellers. If our sales, marketing or service capabilities are not sufficient to provide effective support to such SIs, SPs and VARs, our sales may be negatively affected, and current SI, SP and VAR partners may terminate their relationships with us, which would adversely impact our sales and overall results of operations.

If we fail to manage our exposure to worldwide financial and securities markets successfully, our operating results and financial statements could be materially impacted.

We are exposed to financial market risks, including changes in interest rates and prices of marketable equity and fixed-income securities. The primary objective of the large majority of our investment activities is to preserve principal while at the same time achieving appropriate yields without significantly increasing risk. To achieve this objective, a majority of our marketable securities are investment grade corporate and municipal fixed-rate bonds, municipal variable rate demand notes and municipal money market instruments denominated in United States dollars. We have held no municipal auction rate securities since February 7, 2008.

We have significant investments in corporate and municipal fixed-rate bonds and municipal variable rate demand notes. Through December 31, 2010, we have not been required to impair any of these investments; however, we may experience a reduction in value or loss of liquidity in these investments, which may have an adverse effect on our results of operations, liquidity and financial condition. Fixed rate interest securities may have their fair value adversely impacted due to a rise in interest rates, while variable rate securities may produce less income than expected if interest rates fall. Our investments are subject to general credit, liquidity, market, and interest rate risks, which may be exacerbated by conditions in the financial markets and related credit liquidity issues. Consequently, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we are forced to sell securities that decline in fair value due to changes in interest rates.

Our long-term investments include $48.0 million of marketable equity securities. Because of the strained credit markets and deteriorating equity market conditions that continued during the first quarter of 2009, we recorded other than temporary impairment charges of $2.0 million related to our marketable equity securities, $0.4 million related to the fixed income bond fund, and $0.5 million related to the deferred compensation plan assets during the year ended December 31, 2009. At December 31, 2010, our total marketable equity securities, which included more than 415 individual securities, had net unrealized gains of $36.5 million, which includes an unrealized gain of $33.7 million related to a single security. If market conditions deteriorate in 2011, we may be required to record additional

impairment charges related to our marketable equity securities.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources in Item 7, Part II of this report and Quantitative and Qualitative Disclosures about Market Risk in Item 7A, Part II of this report for more information about our investments.

Table of Contents

Changes in our effective tax rate or assessments arising from tax audits may have an adverse impact on our results.

We are subject to taxation in various jurisdictions, both domestically and internationally, in which we conduct business. Significant judgment is required in the determination of our provision for income taxes and this determination requires the interpretation and application of complex and sometimes uncertain tax laws and regulations. Our effective tax rate may be adversely impacted by changes in the mix of earnings between jurisdictions with different statutory tax rates, in the valuation of our deferred tax assets, and by changes in tax rules and regulations. For instance, the availability and timing of lapses in the United States research and development tax credit, tax implications of the Stock Compensation Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC), the accounting of uncertain tax positions and the amount of our estimated tax deduction for manufacturer s domestic production activities under Internal Revenue Code Section 199 may add more variability to our future effective tax rates. We currently receive corporate income tax credits under a program administered by the Alabama State Industrial Development Authority in connection with revenue bonds issued to provide funding for expansion of our corporate facilities. We cannot be certain that the state of Alabama will continue to make these corporate income tax credits available; therefore, we may not realize the full benefit of these incentives, which would increase our effective tax rate. In addition, we are subject to examination of our income tax returns by the Internal Revenue Service and various other jurisdictions in which we conduct business. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. There can be no assurance that the outcomes from these continuous examinations will not have an adverse affect on our results of operations and financial condition.

Our success depends on attracting and retaining key personnel.

Our business has grown significantly since its inception. Our success is dependent in large part on the continued employment of our executive officers, including Thomas R. Stanton, our Chief Executive Officer, and other key management personnel. The unplanned departure of one or more of these individuals could adversely affect our business. In addition, for ADTRAN to continue as a successful entity we must also be able to attract and retain key engineers and technicians whose expertise helps us maintain competitive advantages. We do not have employment contracts or non-compete agreements with any of our employees. We believe that our future success will depend, in large part, upon our ability to continue to attract, retain, train, and motivate highly-skilled employees who are in great demand. Stock option grants are designed to reward employees for their long-term contributions and to provide incentives for them to remain with us. The provisions of the Stock Compensation Topic of the FASB ASC require us to record significantly increased compensation costs as compared to prior accounting rules, which may cause us to restrict the availability and amount of equity incentives provided to employees. Changes to our overall compensation program, including our stock option incentive program, may also adversely affect our ability to retain key employees. Properly managing our continued growth, avoiding the problems often resulting from such growth and expansion, and continuing to operate in the manner which has proven successful to us to date will be critical to the future success of our business.

Regulatory and potential physical impacts of climate change may affect our customers and our production operations, resulting in adverse affects on our operating results.

There is a growing political and scientific consensus that emissions of greenhouse gases continue to alter the composition of the atmosphere, affecting large-scale weather patterns and the global climate. It appears that some form of U.S. federal regulation related to greenhouse gas emissions may occur, and any such regulation could result in the creation of additional costs in the form of taxes or emission allowances. The impact of any future legislation, regulations or product specification requirements on our products and business operations is dependent on the design of the final mandate or standard, so we are unable to predict its significance at this time.

The potential physical impacts of climate change on our customers, suppliers, and on our operations are highly uncertain, and will be particular to the circumstances developing in various geographical regions. These may include changes in weather patterns (including drought and rainfall levels), water availability, storm patterns and intensities, ocean levels and temperature levels. These potential physical effects may adversely affect our revenues, costs, production and delivery schedules, and cause harm to our results of operations and financial condition.

While we believe our internal control over financial reporting is adequate, a failure to maintain effective internal control over financial reporting as our business expands could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we assess the effectiveness of our internal control over financial reporting as of the end of our fiscal year, and issue a report that states whether or not such internal control is effective. Compliance with these requirements requires significant cost and the commitment of time and staff resources. Expansion of our business, particularly in international geographies, will necessitate ongoing changes to our internal control systems, processes and information systems. We cannot be certain that as this expansion occurs, our current design for internal control over financial reporting will be sufficient to enable management or our independent registered public accounting firm to determine that our internal control is effective for any period, or on an ongoing basis. If we or our independent registered public accounting firm are unable to assert that our internal control over financial reporting is effective, we could lose investor confidence in the accuracy and completeness of our financial statements, which could have an adverse effect on our stock price.

Table of Contents

The price of our common stock has been volatile and may continue to fluctuate significantly.

Our common stock is traded on the NASDAQ Global Select Market under the symbol ADTN. Since our initial public offering in August 1994, there has been, and may continue to be, significant volatility in the market for our common stock, based on a variety of factors, including factors listed in this section, some of which are beyond our control.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our headquarters and principal administrative, engineering and manufacturing facilities are located on an 80-acre campus in Cummings Research Park in Huntsville, Alabama. Two office buildings contain 440,000 and 600,000 square feet, respectively, and serve both our Carrier Networks and Enterprise Networks Divisions. These facilities can accommodate up to 3,000 employees. We lease a 17,800 square foot engineering facility in Phoenix, Arizona and a 13,400 square foot engineering facility in Mountain View, California that are used to develop products sold by our Carrier Networks Division.

In addition to our facilities listed above, we lease additional office space in the United States and abroad, providing sales and service support for both of our divisions. The leased offices in the United States are located in Kansas City, MO and Littleton, CO. We also lease at least one office in each of the following locations: Melbourne and Sydney, Australia; Montreal, Ottawa, and Toronto, Canada; Mexico, D.F., Mexico; Hong Kong and Beijing, China; Singapore; and Theale, United Kingdom. These cancelable and non-cancelable leases expire at various times through 2016. For more information, see Note 10 of the Notes to Consolidated Financial Statements included in this report.

We also have numerous sales and support staff operating from home-based offices serving both our Carrier Networks and Enterprise Networks Divisions, which are located within the United States and abroad.

ITEM 3. LEGAL PROCEEDINGS

We have been involved from time to time in litigation in the normal course of our business. We are not aware of any pending or threatened litigation matters that could have a material adverse effect on us.

ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

Set forth below, in accordance with General Instruction G (3) of Form 10-K and Instruction 3 of Item 401(b) of Regulation S-K, is certain information regarding the executive officers of ADTRAN. Unless otherwise indicated, the information set forth is as of December 31, 2010.

Thomas R. Stanton		Age 46
2007 to present		Chief Executive Officer and Chairman of the Board
2005	2007	Chief Executive Officer and Director
2001	2005	Senior Vice President and General Manager, Carrier Networks
1999	2001	Vice President and General Manager, Carrier Networks
1995	1999	Vice President, Carrier Networks Marketing
1995		Vice President, Marketing & Engineering Transcrypt International, Inc.
1994	1995	Senior Director, Marketing E.F. Johnson Company
1993	1994	Director, Marketing E.F. Johnson Company

Table of Contents

James E. Matthews	Age 54
2007 to present	Senior Vice President Finance, Chief Financial Officer, Treasurer, Secretary and Director
2001 2007	Senior Vice President Finance, Chief Financial Officer and Treasurer
1999 2001	Chief Financial Officer Home Wireless Networks, Inc.
1998 1999	Chief Executive Officer Miltope Group, Inc.
1995 1998	Vice President, Finance and Chief Financial Officer Miltope Group, Inc.
1992 1995	Controller Hughes Training, Inc.
Michael K. Foliano	Age 50
2006 to present	Senior Vice President Global Operations
2005 2006	Senior Vice President, Sales, Services and Supply Chain Somera Communications Inc.
2004 2005	Senior Vice President, Global Operations Somera Communications, Inc.
2002 2004	Senior Director, Global Logistics and Customer Operations Lucent Technologies
2001 2002	Executive General Manager, Mobility Supply Chain Lucent Technologies
2000 2001	Stanford University Sloan Fellow Lucent Technologies
1997 2000	Vice President, Global Provisioning Center Lucent Technologies
1995 1997	Manufacturing Operations Plant Manager Lucent Technologies/AT&T Network Systems
Raymond R. Schansman	Age 54
2006 to present	Senior Vice President and General Manager, Enterprise Networks
2001 2006	Vice President, Carrier Networks Engineering
1998 2001	Engineering Director, Carrier Networks Systems
1996 1998	Engineering Manager, Enterprise Networks Systems
1989 1996	Program Manager SCI Systems, Inc.
1986 1989	Vice President, System and Product Engineering General Digital Industries
1983 1986	Senior Design Engineer General Digital Industries
James D. Wilson, Jr.	Age 40
2006 to present	Senior Vice President and General Manager, Carrier Networks
2005 2006	Vice President, Product Marketing, Carrier Networks
2002 2005	Director, Product Management, Carrier Networks
1998 2002	Director, Product Management, Loop Technologies, Carrier Networks
1996 1998	Manager, Engineering Operations Wyle Laboratories, Inc.
1992 1996	Manager, Program Development Wyle Laboratories, Inc.
Robert A. Fredrickson	Age 60
1996 to present	Vice President Carrier Networks Sales
1996	Vice President, Broadband Business Development DSC Communications Corporation
1991 1996	Senior Director, Access Products DSC Communications Corporation
P. Steven Locke	Age 62
2005 to present	Vice President Service Provider Sales
2000 2005	Vice President, Marketing, Carrier Networks
1999 2000	Vice President Sprint Local Division Sales for Lucent Technologies
1997 1999	Senior Director of Sales ADTRAN, Inc.
1993 1997	Vice President and General Manager, Business Network Group, Sprint North Supply

Kevin W. Schneider	Age 47		
2003 to present		Vice President	Chief Technology Officer
1999	2003	Vice President	Technology
1996	1999	Chief Scientist	
1992	1996	Staff Scientist	

There are no family relationships among our directors or executive officers. All officers are elected annually by, and serve at the discretion of, the Board of Directors of ADTRAN.

Table of Contents

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

ADTRAN s common stock is traded on the NASDAQ Global Select Market under the symbol ADTN. As of February 4, 2011, ADTRAN had 254 stockholders of record and approximately 8,900 beneficial owners of shares held in street name. The following table shows the high and low closing prices per share for our common stock as reported by NASDAQ for the periods indicated.

Common Stock Prices

	High	Low
2010		
First Quarter	$ 26.95	$ 20.96
Second Quarter	$ 29.60	$ 25.35
Third Quarter	$ 35.30	$ 27.04
Fourth Quarter	$ 36.38	$ 30.96
2009		
First Quarter	$ 16.71	$ 13.84
Second Quarter	$ 21.49	$ 16.70
Third Quarter	$ 25.04	$ 20.74
Fourth Quarter	$ 25.71	$ 20.44

The following table shows the dividends paid in each quarter of 2010 and 2009. The Board of Directors presently anticipates that it will declare a regular quarterly dividend so long as the present tax treatment of dividends exists and adequate levels of liquidity are maintained.

Dividends per Common Share

	2010	2009
First Quarter	$ 0.09	$ 0.09
Second Quarter	$ 0.09	$ 0.09
Third Quarter	$ 0.09	$ 0.09
Fourth Quarter	$ 0.09	$ 0.09

Stock Repurchases

The following table sets forth repurchases of our common stock for the months indicated.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1, 2010 October 31, 2010				2,220,725
November 1, 2010 November 30, 2010	251,300	$ 31.78	251,300	1,969,425
December 1, 2010 December 31, 2010				1,969,425
Total	251,300		251,300	

(1) On April 14, 2008, ADTRAN s Board of Directors approved the repurchase of up to 5,000,000 shares of its common stock. This plan is being implemented through open market purchases from time to time as conditions warrant.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA
Income Statement Data (1)
(In thousands, except per share amounts)

Year Ended December 31,	*2010*	*2009*	*2008*	*2007*	*2006*
Sales					
Carrier Networks Division	$ 476,030	$ 371,349	$ 392,219	$ 358,023	$ 356,606
Enterprise Networks Division	129,644	112,836	108,457	118,755	116,102
Total sales	**605,674**	**484,185**	**500,676**	**476,778**	**472,708**
Cost of sales	246,811	197,223	201,771	193,792	193,747
Gross profit	**358,863**	**286,962**	**298,905**	**282,986**	**278,961**
Selling, general, and administrative expenses	114,699	99,446	103,286	103,329	102,646
Research and development expenses	90,300	83,285	81,819	75,367	70,700
Operating income	**153,864**	**104,231**	**113,800**	**104,290**	**105,615**
Interest and dividend income	6,557	6,933	8,708	11,521	13,493
Interest expense	(2,436)	(2,430)	(2,514)	(2,502)	(2,532)
Net realized investment gain (loss)	11,008	(1,297)	(2,409)	498	1,379
Other income (expense), net	(804)	131	688	764	570
Life insurance proceeds				1,000	
Income before provision for income taxes	**168,189**	**107,568**	**118,273**	**115,571**	**118,525**
Provision for income taxes	(54,200)	(33,347)	(39,692)	(39,236)	(40,192)
Net income	**$ 113,989**	**$ 74,221**	**$ 78,581**	**$ 76,335**	**$ 78,333**

Year Ended December 31,	*2010*	*2009*	*2008*	*2007*	*2006*
Weighted average shares outstanding basic	62,490	62,459	63,549	67,848	73,451
Weighted average shares outstanding assuming dilution (**2**)	63,879	63,356	64,408	69,212	75,197
Earnings per common share basic	$ 1.82	$ 1.19	$ 1.24	$ 1.13	$ 1.07
Earnings per common share assuming dilution (**2**)	$ 1.78	$ 1.17	$ 1.22	$ 1.10	$ 1.04
Dividends declared and paid per common share	$ 0.36	$ 0.36	$ 0.36	$ 0.36	$ 0.36

Balance Sheet Data (In thousands)

At December 31,	*2010*	*2009*	*2008*	*2007*	*2006*
Working capital (3)	$ 304,952	$ 278,044	$ 212,740	$ 251,261	$ 219,636
Total assets	$ 691,974	$ 564,463	$ 473,615	$ 479,220	$ 539,658
Total debt	$ 48,000	$ 48,250	$ 48,750	$ 49,000	$ 49,500
Stockholders equity	$ 572,322	$ 452,515	$ 375,819	$ 378,431	$ 435,956

(1) Net income for 2010, 2009, 2008, 2007 and 2006 includes stock-based compensation expense under the Stock Compensation Topic of the Financial Accounting Standards Board Accounting Standards Codification of

$7.1 million, $6.4 million, $6.7 million, $7.1 million and $7.2 million, respectively, net of tax, related to stock option awards. See Note 2 of Notes to the Consolidated Financial Statements.

(2) Assumes exercise of dilutive stock options calculated under the treasury method. See Notes 1 and 11 of Notes to Consolidated Financial Statements.

(3) ADTRAN s working capital consists of current assets less current liabilities.

Table of Contents

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

ADTRAN, Inc. designs, manufactures, markets and services network access solutions for communications networks. Our solutions are widely deployed by providers of communications services (serviced by our Carrier Networks Division), and small and mid-sized enterprises (SMEs) (serviced by our Enterprise Networks Division), and enable voice, data, video and Internet communications across wireline and wireless networks. Many of these solutions are currently in use by every major United States and many global service providers, as well as by many public, private and governmental organizations worldwide.

Our success depends upon our ability to increase unit volume and market share through the introduction of new products and succeeding generations of products having lower selling prices and increased functionality as compared to both the prior generation of a product and to the products of competitors. An important part of our strategy is to reduce the cost of each succeeding product generation and then lower the product s selling price based on the cost savings achieved in order to gain market share and/or improve gross margins. As a part of this strategy, we seek in most instances to be a high-quality, low-cost provider of products in our markets. Our success to date is attributable in large measure to our ability to design our products initially with a view to their subsequent redesign, allowing both increased functionality and reduced manufacturing costs in each succeeding product generation. This strategy enables us to sell succeeding generations of products to existing customers, while increasing our market share by selling these enhanced products to new customers.

Our three major product categories are Carrier Systems, Business Networking and Loop Access.

Carrier Systems products are used by communications service providers to provide last mile access in support of data, voice and video services to consumers and enterprises. The Carrier Systems category includes our broadband access products comprised of Total Access® 5000 multi-service access and aggregation platform products, Total Access 1100/1200 Series Fiber-To-The-Node (FTTN) products, and Digital Subscriber Line Access Multiplexer (DSLAM) products. Our broadband access products are used by service providers to deliver high-speed Internet access, Voice over Internet Protocol (VoIP), IP Television (IPTV), and/or Ethernet services from the central office or remote terminal locations to customer premises. The Carrier Systems category also includes our optical access products. These products consist of optical access multiplexers including our family of OPTI products and our Optical Networking Edge (ONE) products. Optical access products are used to deliver higher bandwidth services, or to aggregate large numbers of low bandwidth services for transportation across fiber optic infrastructure. Total Access 1500 products, 303 concentrator products, M13 multiplexer products, and a number of mobile backhaul products are also included in the Carrier Systems product category.

Business Networking products provide access to telecommunication services, facilitating the delivery of converged services and Unified Communications to the SME market. The Business Networking category includes Internetworking products and Integrated Access Devices (IADs). Internetworking products consist of our Total Access IP Business Gateways, Optical Network Terminals (ONTs), and NetVanta product lines. NetVanta products include multi-service routers, managed Ethernet switches, IP Private Branch Exchange (PBX) products, IP phone products, Unified Communications solutions, Unified Threat Management (UTM) solutions and Carrier Ethernet Network Terminating Equipment (NTE). Integrated Access Device (IAD) products consist of our Total Access 600 Series and the Total Access 850.

Loop Access products are used by carrier and enterprise customers for access to copper-based telecommunications networks. The Loop Access category includes products such as: Digital Data Service (DDS) and Integrated Services Digital Network (Total Reach) products, High bit-rate Digital Subscriber Line (HDSL) products including Total Access 3000 HDSL and Time Division Multiplexed-Symmetrical HDSL (TDM-SHDSL) products, T1/E1/T3, Channel Service Units/Data Service Units, and TRACER fixed wireless products.

In addition, we identify sub-categories of product revenues, which we divide into growth products, representing our primary growth areas, and traditional products. Our growth products consist of Broadband Access and Optical Access products (included in Carrier Systems) and Internetworking products (included in Business Networking) and our traditional products include HDSL products (included in Loop Access) and other products not included in the

aforementioned growth products. Many of our customers are migrating their networks to deliver higher bandwidth services by utilizing newer technologies. We believe that products and services offered in our primary growth areas position us well for this migration. Despite short-term increases, we anticipate that revenues of many of our traditional products, including HDSL, will decline over time; however, revenues from these products may continue for years because of the time required for our customers to transition to newer technologies.

Table of Contents

Sales were $605.7 million in 2010 compared to $484.2 million in 2009 and $500.7 million in 2008. Sales increased in each of our primary growth areas, Broadband Access, Optical Access and Internetworking. Total sales of products in these three growth areas increased 40.2% in 2010 compared to 2009 and 13.5% in 2009 compared to 2008. Our gross profit margin remained consistent in 2010 and 2009 at 59.3%, which decreased from 59.7% in 2008. Our operating income margin increased to 25.4% in 2010 compared to 21.5% in 2009 and 22.7% in 2008. Net income was $114.0 million in 2010 compared to $74.2 million in 2009 and $78.6 million in 2008. Earnings per share, assuming dilution, were $1.78 in 2010 compared to $1.17 in 2009 and $1.22 in 2008. Earnings per share in 2010, 2009 and 2008 reflect the repurchase of 0.7 million, 0.8 million and 3.1 million shares of our stock, respectively.

Our operating results have fluctuated on a quarterly basis in the past, and may vary significantly in future periods due to a number of factors, including customer order activity and backlog. Backlog levels vary because of seasonal trends, the timing of customer projects and other factors that affect customer order lead times. Many of our customers require prompt delivery of products. This requires us to maintain sufficient inventory levels to satisfy anticipated customer demand. If near-term demand for our products declines, or if potential sales in any quarter do not occur as anticipated, our financial results could be adversely affected. Operating expenses are relatively fixed in the short term; therefore, a shortfall in quarterly revenues could significantly impact our financial results in a given quarter.

Our operating results may also fluctuate as a result of a number of other factors, including a decline in general economic and market conditions, increased competition, customer order patterns, changes in product mix, timing differences between price decreases and product cost reductions, product warranty returns, expediting costs and announcements of new products by us or our competitors. Additionally, maintaining sufficient inventory levels to assure prompt delivery of our products increases the amount of inventory that may become obsolete and increases the risk that the obsolescence of this inventory may have an adverse effect on our business and operating results. Also, not maintaining sufficient inventory levels to assure prompt delivery of our products may cause us to incur expediting costs to meet customer delivery requirements, which may negatively impact our operating results in a given quarter.

Accordingly, our historical financial performance is not necessarily a meaningful indicator of future results, and, in general, management expects that our financial results may vary from period to period. See Note 12 of Notes to Consolidated Financial Statements. *For a discussion of risks associated with our operating results, see Item 1A of this report.*

Critical Accounting Policies and Estimates

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, if different estimates reasonably could have been used, or if changes in the accounting estimate that are reasonably likely to occur could materially impact the results of financial operations. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements. These policies have been consistently applied across our two reportable segments: (1) Carrier Networks Division and (2) Enterprise Networks Division.

We review customer contracts to determine if all of the requirements for revenue recognition have been met prior to recording revenues from sales transactions. We generally record sales revenue upon shipment of our products, net of any rebates or discounts, since: (i) we generally do not have significant post-delivery obligations, (ii) the product price is fixed or determinable, (iii) collection of the resulting receivable is probable, and (iv) product returns are reasonably estimable. We generally ship products upon receipt of a purchase order from a customer. We evaluate shipping terms and we record revenue on products shipped in accordance with the terms of each respective contract where applicable, or under our standard shipping terms for purchase orders accepted without a contract, generally FOB shipping point. In the case of consigned inventory, revenue is recognized when the customer assumes ownership of the product. When contracts contain multiple elements, contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element contract should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize revenue for each element. We record revenue associated with installation services when all contractual obligations are complete. Contracts that include both installation

services and product sales are evaluated for revenue recognition in accordance with contract terms. As a result, depending on contract terms, installation services may be considered as a separate deliverable item or may be considered an element of the delivered product. Either the purchaser, ADTRAN, or a third party can perform installation of our products. Revenues related to maintenance services are recognized on a straight line basis over the contract term.

Sales returns are accrued based on historical sales return experience, which we believe provides a reasonable estimate of future returns. A significant portion of Enterprise Networks products are sold in the United States through a non-exclusive distribution network of major technology distributors. These organizations then distribute to an extensive network of value-added resellers and system integrators. Value-added resellers and system integrators may be affiliated with us as a channel partner, or they may purchase from the distributor on an unaffiliated basis. Additionally, with certain limitations, our distributors may return unused and unopened product for stock-balancing purposes when these returns are accompanied by offsetting orders for products of equal or greater value.

Table of Contents

We participate in cooperative advertising and market development programs with certain customers. We use these programs to reimburse customers for certain forms of advertising, and in general, to allow our customers credits up to a specified percentage of their net purchases. Our costs associated with these programs are estimated and accrued at the time of sale and are included in selling, general and administrative expenses in our consolidated statements of income. We also participate in rebate programs to provide sales incentives for certain products. Our costs associated with these programs are estimated and accrued at the time of sale and are recorded as a reduction of sales in our consolidated statements of income.

Prior to issuing payment terms to a new customer, we perform a detailed credit review of the customer. Credit limits and payment terms are established for each new customer based on the results of this credit review. Collection experience is reviewed periodically in order to determine if the customer s payment terms and credit limits need to be revised. We maintain allowances for doubtful accounts for losses resulting from the inability of our customers to make required payments. If the financial condition of our customers deteriorates, resulting in an impairment of their ability to make payments, we may be required to make additional allowances. If circumstances change with regard to individual receivable balances that have previously been determined to be uncollectible (and for which a specific reserve has been established), a reduction in our allowance for doubtful accounts may be required. Our allowance for doubtful accounts was $0.2 million at December 31, 2010 and $0.1 million at December 31, 2009.

We carry our inventory at the lower of cost or market, with cost being determined using the first-in, first-out method. We use standard costs for material, labor, and manufacturing overhead to value our inventory. Our standard costs are updated on at least a quarterly basis and any variances are expensed in the current period; therefore, our inventory costs approximate actual costs at the end of each reporting period. We write down our inventory for estimated obsolescence or unmarketable inventory by an amount equal to the difference between the cost of inventory and the estimated fair value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, we may be required to make additional inventory write-downs. Our reserve for excess and obsolete inventory was $8.9 million and $7.8 million at December 31, 2010 and 2009, respectively. Inventory write-downs charged to the reserve were $0.8 million, $1.7 million and $1.0 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The objective of our short-term investment policy is to preserve principal and maintain adequate liquidity with appropriate diversification, while achieving market returns. The objective of our long-term investment policy is principal preservation and total return; that is, the aggregate return from capital appreciation, dividend income, and interest income. These objectives are achieved through investments with appropriate diversification in fixed and variable rate income securities, public equity, and private equity portfolios. We have experienced significant volatility in the market prices of our publicly traded equity investments. These investments are recorded on the consolidated balance sheets at fair value with unrealized gains and losses reported as a component of accumulated other comprehensive income, net of tax. The ultimate realized value on these equity investments is subject to market price volatility.

In accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC, 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 for substantially the full term of the asset or liability; 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. At December 31, 2010, we categorized $53.0 million and $315.3 million of our available-for-sale investments as Level 1 and Level 2, respectively, and $14.5 million of our cash equivalents as Level 1. At December 31, 2009, we categorized $38.1 million and $246.1 million of our available-for-sale investments as Level 1 and Level 2, respectively, and $18.4 million of our cash equivalents as Level 1.

28

Table of Contents

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. As a result of our review, we did not record any other-than-temporary impairment charge during the fourth quarter of 2010. For the years ended December 31, 2010, 2009 and 2008, we recorded charges of $43 thousand, $2.9 million and $2.4 million, respectively, related to the other-than-temporary impairment of certain publicly traded equity securities, a fixed income bond fund, and deferred compensation plan assets. Actual losses, if any, could ultimately differ from these estimates. Future adverse changes in market conditions or poor operating results of underlying investments could result in additional losses that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future. See Note 3 of Notes to the Consolidated Financial Statements in this report for more information about our investments.

We also invest in privately held entities and private equity funds and record these investments at cost. We review these investments periodically in order to determine if circumstances (both financial and non-financial) exist that indicate that we will not recover our initial investment. Impairment charges are recorded on investments having a cost basis that is greater than the value that we would reasonably expect to receive in an arm s length sale of the investment. We have not been required to record any impairment losses relating to these investments in 2010, 2009 or 2008.

For purposes of determining the estimated fair value of our stock option awards on the date of grant under the Stock Compensation Topic of the FASB ASC, we use the Black-Scholes Model. This model requires the input of certain assumptions that require subjective judgment. These assumptions include, but are not limited to, expected stock price volatility over the term of the awards and actual and projected employee stock option exercise behaviors. Because our stock option awards have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, the existing model may not provide a reliable single measure of the fair value of our stock option awards. For purposes of determining the estimated fair value of our performance-based restricted stock unit awards on the date of grant, we use a Monte Carlo Simulation valuation method. The restricted stock units are subject to a market condition based on the relative total shareholder return of ADTRAN against a peer group of companies (2008 and 2009 grants) or against all companies in the NASDAQ Telecommunications Index (2010 grant) and vest at the end of a three-year performance period. The fair value of restricted stock issued to our Directors in 2010 is equal to the closing price of our stock on the date of grant. Management will continue to assess the assumptions and methodologies used to calculate the estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time, which could result in changes to these assumptions and methodologies and thereby materially impact our fair value determination. If factors change and we use different assumptions in the application of the Stock Compensation Topic of the FASB ASC in future periods, the compensation expense that we record may differ significantly from what we have recorded in the current period.

We estimate our income tax provision or benefit in each of the jurisdictions in which we operate, including estimating exposures related to examinations by taxing authorities. We also make judgments regarding the realization of deferred tax assets, and establish reserves where we believe it is more likely than not that future taxable income in certain jurisdictions will be insufficient to realize these deferred tax assets in accordance with the Income Taxes Topic of the FASB ASC. Our estimates regarding future taxable income and income tax provision or benefit may vary due to changes in market conditions, changes in tax laws, or other factors. If our assumptions, and consequently our estimates, change in the future, the valuation allowances we have established may be increased or decreased, impacting future income tax expense. At

December 31, 2010 and 2009 respectively, the valuation allowance was $5.6 million and $5.3 million. As of December 31, 2010, we have state research tax credit carry-forwards of $2.2 million, which will expire between 2015 and 2025. These carry-forwards were caused by tax credits in excess of our annual tax liabilities to an individual state where we no longer generate sufficient state income. In addition, as of December 31, 2010, we have a deferred tax asset of $3.8 million relating to net operating loss carry-forwards which will expire between 2014 and 2029. These carry-forwards are the result of a foreign acquisition in 2009. The acquired net operating losses are in excess of the amount of estimated earnings. In accordance with the Income Taxes Topic of the FASB ASC, we believe it is more likely than not that we will not realize the full benefits of our deferred tax asset arising from these credits and net operating losses, and accordingly, have provided a valuation allowance against them. This valuation allowance is included in non-current deferred tax liabilities in the accompanying balance sheets.

Our products generally include warranties of one to ten years for product defects. We accrue for warranty returns at the time revenue is recognized based on our estimate of the cost to repair or replace the defective products. We engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers. Our products continue to become more complex in both size and functionality as many of our product offerings migrate from line card applications to systems products. The increasing complexity of our products will cause warranty incidences, when they arise, to be more costly. Our estimates regarding future warranty obligations may change due to product failure rates, material usage, and other rework costs incurred in correcting a product failure. In addition, from time to time, specific warranty accruals may be recorded if unforeseen problems arise. Should our actual experience relative to these factors be worse than our estimates, we will be required to record additional warranty expense. Alternatively, if we provide for more reserves than we require, we will reverse a portion of such provisions in future periods. The liability for warranty returns totaled $3.3 million and $2.8 million at December 31, 2010 and 2009, respectively. These liabilities are included in accrued expenses in the accompanying consolidated balance sheets.

Table of Contents

Results of Operations

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

Year Ended December 31,	*2010*	*2009*	*2008*
Sales			
Carrier Networks Division	78.6%	76.7%	78.3%
Enterprise Networks Division	21.4	23.3	21.7
Total sales	**100.0%**	**100.0%**	**100.0%**
Cost of sales	40.7	40.7	40.3
Gross profit	**59.3**	**59.3**	**59.7**
Selling, general and administrative expenses	19.0	20.5	20.6
Research and development expenses	14.9	17.2	16.4
Operating income	**25.4**	**21.6**	**22.7**
Interest and dividend income	1.1	1.4	1.7
Interest expense	(0.4)	(0.5)	(0.5)
Net realized investment gain (loss)	1.8	(0.3)	(0.5)
Other income (expense), net	(0.1)		0.2
Income before provision for income taxes	**27.8**	**22.2**	**23.6**
Provision for income taxes	(9.0)	(6.9)	(7.9)
Net income	**18.8%**	**15.3%**	**15.7%**

2010 Compared to 2009

Sales

ADTRAN s sales increased 25.1% from $484.2 million in 2009 to $605.7 million in 2010. This increase in sales is primarily attributable to a $64.6 million increase in sales of our Broadband Access products, a $31.1 million increase in sales of our Internetworking products, a $27.0 million increase in sales of our HDSL products, and a $5.6 million increase in our Optical Access products, partially offset by a $4.2 million decrease in traditional IAD products and a $2.6 million decrease in enterprise T1 products.

Carrier Networks sales increased 28.2% from $371.3 million in 2009 to $476.0 million in 2010. The increase is primarily attributable to increases in Broadband Access, Optical Access, TDM, HDSL and Internetworking NTE product sales, partially offset by a decrease in other traditional products.

Enterprise Networks sales increased 14.9% from $112.8 million in 2009 to $129.6 million in 2010. The increase is primarily attributable to an increase in Internetworking product sales, partially offset by decreases in IAD and enterprise T1 product sales. Internetworking product sales were 77.3% of Enterprise Network sales in 2010 compared with 67.4% in 2009. Traditional products primarily comprise the remainder of Enterprise Networks sales. Enterprise Networks sales as a percentage of total sales decreased from 23.3% in 2009 to 21.4% in 2010.

International sales, which are included in the Carrier Networks and Enterprise Networks amounts discussed above, increased 14.6% from $27.8 million in 2009 to $31.8 million in 2010. International sales, as a percentage of total sales, decreased from 5.7% in 2009 to 5.3% in 2010. The increase in international sales in 2010 was primarily attributable to an increase in sales in Australia, Mexico and Europe, partially offset by a decrease in sales in Canada.

Carrier Systems product sales increased $73.6 million in 2010 compared to 2009 primarily due to a $64.6 million increase in Broadband Access product sales and a $5.6 million increase in Optical Access product sales. The increase in Broadband Access product sales was primarily attributable to continued growth in deployments of our TA 5000

platform and Fiber to the Node products resulting from market share gains across all major market segments.

Table of Contents

Business Networking product sales increased $26.8 million in 2010 compared to 2009 primarily due to an increase in Internetworking product sales. Growth in Internetworking product sales occurred across all areas, including routers, Ethernet switches, IP gateways, access termination products and our IP PBX segment as a result of market share gains in SME and distributed enterprise applications. This increase was partially offset by a decrease in traditional IAD product sales as customers shifted emphasis to newer technologies. Many of these newer technologies are integral to our Internetworking product area.

Loop Access product sales increased $21.1 million in 2010 compared to 2009 primarily due to a $27.0 million increase in HDSL product sales, partially offset by decreases in other traditional product sales. The increase in HDSL product sales is primarily attributable to carriers increasing investment to cost effectively and quickly add capacity to mobility networks.

Cost of Sales

Cost of sales remained consistent in 2010 and 2009 at 40.7% of sales. Gross margins benefited from improved product mix, cost absorption and manufacturing efficiencies achieved at the higher production volumes, offset by higher warranty expense and an increase in lower margin installation services revenue. However, installation services revenue was accretive to operating income margins in 2010.

Carrier Networks cost of sales decreased from 40.8% of sales in 2009 to 40.5% of sales in 2010. The decrease was primarily related to improved cost absorption and manufacturing efficiencies achieved at the higher production volumes, which was partially offset by an increase in lower margin installation services revenue.

Enterprise Networks cost of sales increased from 40.4% of sales in 2009 to 41.7% of sales in 2010. The increase was primarily related to a higher cost product mix and the impact of cost allocations between divisions.

An important part of our 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 may cause variations in our gross profit percentage due to timing differences between the recognition of cost reductions and the lowering of product selling prices.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses increased 15.3% from $99.4 million in 2009 to $114.7 million in 2010. Selling, general, and administrative expenses include personnel costs for administration, finance, information systems, human resources, sales and marketing, and general management, as well as rent, utilities, legal and accounting expenses, bad debt expense, advertising, promotional material, trade show expenses, and related travel costs. The increase in selling, general, and administrative expenses was primarily related to an increase in staffing costs and fringe benefits due to increased headcount, and increases in incentive compensation, contract services and travel expenses.

Selling, general and administrative expenses as a percentage of sales decreased from 20.5% for the year ended December 31, 2009 to 18.9% for the year ended December 31, 2010. Selling, general and administrative expenses as a percent of sales will generally fluctuate whenever there is significant fluctuation in revenues for the periods being compared.

Research and Development Expenses

Research and development expenses increased 8.4% from $83.3 million in 2009 to $90.3 million in 2010. The increase in research and development expenses was a result of increased staffing costs and fringe benefits, engineering and testing expense primarily related to customer specific product development activities as well as costs related to product approvals, primarily for one or more of the top three U.S. carriers.

Research and development expenses as a percentage of sales decreased from 17.2% for the year ended December 31, 2009 to 14.9% for the year ended December 31, 2010. Research and development expenses as a percentage of sales will fluctuate whenever there are incremental product development activities or a significant fluctuation in revenues for the periods being compared.

We expect to continue to incur research and development expenses in connection with our new and existing products and our expansion into international markets. We continually evaluate new product opportunities and engage in intensive research and product development efforts which provides for new product development, enhancement of existing products and product cost reductions. We may incur significant research and development expenses prior to the receipt of revenues from a major new product group.

Table of Contents

Interest and Dividend Income

Interest and dividend income decreased 5.4% from $6.9 million in 2009 to $6.6 million in 2010. This decrease was primarily attributable to a 22.2% reduction in the average rate of return on our investments as a result of lower interest rates, partially offset by a 23.7% increase in our average investment balances.

Interest Expense

Interest expense remained consistent at $2.4 million in 2010 and 2009, as we had no substantial change in our fixed rate borrowing. See Liquidity and Capital Resources below for additional information.

Net Realized Investment Gain (Loss)

Net realized investment gain (loss) changed from a $1.3 million loss in 2009 to an $11.0 million gain in 2010. This change is primarily a result of the other-than-temporary impairments of $2.0 million related to our marketable equity securities, $0.4 million related to our investment in a fixed income bond fund, and $0.5 million related to our deferred compensation plan assets in 2009 and the realized gains of $8.1 million on the sale of one security and $1.6 million from the sale of previously impaired marketable equity securities in 2010. See Investing Activities in Liquidity and Capital Resources below for additional information.

Other Income (Expense), net

Other income (expense), net, comprised primarily of miscellaneous income, gains and losses on foreign currency transactions, investment account management fees, and gains or losses on the disposal of property, plant and equipment occurring in the normal course of business, changed from $0.1 million of income in 2009 to $0.8 million of expense in 2010.

Income Taxes

Our effective tax rate increased from 31.0% in 2009 to 32.2% in 2010. This increase is primarily due to the reduced impact of available statutory tax benefits applied to the increased level of pretax income in 2010. The statutory benefits include the research and development tax credit, deduction for domestic manufacturing under Internal Revenue Code Section 199 and stock option related tax benefits.

Net Income

As a result of the above factors, net income increased from $74.2 million in 2009 to $114.0 million in 2010. As a percentage of sales, net income increased from 15.3% in 2009 to 18.8% in 2010.

2009 Compared to 2008

Sales

ADTRAN s sales decreased 3.3% from $500.7 million in 2008 to $484.2 million in 2009. This decrease in sales is primarily attributable to a $46.6 million decrease in sales of HDSL and other traditional products, partially offset by a $9.1 million increase in sales of our Broadband Access products, a $6.8 million increase in sales of our Optical Access products, and a $14.2 million increase in sales of our Internetworking products.

Carrier Networks sales decreased 5.3% from $392.2 million in 2008 to $371.3 million in 2009. The decrease is primarily attributable to decreases in HDSL, DDS, and other traditional TDM products sales, partially offset by an increase in Broadband Access and Optical Access product sales.

Enterprise Networks sales increased 4.0% from $108.5 million in 2008 to $112.8 million in 2009. The increase is primarily attributable to an increase in sales of Internetworking products, partially offset by declines in sales of traditional IAD products, and Enterprise T1 products. Internetworking product sales were 67.4% of Enterprise Network sales in 2009 compared with 58.3% in 2008. Traditional products primarily comprise the remainder of Enterprise Networks sales. Enterprise Networks sales as a percentage of total sales increased from 21.7% in 2008 to 23.3% in 2009.

Table of Contents

International sales, which are included in the Carrier Networks and Enterprise Networks amounts discussed above, decreased 7.7% from $30.1 million in 2008 to $27.8 million in 2009. International sales, as a percentage of total sales, decreased from 6.0% in 2008 to 5.7% in 2009. International sales in 2009 decreased primarily due to a decline in macroeconomic conditions.

Carrier Systems product sales increased $9.5 million in 2009 compared to 2008 primarily due to a $9.1 million increase in Broadband Access product sales and a $6.8 million increase in Optical Access product sales. These increases were primarily attributable to increased shipments of our Total Access® 5000 products, our OPTI family of products and continuing deployments of FTTN products, resulting from market share gains across all major market segments. Partially offsetting these increases were decreases in TDM and other traditional product sales as customers shifted emphasis to newer technologies. Many of these newer technologies are integral to our Broadband Access and Optical Access product areas.

Business Networking product sales increased $10.9 million in 2009 compared to 2008 due to a $14.2 million increase in Internetworking product sales, primarily as a result of market share gains in SMB and distributed enterprise applications. Partially offsetting this increase in Internetworking product sales was a decline in sales of traditional IAD products as customers shifted emphasis to newer technologies. Many of these newer technologies are integral to our Internetworking product area.

Loop Access product sales decreased $36.9 million in 2009 compared to 2008 primarily due to declines in HDSL, Enterprise T1, and DDS product sales.

Cost of Sales

Cost of sales increased from 40.3% of sales in 2008 to 40.7% of sales in 2009. The increase in cost of sales as a percentage of sales is primarily related to costs incurred to expedite delivery of materials and costs related to a new product release, which were partially offset by cost reductions generated through improved manufacturing efficiencies.

Carrier Networks cost of sales increased from 39.8% of sales in 2008 to 40.8% of sales in 2009. The increase was primarily related to costs incurred to expedite delivery of materials and costs related to a new product release.

Enterprise Networks cost of sales decreased from 42.2% of sales in 2008 to 40.4% of sales in 2009. The decrease was primarily related to lower freight costs and other cost reductions generated through improved manufacturing efficiencies.

An important part of our 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 may cause variations in our gross profit percentage due to timing differences between the recognition of cost reductions and the lowering of product selling prices.

Selling, General, and Administrative Expenses

Selling, general, and administrative expenses decreased 3.7% from $103.3 million, or 20.6% of sales in 2008, to $99.4 million, or 20.5% of sales in 2009. Selling, general, and administrative expenses include personnel costs for administration, finance, information systems, human resources, sales and marketing, and general management, as well as rent, utilities, legal and accounting expenses, bad debt expense, advertising, promotional material, trade show expenses, and related travel costs. The decrease in selling, general, and administrative expenses was primarily related to a reduction in discretionary expenditures including temporary labor, travel, and various promotional expenses.

Selling, general and administrative expenses as a percent of sales will generally fluctuate whenever there is significant fluctuation in revenues for the periods being compared.

Research and Development Expenses

Research and development expenses increased 1.8% from $81.8 million, or 16.3% of sales, in 2008 to $83.3 million, or 17.2% of sales, in 2009. The increase in research and development expenses was a result of increased staffing, engineering and testing expense primarily related to customer specific product development activities as well as costs related to product approvals, primarily for one or more of the top three U.S. carriers. Research and development expenses as a percentage of sales will fluctuate whenever there are incremental product development activities or a significant fluctuation in revenues for the periods being compared.

ADTRAN expects to continue to incur research and development expenses in connection with its new and existing products and its expansion into international markets. ADTRAN continually evaluates new product opportunities and

engages in intensive research and product development efforts which provides for new product development, enhancement of existing products and product cost reductions. ADTRAN may incur significant research and development expenses prior to the receipt of revenues from a major new product group or market expansion.

Table of Contents

Interest and Dividend Income

Interest and dividend income decreased 20.4% from $8.7 million in 2008 to $6.9 million in 2009. This decrease was the result of a 39.6% reduction in the average rate of return on our investments due to lower interest rates.

Interest Expense

Interest expense decreased from $2.5 million in 2008 to $2.4 million in 2009. The decrease was due to a lower principal balance in 2009 as compared to 2008. See Liquidity and Capital Resources below for additional information.

Net Realized Investment Gain (Loss)

Net realized investment gain (loss) changed from a $2.4 million loss in 2008 to a $1.3 million loss in 2009. The change is a result of lower other-than-temporary impairments of certain securities in our equity portfolio during 2009 as compared to 2008 and the sales of certain securities for a gain. See Investing Activities in Liquidity and Capital Resources below for additional information.

Other Income (Expense), net

Other income, net, comprised primarily of miscellaneous income, gains and losses on foreign currency transactions, investment account management fees, and gains or losses on the disposal of property, plant and equipment occurring in the normal course of business, decreased from $0.7 million in 2008 to $0.1 million in 2009.

Income Taxes

Our effective tax rate decreased from 33.6% in 2008 to 31.0% in 2009, primarily due to increased benefits relating to the deduction for manufacturer s domestic production activities under Internal Revenue Code Section 199 and an increase in our federal research and development credits, partially offset by an increase in state income tax expense.

Net Income

As a result of the above factors, net income decreased from $78.6 million in 2008 to $74.2 million in 2009. As a percentage of sales, net income decreased from 15.7% in 2008 to 15.3% in 2009.

Liquidity and Capital Resources

Liquidity

We intend to finance our operations with cash flow from operations. We have used, and expect to continue to use, the cash generated from operations for working capital, purchases of treasury stock, dividend payments, and other general corporate purposes, including (i) product development activities to enhance our existing products and develop new products and (ii) expansion of sales and marketing activities. We believe our cash and cash equivalents, investments and cash generated from operations to be adequate to meet our operating and capital needs.

At December 31, 2010, cash on hand was $31.7 million and short-term investments were $157.5 million, which placed our short-term liquidity at $189.2 million. At December 31, 2009, our cash on hand of $24.1 million and short-term investments of $172.5 million placed our short-term liquidity at $196.6 million. The decrease in liquidity from 2009 to 2010 primarily reflects a partial realignment of our investment portfolio from short-term to long-term, which increased long-term investments by $99.0 million in 2010.

Operating Activities

Our working capital, which consists of current assets less current liabilities, increased 9.7% from $278.0 million as of December 31, 2009 to $305.0 million as of December 31, 2010, primarily due to an increase in inventory of $28.6 million. Inventory increased during 2010 to support increasing customer demand, increases in inventories related to an increase in installation services contracts, and to mitigate component supply constraints broadly affecting the industry. The quick ratio, defined as cash, cash equivalents, short-term investments, and net accounts receivable, divided by current liabilities, decreased from 5.54 as of December 31, 2009 to 5.21 as of December 31, 2010. The quick ratio decreased primarily due to a decrease in short-term investments of $15.0 million, which was a result of the partial realignment of our investment portfolio from short-term to long-term. The current ratio, defined as current assets divided by current liabilities, increased from 6.82 as of December 31, 2009 to 7.10 as of December 31, 2010. The current ratio increased primarily due to the increase in inventory of $28.6 million for the reasons stated above.

Table of Contents

Net accounts receivable increased 4.2% from $68.0 million at December 31, 2009 to $70.9 million at December 31, 2010. Our allowance for doubtful accounts increased from $0.1 million at December 31, 2009 to $0.2 million at December 31, 2010. Quarterly accounts receivable days sales outstanding (DSO) decreased from 50 days as of December 31, 2009 to 39 days as of December 31, 2010. Generally, the change in net accounts receivable and DSO is due to the timing of sales and collections during the quarter. Other receivables decreased from $4.1 million at December 31, 2009 to $4.0 million at December 31, 2010. Other receivables may fluctuate due to the timing of collections for materials supplied to our contract manufacturers.

Quarterly inventory turnover decreased from 4.5 turns as of December 31, 2009 to 3.8 turns as of December 31, 2010. Inventory increased 62.6% from December 31, 2009 to December 31, 2010. Our investment in inventory increased during 2010 to support increasing customer demand, increases in inventories related to an increase in installation services contracts, and to mitigate component supply constraints broadly affecting the industry. We expect inventory levels to fluctuate as we attempt to maintain sufficient inventory in response to seasonal cycles of our business; ensuring competitive lead times while managing the risk of inventory obsolescence that may occur due to rapidly changing technology and customer demand.

Accounts payable decreased 11.6% from $25.8 million at December 31, 2009 to $22.8 million at December 31, 2010. Generally, the change in accounts payable is due to variations in the timing of the receipt of supplies, inventory and services and our subsequent payments for these purchases.

Investing Activities

Capital expenditures totaled approximately $9.9 million, $8.7 million and $9.5 million for the years ended December 31, 2010, 2009 and 2008, respectively. These expenditures were primarily used to purchase computer hardware, software and manufacturing and test equipment.

Our combined short-term and long-term investments increased $84.0 million from $334.6 million at December 31, 2009 to $418.6 million at December 31, 2010. This increase reflects the impact of additional funds available for investment provided by our operating activities, reduced by our cash needs for equipment acquisitions, stock repurchases and dividends, as well as net realized and unrealized losses and amortization of net premiums on our combined investments.

We invest all available cash not required for immediate use in operations primarily in securities that we believe bear minimal risk of loss. At December 31, 2010, these investments included municipal variable rate demand notes of $116.7 million, municipal fixed-rate bonds of $71.5 million and corporate bonds of $127.1 million. At December 31, 2009, these investments included municipal variable rate demand notes of $84.4 million, municipal fixed-rate bonds of $141.3 million and corporate bonds of $20.4 million.

Our municipal variable rate demand notes are classified as available-for-sale short-term investments. At December 31, 2010, 29% of our municipal variable rate demand notes had a credit rating of AAA, 63% had a credit rating of AA, 8% had a credit rating of A, and all contained put options of seven days. Despite the long-term nature of their stated contractual maturities, we routinely buy and sell these securities and we believe that we have the ability to quickly liquidate them. Our investments in these securities are recorded at fair value, and the interest rates reset every seven days. We believe we have the ability to sell our variable rate demand notes to the remarketing agent, tender agent, or issuer at par value plus accrued interest in the event we decide to liquidate our investment in a particular variable rate demand note. At December 31, 2010, approximately 28% of our variable rate demand notes were supported by letters of credit from banks that we believe to be in good financial condition. The remaining 72% of our variable rate demand notes were supported by standby purchase agreements. As a result of all of these factors, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from these investments. All income generated from these investments was recorded as interest income. We have not been required to record any losses relating to municipal variable rate demand notes.

At December 31, 2010, approximately 15% of our municipal fixed-rate bond portfolio had a credit rating of AAA, 74% had a credit rating of AA, and 11% had a credit rating of A. These bonds are classified as available-for-sale investments and had an average duration of 1.2 years at December 31, 2010. Because our bond portfolio has a high quality rating and contractual maturities of a short duration, we are able to obtain prices for these bonds derived from observable market inputs, or for similar securities traded in an active market, on a daily basis.

At December 31, 2010, we held $127.1 million of corporate bonds. These bonds are classified as available-for-sale and had an average duration of 2.0 years at December 31, 2010. At December 31, 2010, approximately 3% of our corporate bond portfolio had a credit rating of AAA, 11% had a credit rating of AA, 51% had a credit rating of A, and 35% had a credit rating of BBB.

Table of Contents

Our long-term investments increased 61.0% from $162.2 million at December 31, 2009 to $261.2 million at December 31, 2010. Municipal fixed-rate bonds classified as long-term investments decreased $11.1 million from $53.2 million at December 31, 2009 to $42.1 million at December 31, 2010. The primary reason for the decrease in our long-term municipal fixed rate bonds was a change in investment strategy that placed additional long-term investments in corporate bonds. Long-term investments at December 31, 2010 and 2009 include an investment in a certificate of deposit of $48.3 million which serves as collateral for our revenue bonds, as discussed below. We have various equity investments included in long-term investments at a cost of $11.5 million and $9.8 million, and with a fair value of $48.0 million and $33.5 million, at December 31, 2010 and 2009, respectively, including a single equity security, of which we held 1.5 million shares and 2.1 million shares, carried at $34.2 million and $22.4 million of fair value, at December 31, 2010 and 2009, respectively. This single security traded approximately 1.0 million shares per day in 2010 in an active market on a European stock exchange. Of the gross unrealized gains included in the fair value of our marketable securities at December 31, 2010 and 2009, this single security comprised $33.7 million and $21.7 million, respectively, of the unrealized gain. The remaining $3.0 million of gross unrealized gains and $0.1 million in gross unrealized losses at December 31, 2010 were spread amongst more than 415 marketable equity securities. Long-term investments at December 31, 2010 and 2009 also included $4.2 million and $3.4 million, respectively, related to our deferred compensation plan; $2.1 million and $2.2 million, respectively, of other investments carried at cost, consisting of interests in two private equity funds and an investment in a privately held telecommunications equipment manufacturer; and $0.7 million and $1.2 million, respectively, of a fixed income bond fund. This bond fund had unrealized gains of $0.2 million and $0.3 million at December 31, 2010 and 2009, respectively.

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. As a result of our review, we did not record any other-than-temporary impairment charge during the fourth quarter of 2010. For the years ended December 31, 2010, 2009 and 2008 we recorded charges of $43 thousand, $2.9 million and $2.4 million, respectively, related to the other-than-temporary impairment of certain publicly traded equity securities, a fixed income bond fund, and deferred compensation plan assets.

Financing Activities

Fifty million dollars of the expansion of Phase III of our corporate headquarters was approved for participation in an incentive program offered by the Alabama State Industrial Development Authority (the Authority). Pursuant to the program, on January 13, 1995, the Authority issued $20.0 million 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). Wachovia Bank, N.A., Nashville, Tennessee (formerly First Union National Bank of Tennessee, Nashville, Tennessee) (the Bondholder), which was acquired by Wells Fargo & Company on December 31, 2008, purchased the original bonds from the Bank and made further advances to the Authority, bringing the total amount outstanding to $50.0 million. 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, in exchange for investing capital and creating jobs in Alabama. We cannot be certain that the state of Alabama will continue to make these corporate income tax credits available; therefore, we may not realize the full benefit of these incentives. Through December 31, 2010, the Authority had issued $50.0 million 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 the 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 $48.0 million. The bond matures on January 1, 2020, and bears interest at the rate of 5% per annum. Included in long-term investments at December 31, 2010 is $48.3 million of restricted funds, which is a collateral deposit against the principal amount of this bond. 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. 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 that we are required to remit to the state for those employment positions that qualify under the program.

Due to continued positive cash flow from operating activities, we made a business decision in 2006 to begin an early partial redemption of the Bond. It is our intent to make annual principal payments in addition to the interest amounts that are due. In connection with this decision, $0.5 million of the bond debt has been reclassified to a current liability in the Consolidated Balance Sheets at December 31, 2010 and 2009.

Table of Contents

The following table shows dividends paid in each quarter of 2010, 2009 and 2008. During 2010, 2009 and 2008, ADTRAN paid dividends totaling $22.5 million, $22.5 million and $22.9 million, respectively. The Board of Directors presently anticipates that it will declare a regular quarterly dividend so long as the present tax treatment of dividends exists and adequate levels of liquidity are maintained.

Dividends per Common Share

	2010	2009	2008
First Quarter	$ 0.09	$ 0.09	$ 0.09
Second Quarter	$ 0.09	$ 0.09	$ 0.09
Third Quarter	$ 0.09	$ 0.09	$ 0.09
Fourth Quarter	$ 0.09	$ 0.09	$ 0.09

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 30 million shares of our common stock. We currently have the authority to purchase an additional 2.0 million shares of our common stock under the plan approved by the Board of Directors on April 14, 2008. For the years 2010, 2009 and 2008, we repurchased 0.7 million shares, 0.8 million shares and 3.1 million shares, respectively, for a cost of $18.3 million, $15.9 million and $63.6 million, respectively, at a weighted average price of $25.12, $21.05 and $20.65 per share, respectively.

To accommodate employee stock option exercises, we issued 1.5 million shares of treasury stock for $24.9 million during the year ended December 31, 2010, 0.9 million shares of treasury stock for $13.5 million during the year ended December 31, 2009, and 0.3 million shares of treasury stock for $3.7 million during the year ended December 31, 2008.

Off-Balance Sheet Arrangements and Contractual Obligations

We have various contractual obligations and commercial commitments. The following table sets forth, in millions, the annual payments we are required to make under contractual cash obligations and other commercial commitments at December 31, 2010.

Contractual Obligations

(In millions)	Total	2011	2012	2013	2014	After 2014
Long-term debt	$ 48.0	$	$	$	$	$ 48.0
Interest on long-term debt	21.6	2.4	2.4	2.4	2.4	12.0
Purchase obligations	69.5	66.7	1.8	0.8	0.2	
Operating lease obligations	4.8	1.5	1.1	0.7	0.7	0.8
Investment commitments	0.5		0.4	0.1		
Totals	**$ 144.4**	**$ 70.6**	**$ 5.7**	**$ 4.0**	**$ 3.3**	**$ 60.8**

We are required to make payments necessary to pay the interest on the Taxable Revenue Bond, Series 1995, as amended, currently outstanding in the aggregate principal amount of $48.0 million. The bond matures on January 1, 2020, and bears interest at the rate of 5% per annum. Included in long-term investments are $48.3 million of restricted funds, which is a collateral deposit against the principal amount of this bond.

We have committed to invest up to an aggregate of $7.9 million in two private equity funds, and we have contributed $8.0 million as of December 31, 2010, of which $7.4 million has been applied to these commitments. See Note 3 of Notes to Consolidated Financial Statements for additional information.

We also have obligations related to uncertain income tax positions that have not been included in the table above due to the uncertainty of when the related expense will be recognized. See Note 7 of Notes to Consolidated Financial Statements for additional information.

We do not have off-balance sheet financing arrangements and have not engaged in any related party transactions or arrangements with unconsolidated entities or other persons that are reasonably likely to materially affect liquidity or the availability of or requirements for capital resources. See Notes 6 and 10 of Notes to Consolidated Financial Statements for additional information on our revenue bond and operating lease obligations, respectively.

Table of Contents

Effect of Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-13, which amends the Revenue Recognition topic of the FASB Accounting Standards Codification (ASC). This update provides amendments to the criteria in Subtopic 605-25 of the ASC for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments establish a selling price hierarchy for determining the selling price of a deliverable and will replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. The amendments will also eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and will require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We do not expect the adoption of this amendment will have a material impact on our consolidated results of operations or financial condition.

In October 2009, the FASB issued Update No. 2009-14, which amends the Software topic of the ASC. The amendments in this update change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product s essential functionality is no longer within the scope of the software revenue guidance in Subtopic 985-605 of the ASC. In addition, the amendments in this update require that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In that regard, the amendments provide additional guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of the software revenue guidance. The amendments also provide guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. The amendments also provide further guidance on how to allocate arrangement consideration when an arrangement includes deliverables both included and excluded from the scope of the software revenue guidance. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We do not expect the adoption of this amendment will have a material impact on our consolidated results of operations or financial condition.

During 2010, we adopted the following accounting standards, which had no material effect on our consolidated results of operations or financial condition:

In January 2010, the FASB issued Update No. 2010-06, which amends the Fair Value Measurements and Disclosures topic of the ASC. The amendments in this update require new disclosures about transfers in and out of Level 1 and Level 2 fair value measurements and the activity in Level 3 fair value measurements and, in addition, clarify existing disclosures required for levels of disaggregation and inputs and valuation techniques. These amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted this amendment during the period ended March 31, 2010, and we have provided the disclosures required for the three and twelve months ended December 31, 2010.

In February 2010, the FASB issued Update No. 2010-09, which amends the Subsequent Events topic of the ASC. The amendments in this update require entities that are SEC filers to evaluate subsequent events through the date that the financial statements are issued. Additionally, SEC filers are no longer required to disclose the date through which subsequent events were evaluated. The amendments in this update were effective upon issuance. We adopted this amendment during the period ended March 31, 2010.

Subsequent Events

On January 18, 2011, the Board declared a quarterly cash dividend of $0.09 per common share to be paid to stockholders of record at the close of business on February 3, 2011. The quarterly dividend payment was $5.8 million and was paid on February 17, 2011.

Table of Contents

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Details regarding the fair value of our available-for-sale investments as of December 31, 2010 are discussed in Note 3 of Notes to Consolidated Financial Statements included in this report.

We are exposed to financial market risks, including changes in interest rates and prices of marketable equity and fixed-income securities. The primary objective of the large majority of our investment activities is to preserve principal while at the same time achieving appropriate yields without significantly increasing risk. To achieve this objective, a majority of our marketable securities are investment grade, corporate and municipal fixed-rate bonds, municipal variable rate demand notes and municipal money market instruments denominated in United States dollars. At December 31, 2010, 29% of our municipal variable rate demand notes had a credit rating of AAA, 63% had a credit rating of AA, 8% had a credit rating of A, and all contained put options of seven days. At December 31, 2010, approximately 15% of our municipal fixed-rate bond portfolio had a credit rating of AAA, 74% had a credit rating of AA, and 11% had a credit rating of A. At December 31, 2010, approximately 3% of our corporate bond portfolio had a credit rating of AAA, 11% had a credit rating of AA, 51% had a credit rating of A, and 35% had a credit rating of BBB.

We maintain depository investments with certain financial institutions. Although these depository investments may exceed government insured depository limits, we have evaluated the credit worthiness of these financial institutions, and determined the risk of material financial loss due to exposure of such credit risk to be minimal. As of December 31, 2010, $22.0 million of our cash and cash equivalents, primarily certain domestic money market funds and foreign depository accounts, were in excess of government provided insured depository limits.

As of December 31, 2010, approximately $333.3 million of our cash and investments may be directly affected by changes in interest rates. We have performed a hypothetical sensitivity analysis assuming market interest rates increase or decrease by 50 basis points (bps), for an entire year, while all other variables remain constant. At December 31, 2010, we held $142.0 million of money market instruments and municipal variable rate demand notes where a change in interest rates would impact our interest income. A hypothetical 50 bps decline in interest rates as of December 31, 2010 would reduce annualized interest income on our money market instruments and municipal variable rate demand notes by approximately $0.5 million. In addition, we held $191.3 million of municipal fixed-rate bonds and corporate bonds whose fair value may be directly affected by a change in interest rates. A hypothetical 50 bps increases in interest rates as of December 31, 2010 would reduce the fair value of our municipal fixed-rate bonds and corporate bonds by approximately $1.7 million.

As of December 31, 2009, interest income on approximately $264.1 million of our cash and investments was subject to being directly affected by changes in interest rates. We performed a hypothetical sensitivity analysis assuming market interest rates increase or decrease by 50 bps for an entire year, while all other variables remain constant. A hypothetical 50 bps decline in interest rates as of December 31, 2009 would have reduced annualized interest income on our money market instruments and municipal variable rate demand notes by approximately $0.6 million. In addition, hypothetical 50 bps increase in interest rates as of December 31, 2009 would have reduced the fair value of our municipal fixed-rate bonds and corporate bonds by approximately $0.8 million.

We are directly exposed to changes in foreign currency exchange rates to the extent that such changes affect our revenue derived from international customers, expenses related to our foreign sales offices, and our foreign assets and liabilities. We attempt to manage these risks by primarily denominating contractual and other foreign arrangements in U.S. dollars. Our primary exposure in regard to our foreign assets and liabilities is with our Australian subsidiary whose functional currency is the Australian dollar. We are indirectly exposed to changes in foreign currency exchange rates to the extent of our use of foreign contract manufacturers and foreign raw material suppliers whom we pay in U.S. dollars. As a result, changes in the local currency rates of these vendors in relation to the U.S. dollar could cause an increase in the price of products that we purchase.

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements are contained in this report.

	Page
Management s Report on Internal Control Over Financial Reporting	41
Report of Independent Registered Public Accounting Firm	42
Financial Statements	
Consolidated Balance Sheets, As of December 31, 2010 and 2009	43
Consolidated Statements of Income, Years Ended December 31, 2010, 2009 and 2008	44
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income, Years Ended December 31, 2010, 2009 and 2008	45
Consolidated Statements of Cash Flows, Years Ended December 31, 2010, 2009 and 2008	46
Schedule II Valuation and Qualifying Accounts	73

Table of Contents

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management of ADTRAN, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. ADTRAN s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. ADTRAN s internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADTRAN;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of ADTRAN are being made only in accordance with authorizations of management and directors of ADTRAN; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of ADTRAN s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of ADTRAN s internal control over financial reporting as of December 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework.*

Based on our assessment and those criteria, management has concluded that ADTRAN maintained effective internal control over financial reporting as of December 31, 2010.

The effectiveness of our internal control over financial reporting has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Table of Contents

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of ADTRAN, Inc. and its subsidiaries at December 31, 2010 and December 31, 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management s Report On Internal Control Over Financial Reporting.* Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included 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. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/PricewaterhouseCoopers LLP

Birmingham, Alabama
February 25, 2011

Table of Contents

Financial Statements
ADTRAN, INC.
Consolidated Balance Sheets (In thousands, except per share amounts)
December 31, 2010 and 2009

	2010	*2009*
ASSETS		
Current assets		
Cash and cash equivalents	$ 31,677	$ 24,135
Short-term investments	157,479	172,469
Accounts receivable, less allowance for doubtful accounts of $162 and $138 at December 31, 2010 and 2009, respectively	70,893	68,044
Other receivables	3,962	4,097
Income tax receivable, net	2,741	
Inventory	74,274	45,674
Prepaid expenses	3,270	2,795
Deferred tax assets, net	10,617	8,603
Total current assets	**354,913**	**325,817**
Property, plant and equipment, net	73,986	74,309
Other assets	1,915	2,168
Long-term investments	261,160	162,169
Total assets	**$ 691,974**	**$ 564,463**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 22,785	$ 25,782
Unearned revenue	10,138	7,138
Accrued expenses	4,913	4,202
Accrued wages and benefits	12,125	7,634
Income tax payable, net		3,017
Total current liabilities	**49,961**	**47,773**
Deferred tax liabilities, net	10,350	5,035
Other non-current liabilities	11,841	11,390
Bonds payable	47,500	47,750
Total liabilities	**119,652**	**111,948**
Commitments and contingencies (see Note 10)		
Stockholders equity		
Common stock, par value $0.01 per share; 200,000 shares authorized; 79,652 issued in 2010 and 2009	797	797
Additional paid-in capital	193,866	181,240
Accumulated other comprehensive income	26,948	17,853

Retained earnings	731,962	649,256
Less treasury stock at cost: 16,642 and 17,392 shares at December 31, 2010 and 2009, respectively	(381,251)	(396,631)
Total stockholders equity	**572,322**	**452,515**
Total liabilities and stockholders equity	**$ 691,974**	**$ 564,463**

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

Table of Contents

ADTRAN, INC.
Consolidated Statements of Income (In thousands, except per share amounts)
Years ended December 31, 2010, 2009 and 2008

	2010	*2009*	*2008*
Sales	$ 605,674	$ 484,185	$ 500,676
Cost of sales	246,811	197,223	201,771
Gross profit	**358,863**	**286,962**	**298,905**
Selling, general, and administrative expenses	114,699	99,446	103,286
Research and development expenses	90,300	83,285	81,819
Operating income	**153,864**	**104,231**	**113,800**
Interest and dividend income	6,557	6,933	8,708
Interest expense	(2,436)	(2,430)	(2,514)
Net realized investment gain (loss)	11,008	(1,297)	(2,409)
Other income (expense), net	(804)	131	688
Income before provision for income taxes	**168,189**	**107,568**	**118,273**
Provision for income taxes	(54,200)	(33,347)	(39,692)
Net income	**$ 113,989**	**$ 74,221**	**$ 78,581**
Weighted average shares outstanding basic	62,490	62,459	63,549
Weighted average shares outstanding diluted (1)	63,879	63,356	64,408
Earnings per common share basic	$ 1.82	$ 1.19	$ 1.24
Earnings per common share diluted (1)	$ 1.78	$ 1.17	$ 1.22

(1) Assumes exercise of dilutive stock options calculated under the treasury method. See Notes 1 and 11 of the Notes to Consolidated Financial Statements.

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

Table of Contents

ADTRAN, INC.
Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income (In thousands)
Years ended December 31, 2010, 2009 and 2008

	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stockholders Equity
Balance, December 31, 2007	**79,652**	**$ 797**	**$ 164,385**	**$ 551,764**	**$ (344,219)**	**$ 5,704**	**$ 378,431**
Net income				78,581			**78,581**
Net change in unrealized gains/losses related to:							
Marketable securities (net of deferred tax of $3,638)						(6,127)	**(6,127)**
Impaired marketable securities (net of deferred tax of $740)						1,238	**1,238**
Foreign currency translation adjustment						(1,824)	**(1,824)**
Comprehensive income							**71,868**
Dividend payments				(22,919)			**(22,919)**
Dividends accrued for unvested restricted stock units				(2)			**(2)**
Stock options exercised: Various prices per share				(3,824)	7,515		**3,691**
Purchase of treasury stock: 3,078 shares					(63,569)		**(63,569)**
Income tax benefit from exercise of stock options			981				**981**
Stock-based compensation expense			7,338				**7,338**
Balance, December 31, 2008	**79,652**	**$ 797**	**$ 172,704**	**$ 603,600**	**$ (400,273)**	**$ (1,009)**	**$ 375,819**
Net income				74,221			**74,221**
Net change in unrealized gains/losses related to:							
Marketable securities (net of deferred tax of $9,218)						15,384	**15,384**
						1,010	**1,010**

Impaired marketable securities (net of deferred tax of $617)							
Foreign currency translation adjustment						2,468	**2,468**
Comprehensive income							**93,083**
Dividend payments				(22,486)			**(22,486)**
Dividends accrued for unvested restricted stock units				(12)			**(12)**
Stock options exercised: Various prices per share				(6,067)	19,538		**13,471**
Purchase of treasury stock: 755 shares					(15,896)		**(15,896)**
Income tax benefit from exercise of stock options			1,549				**1,549**
Stock-based compensation expense			6,987				**6,987**
Balance, December 31, 2009	**79,652**	**$ 797**	**$ 181,240**	**$ 649,256**	**$ (396,631)**	**$ 17,853**	**$ 452,515**
Net income				113,989			**113,989**
Net change in unrealized gains/losses related to:							
Marketable securities (net of deferred tax of $5,223)						8,700	**8,700**
Impaired marketable securities (net of deferred tax of $598)						(999)	**(999)**
Foreign currency translation adjustment						1,394	**1,394**
Comprehensive income							**123,084**
Dividend payments				(22,502)			**(22,502)**
Dividends accrued for unvested restricted stock units				(27)			**(27)**
Stock options exercised: Various prices per share				(8,754)	33,696		**24,942**
Purchase of treasury stock: 729 shares					(18,316)		**(18,316)**
Income tax benefit from exercise of stock options			4,909				**4,909**
Stock-based compensation expense			7,717				**7,717**

Balance, December 31, 2010	**79,652**	**$ 797**	**$ 193,866**	**$ 731,962**	**$ (381,251)**	**$ 26,948**	**$ 572,322**

ADTRAN issued 1,483 shares, 856 shares and 325 shares of treasury stock to accommodate employee stock option exercises during 2010, 2009 and 2008, respectively. During 2010 and 2008, ADTRAN received 4 shares and 9 shares, respectively, previously held by employees for at least six months as payment of the exercise price for employee stock options. None of the transactions with respect to these shares were made in the open market. The average price paid per share with respect to these transactions was based on the closing price of the common stock on the NASDAQ Global Select Market on the date of the transaction. There were no such transactions during 2009.

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

Table of Contents

ADTRAN, INC.
Consolidated Statements of Cash Flows (In thousands)
Years ended December 31, 2010, 2009 and 2008

	2010	*2009*	*2008*
Cash flows from operating activities			
Net income	$ 113,989	$ 74,221	$ 78,581
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	10,545	10,084	9,891
Amortization of net premium on available-for-sale investments	4,380	3,686	2,101
Net realized loss (gain) on long-term investments	(11,008)	1,297	2,409
Loss (gain) on disposal of property, plant and equipment	2	(31)	83
Stock-based compensation expense	7,717	6,987	7,338
Deferred income taxes	(1,324)	(1,024)	(903)
Tax benefit from stock option exercises	4,909	1,549	981
Excess tax benefits from stock-based compensation arrangements	(4,404)	(998)	(619)
Change in operating assets and liabilities:			
Accounts receivable, net	(2,849)	(15,143)	17,918
Other receivables	135	(1,195)	189
Income tax receivable, net	(2,741)		
Inventory	(28,600)	1,732	1,140
Prepaid expenses and other assets	(574)	(489)	(549)
Accounts payable	(2,997)	5,442	(1,887)
Accrued expenses and other liabilities	8,626	1,010	93
Income taxes payable, net	(3,017)	3,027	(951)
Net cash provided by operating activities	**92,789**	**90,155**	**115,815**
Cash flows from investing activities			
Purchases of property, plant and equipment	(9,872)	(8,740)	(9,492)
Proceeds from sales and maturities of available-for-sale investments	275,442	186,193	248,688
Purchases of available-for-sale investments	(340,489)	(262,067)	(242,791)
Acquisition of business, net of cash acquired		(1,370)	
Net cash used in investing activities	**(74,919)**	**(85,984)**	**(3,595)**
Cash flows from financing activities			
Proceeds from stock option exercises	24,942	13,471	3,691
Purchases of treasury stock	(18,316)	(15,896)	(63,569)
Dividend payments	(22,502)	(22,486)	(22,919)
Payments on long-term debt	(250)	(500)	(250)
Excess tax benefits from stock-based compensation arrangements	4,404	998	619
Net cash used in financing activities	**(11,722)**	**(24,413)**	**(82,428)**
Net increase (decrease) in cash and cash equivalents	6,148	(20,242)	29,792
Effect of exchange rate changes	1,394	2,468	(1,824)
Cash and cash equivalents, beginning of year	**24,135**	**41,909**	**13,941**
Cash and cash equivalents, end of year	**$ 31,677**	**$ 24,135**	**$ 41,909**

Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$ 2,411	$ 2,435	$ 2,447
Cash paid during the year for income taxes	$ 57,662	$ 30,869	$ 42,267

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

Table of Contents

Notes to Consolidated Financial Statements

Note 1 Nature of Business and Summary of Significant Accounting Policies

ADTRAN, Inc. designs, manufactures, markets and services network access solutions for communications networks. Our solutions are widely deployed by providers of communications services (serviced by our Carrier Networks Division), and small and mid-sized enterprises (SMEs) (serviced by our Enterprise Networks Division), and enable voice, data, video and Internet communications across wireline and wireless networks. Many of these solutions are currently in use by every major United States service provider and many global ones, as well as by many public, private and governmental organizations worldwide.

Principles of Consolidation

Our consolidated financial statements include ADTRAN and its wholly owned subsidiaries. All significant inter-company accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits, money market funds, and short-term investments classified as available for sale with original maturities of three months or less. We maintain depository investments with certain financial institutions. Although these depository investments may exceed government insured depository limits, we have evaluated the credit worthiness of these applicable financial institutions, and determined the risk of material financial loss due to exposure of such credit risk to be minimal. As of December 31, 2010, $22.0 million of our cash and cash equivalents, primarily certain domestic money market funds and foreign depository accounts, were in excess of government provided insured depository limits.

Financial Instruments

The carrying amounts reported in the consolidated 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 was $48.0 million compared to an estimated fair value of $42.5 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor s credit rating of A+.

Investments with maturities beyond one year, such as our municipal variable rate demand notes, may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. At December 31, 2010, 29% of our municipal variable rate demand notes had a credit rating of AAA, 63% had a credit rating of AA, 8% had a credit rating of A, and all contained put options of seven days. Despite the long-term nature of their stated contractual maturities, we routinely buy and sell these securities and we believe that we have the ability to quickly liquidate them. Our investments in these securities are recorded at fair value, and the interest rates reset every seven days. We believe we have the ability to sell our variable rate demand notes to the remarketing agent, tender agent, or issuer at par value plus accrued interest in the event we decide to liquidate our investment in a particular variable rate demand note. At December 31, 2010, approximately 28% of our variable rate demand notes were supported by letters of credit from banks that we believe to be in good financial condition. The remaining 72% of our variable rate demand notes were supported by standby purchase agreements. As a result of these factors, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from these investments at December 31, 2010. All income generated from these investments was recorded as interest income. We have not been required to record any losses relating to municipal variable rate demand notes.

Long-term investments represent a restricted certificate of deposit, municipal fixed-rate bonds, corporate bonds, a fixed income bond fund, marketable equity securities, and other equity investments. Marketable equity securities are reported at fair 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 on sales of securities are computed under the specific identification method and are included in current income. We periodically review our investment portfolio for investments considered to have sustained an other-than-temporary decline in value. Impairment charges for other-than-temporary declines in value are recorded as realized losses in the accompanying consolidated statements of income. All of our investments at December 31, 2010 and 2009 are

classified as available-for-sale (see Note 3).

Table of Contents

Accounts Receivable

We record accounts receivable at net realizable value. Prior to issuing payment terms to a new customer, we perform a detailed credit review of the customer. Credit limits are established for each new customer based on the results of this credit review. Payment terms are established for each new customer, and collection experience is reviewed periodically in order to determine if the customer s payment terms and credit limits need to be revised.

We maintain an allowance for doubtful accounts for losses resulting from the inability of our customers to make required payments. We regularly review the allowance for doubtful accounts and consider factors such as the age of accounts receivable balances, the current economic conditions that may affect a customer s ability to pay, significant one-time events and our historical experience. If the financial condition of a customer deteriorates, resulting in an impairment of their ability to make payments, we may be required to make additional allowances. If circumstances change with regard to individual receivable balances that have previously been determined to be uncollectible (and for which a specific reserve has been established), a reduction in our allowance for doubtful accounts may be required. Our allowance for doubtful accounts was $162 thousand at December 31, 2010 and $138 thousand at December 31, 2009.

Other Receivables

Other receivables are comprised primarily of amounts due from subcontract manufacturers for product component transfers, accrued interest on a restricted certificate of deposit and amounts due from employee stock option exercises.

Inventory

Inventory is carried at the lower of cost or market, with cost being determined using the first-in, first-out method. Standard costs for material, labor and manufacturing overhead are used to value inventory. Standard costs are updated at least quarterly; therefore, inventory costs approximate actual costs at the end of each reporting period. 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. When we dispose of excess and obsolete inventories, the related write-downs are charged against the inventory reserve.

Property, Plant and Equipment

Property, plant and equipment, which are stated at cost, are depreciated using straight-line depreciation over the estimated useful lives of the assets. We depreciate building and land improvements from five to 39 years, office machinery and equipment from three to seven years, engineering machinery and equipment from three to seven years and computer software from three to five years. Expenditures for repairs and maintenance are charged to expense as incurred. Betterments that 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 other income, net in the accompanying consolidated statements of income.

Liability for Warranty

Our products generally include warranties of one to ten years for product defects. We accrue for warranty returns at the time revenue is recognized based on our estimate of the cost to repair or replace the defective products. We engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers. Our products continue to become more complex in both size and functionality as many of our product offerings migrate from line card applications to systems products. The increasing complexity of our products will cause warranty incidences, when they arise, to be more costly. Our estimates regarding future warranty obligations may change due to product failure rates, material usage, and other rework costs incurred in correcting a product failure. In addition, from time to time, specific warranty accruals may be recorded if unforeseen problems arise. Should our actual experience relative to these factors be worse than our estimates, we will be required to record additional warranty expense. Alternatively, if we provide for more reserves than we require, we will reverse a portion of such provisions in future periods. The liability for warranty obligations totaled $3.3 million and $2.8 million at December 31, 2010 and 2009, respectively. These liabilities are included in accrued expenses in the accompanying consolidated balance sheets.

48

Table of Contents

A summary of warranty expense and write-off activity for the years ended December 31, 2010 and 2009 is as follows:

Year Ended December 31, *(In thousands)*	**2010**	**2009**
Balance at beginning of period	$ 2,833	$ 2,812
Plus: amounts acquired or charged to cost and expenses	5,309	2,665
Less: deductions	(4,838)	(2,644)
Balance at end of period	**$ 3,304**	**$ 2,833**

Stock-Based Compensation

We have two Board and stockholder approved stock option plans from which stock options and other awards are available for grant to employees and directors. All employee and director stock options granted under our stock option plans have an exercise price equal to the fair market value of the award, as defined in the plan, of the underlying common stock on the grant date. There are currently no vesting provisions tied to performance or market conditions for any option awards; vesting for all outstanding option grants is based only on continued service as an employee or director of ADTRAN. All of our outstanding stock option awards are classified as equity awards.

Under the provisions of our approved plans, we made grants of performance-based restricted stock units to five of our executive officers in 2010, 2009 and 2008. The restricted stock units are subject to a market condition based on the relative total shareholder return of ADTRAN against a peer group of companies (2008 and 2009 grant) or against all the companies in the NASDAQ Telecommunications Index (2010 grant) and vest at the end of a three-year performance period. The restricted stock units are converted into shares of common stock upon vesting. Depending on the relative total shareholder return over the performance period, the executive officers may earn from 0% to 150% of the number of restricted stock units granted. The fair value of the award is based on the market price of our common stock on the date of grant, adjusted for the expected outcome of the impact of market conditions using a Monte Carlo Simulation valuation method. The recipients of the restricted stock units also earn dividend credits during the performance period, which will be paid in cash upon the issuance of common stock for the restricted stock units.

Stock-based compensation expense recognized under the Stock Compensation Topic of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) in 2010, 2009 and 2008 was approximately $7.7 million, $7.0 million and $7.3 million, respectively. As of December 31, 2010, total compensation cost related to non-vested stock options, restricted stock units and restricted stock not yet recognized was approximately $20.3 million, which is expected to be recognized over an average remaining recognition period of 3.1 years. See Note 2 of Notes to Consolidated Financial Statements for additional information.

Impairment of Long-Lived Assets

We review long-lived assets for impairment under the guidance prescribed by the Property, Plant and Equipment Topic of the FASB ASC. We evaluate long-lived assets used in operations for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by the asset are less than the asset s carrying value. An impairment loss would be recognized in the amount by which the recorded value of the asset exceeds the fair value of the asset, measured by the quoted market price of an asset or an estimate based on the best information available in the circumstances. There were no such impairment losses recognized during 2010, 2009 or 2008.

Research and Development Costs

Research and development costs include compensation for engineers and support personnel, outside contracted services, depreciation and material costs associated with new product development, the enhancement of current products, and product cost reductions. We continually evaluate new product opportunities and engage in intensive research and product development efforts. Research and development costs totaled $90.3 million, $83.3 million and $81.8 million for the years ended December 31, 2010, 2009 and 2008, respectively.

Comprehensive Income

Comprehensive income consists of all changes in equity (net assets) during a period from non-owner sources. Items included in comprehensive income include net income, changes in unrealized gains and losses on marketable securities, and foreign currency translation adjustments. Comprehensive income is presented in the Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income.

Table of Contents

The components of accumulated comprehensive income (loss) are as follows:

(In thousands)	Change in Unrealized Gains and (Losses) on Marketable Securities, Net of Tax	Foreign Currency Translation Adjustment	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2007	**$ 4,646**	**$ 1,058**	**$ 5,704**
Activity in 2008	(4,889)	(1,824)	(6,713)
Balance at December 31, 2008	**(243)**	**(766)**	**(1,009)**
Activity in 2009	16,394	2,468	18,862
Balance at December 31, 2009	**16,151**	**1,702**	**17,853**
Activity in 2010	7,701	1,394	9,095
Balance at December 31, 2010	**$ 23,852**	**$ 3,096**	**$ 26,948**

Income Taxes

The provision for income taxes has been determined using the asset and liability approach of accounting for income taxes. Under this approach, deferred taxes represent the future tax consequences expected to occur when the reported amounts of assets and liabilities are recovered or paid. The provision for income taxes represents income taxes paid or payable for the current year plus the change in deferred taxes during the year. Deferred taxes result from the difference between financial and tax bases of our assets and liabilities and are adjusted for changes in tax rates and tax laws when such changes are enacted. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized.

Foreign Currency

We record transactions denominated in foreign currencies on a monthly basis using exchange rates from throughout the year. Assets and liabilities denominated in foreign currencies are translated at the balance sheet dates using the closing rates of exchange between those foreign currencies and the U.S. dollar with any transaction gains or losses reported in income. Adjustments from translating financial statements of international subsidiaries are recorded as a component of accumulated comprehensive income (loss).

Revenue Recognition

Revenue is generally recognized upon shipment of the product to our customer in accordance with the title transfer terms of the sales agreement, generally FOB shipping point. In the case of consigned inventory, revenue is recognized when the end customer assumes ownership of the product. When contracts contain multiple elements, contract interpretation is sometimes required to determine the appropriate accounting, including whether the deliverables specified in a multiple element contract should be treated as separate units of accounting for revenue recognition purposes, and, if so, how the price should be allocated among the elements and when to recognize the revenue for each element. We record revenue associated with installation services when all contractual obligations are complete. Contracts that include both installation services and product sales are evaluated for revenue recognition in accordance with contract terms. As a result, depending on contract terms, installation services may be considered as a separate deliverable item or may be considered an element of the delivered product. Either the purchaser, ADTRAN, or a third party can perform the installation of our products. Shipping fees are recorded as revenue and the related cost is included in cost of sales. Revenue is recorded net of discounts. Also, revenue is recorded when the product price is fixed or determinable, collection of the resulting receivable is probable, and product returns are reasonably estimable. Sales returns are accrued based on historical sales return experience, which we believe provides a reasonable estimate of future returns.

A portion of Enterprise Networks products are sold to a non-exclusive distribution network of major technology distributors in the United States. These large organizations then distribute to an extensive network of value-added resellers and system integrators. Value-added resellers and system integrators may be affiliated with us as a channel partner, or they may purchase from the distributor in an unaffiliated fashion. Additionally, with certain limitations our distributors may return unused and unopened product for stock-balancing purposes when such returns are accompanied by offsetting orders for products of equal or greater value.

We participate in cooperative advertising and market development programs with certain customers. We use these programs to reimburse customers for certain forms of advertising, and in general, to allow our customers credits up to a specified percentage of their net purchases. Our costs associated with these programs are estimated and included in marketing expenses in our consolidated statements of income. We also participate in rebate programs to provide sales incentives for certain products. Our costs associated with these programs are estimated and accrued at the time of sale, and are recorded as a reduction of sales in our consolidated statements of income.

Table of Contents

Unearned Revenue

Unearned revenue primarily represents customer billings on our maintenance service programs and deferred revenues relating to multiple element contracts where we still have contractual obligations to our customers. We currently offer maintenance contracts ranging from one to five years, primarily on Enterprise Networks Division products sold through distribution channels. Revenue attributable to maintenance contracts is recognized on a straight-line basis over the related contract term. In addition, we provide software maintenance and a variety of hardware maintenance services to Carrier Network Division customers under contracts with terms up to ten years. Non-current unearned revenue is included in other non-current liabilities in the accompanying consolidated balance sheets. At December 31, 2010 and 2009, unearned revenue was as follows:

(In thousands)	2010	2009
Current unearned revenue	$ 10,138	$ 7,138
Non-current unearned revenue	3,801	3,915
Total	**$ 13,939**	**$ 11,053**

Other Income, net

Other income, net, is comprised primarily of miscellaneous income and expense, gains and losses on foreign currency transactions, investment account management fees, and gains or losses on the disposal of property, plant and equipment occurring in the normal course of business.

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 11).

Dividends

The Board of Directors presently anticipates that it will declare a regular quarterly dividend as long as the current tax treatment of dividends exists and adequate levels of liquidity are maintained. During the years ended December 31, 2010, 2009 and 2008, we paid $22.5 million, $22.5 million and $22.9 million, respectively, in dividend payments. On January 18, 2011, the Board of Directors declared a quarterly cash dividend of $0.09 per common share to be paid to holders of record at the close of business on February 3, 2011. The ex-dividend date was February 1, 2011 and the payment date was February 17, 2011. The quarterly dividend payment was $5.8 million.

Business Combinations

On September 15, 2009, we acquired all of the outstanding stock of Objectworld Communications Corporation (Objectworld), a provider of unified communication solutions. The purpose of this acquisition was to acquire unified communications technologies. These technologies have been integrated into our NetVanta® product line. The purchase price was approximately $1.5 million in cash subject to certain post closing adjustments, and was allocated to the individual assets and liabilities acquired. There was no goodwill determined in the final purchase price allocation. Objectworld s financial statements have been included in our consolidated statements of income and cash flows since the date of the acquisition and our consolidated balance sheets dated December 31, 2010 and 2009.

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 allowance for doubtful accounts, obsolete and excess inventory reserves, warranty reserves, customer rebates, allowance for sales returns, determination of the deferred revenue components of multiple element sales agreements, estimated income tax contingencies, the fair value of stock-based compensation, and the evaluation of other-than-temporary declines in the value of investments. Actual amounts could differ significantly from these estimates.

51

Table of Contents

Recently Issued Accounting Standards

In October 2009, the Financial Accounting Standards Board (FASB) issued Update No. 2009-13, which amends the Revenue Recognition topic of the FASB Accounting Standards Codification (ASC). This update provides amendments to the criteria in Subtopic 605-25 of the ASC for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments establish a selling price hierarchy for determining the selling price of a deliverable and will replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant. The amendments will also eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method and will require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We do not expect the adoption of this amendment will have a material impact on our consolidated results of operations or financial condition.

In October 2009, the FASB issued Update No. 2009-14, which amends the Software topic of the ASC. The amendments in this update change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product s essential functionality is no longer within the scope of the software revenue guidance in Subtopic 985-605 of the ASC. In addition, the amendments in this update require that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In that regard, the amendments provide additional guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of the software revenue guidance. The amendments also provide guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. The amendments also provide further guidance on how to allocate arrangement consideration when an arrangement includes deliverables both included and excluded from the scope of the software revenue guidance. These amendments will be effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We do not expect the adoption of this amendment will have a material impact on our consolidated results of operations or financial condition.

During 2010, we adopted the following accounting standards, which had no material effect on our consolidated results of operations or financial condition:

In January 2010, the FASB issued Update No. 2010-06, which amends the Fair Value Measurements and Disclosures topic of the ASC. The amendments in this update require new disclosures about transfers in and out of Level 1 and Level 2 fair value measurements and the activity in Level 3 fair value measurements and, in addition, clarify existing disclosures required for levels of disaggregation and inputs and valuation techniques. These amendments are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about activity in Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. We adopted this amendment during the period ended March 31, 2010, and we have provided the disclosures required for the three and twelve months ended December 31, 2010.

In February 2010, the FASB issued Update No. 2010-09, which amends the Subsequent Events topic of the ASC. The amendments in this update require entities that are SEC filers to evaluate subsequent events through the date that the financial statements are issued. Additionally, SEC filers are no longer required to disclose the date through which subsequent events were evaluated. The amendments in this update were effective upon issuance. We adopted this amendment during the period ended March 31, 2010.

Note 2 Stock Incentive Plans

Stock Incentive Program Descriptions

Our Board of Directors adopted the 1996 Employee Incentive Stock Option Plan (1996 Plan) effective February 14, 1996, as amended, under which 17.0 million shares of common stock were authorized for issuance to certain

employees and officers through incentive stock options and non-qualified stock options. Options granted under the 1996 Plan typically become exercisable beginning after one year of continued employment, normally pursuant to a four or five-year vesting schedule beginning on the first anniversary of the grant date, and have a ten-year contractual term. The 1996 Plan expired February 14, 2006, and expiration dates of options outstanding at December 31, 2010 under the 1996 Plan range from 2011 to 2016.

Table of Contents

On January 23, 2006, the Board of Directors adopted the 2006 Employee Stock Incentive Plan (2006 Plan), which authorizes 13.0 million shares of common stock for issuance to certain employees and officers through incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. The 2006 Plan was adopted by stockholder approval at our annual meeting of stockholders held on May 9, 2006. Options granted under the 2006 Plan typically become exercisable beginning after one year of continued employment, normally pursuant to a four-year vesting schedule beginning on the first anniversary of the grant date, and have a ten-year contractual term. Expiration dates of options outstanding at December 31, 2010 under the 2006 Plan range from 2016 to 2020.

Our stockholders approved the 2010 Directors Stock Plan (2010 Directors Plan) on May 5, 2010, under which 0.5 million shares of common stock have been reserved. This plan replaces the 2005 Directors Stock Option Plan. The 2010 Directors Plan provides that the Company may issue stock options, restricted stock and restricted stock units to our non-employee directors. Stock awards issued under the 2010 Directors Plan normally become vested in full on the first anniversary of the grant date. Options issued under the 2010 Directors Plan have a ten-year contractual term. We currently also have options outstanding under the 1995 Directors Plan, as amended, and the 2005 Directors Plan. Expiration dates of options outstanding under both plans at December 31, 2010 range from 2011 to 2019.

The following table is a summary of our stock options outstanding as of December 31, 2009 and 2010 and the changes that occurred during 2010:

(In thousands, except per share amounts)	Number of Options	Weighted Average Exercise Price	Weighted Avg. Remaining Contractual Life in Years	Aggregate Intrinsic Value
Options outstanding, December 31, 2009	**6,916**	**$ 20.42**	**6.05**	**$ 25,719**
Options granted	888	$ 33.55		
Options cancelled/forfeited	(87)	$ 23.53		
Options exercised	(1,483)	$ 16.88		
Options outstanding, December 31, 2010	**6,234**	**$ 23.09**	**6.21**	**$ 81,561**
Options exercisable, December 31, 2010	**3,964**	**$ 21.56**	**4.70**	**$ 57,896**

The following table further describes our stock options outstanding as of December 31, 2010:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Options Outstanding at 12/31/10 *(In thousands)***	**Weighted Avg. Remaining Contractual Life in Years**	**Weighted Average Exercise Price**	**Options Exercisable at 12/31/10 *(In thousands)***	**Weighted Average Exercise Price**
$8.70 $15.28	892	1.55	$ 11.58	892	$ 11.58
$15.29 $22.53	1,727	6.29	$ 18.91	1,269	$ 20.19
$22.54 $30.03	1,802	7.86	$ 23.46	862	$ 23.51
$30.04 $37.18	1,813	6.77	$ 32.36	941	$ 31.11

	6,234		**3,964**

All of the options above were issued at exercise prices that approximate fair market value at the date of grant. At December 31, 2010, 9.0 million options were available for grant under the shareholder approved plans.

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between ADTRAN s closing stock price on the last trading day of 2010 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 December 31, 2010. The amount of aggregate intrinsic value will change based on the fair market value of ADTRAN s stock.

The total pre-tax intrinsic value of options exercised during 2010, 2009 and 2008 was $20.3 million, $5.3 million and $3.7 million, respectively. The fair value of options fully vesting during 2010, 2009 and 2008 was $6.9 million, $7.1 million and $7.4 million, respectively.

Table of Contents

Restricted Stock Program Description

On November 6, 2008, the Compensation Committee of the Board of Directors approved the Performance Shares Agreement under the 2006 Plan which sets forth the terms and conditions of awards of performance-based restricted stock units (RSUs). Of the 13.0 million shares of common stock authorized for issuance under the 2006 Plan, we may grant up to 5.0 million shares of common stock for issuance to certain employees and officers for awards other than stock options, which would include RSUs. Under a proposal that was approved by the Board of Directors and shareholders at the 2010 annual meeting, the number of shares available for awards other than stock options under all stock plans was reduced to 3.3 million. The number of shares of common stock earned by a recipient pursuant to the RSUs is subject to a market condition based on ADTRAN s relative total shareholder return against a peer group (2008 and 2009 grants) or against all companies in the NASDAQ Telecommunications Index (2010 grant) at the end of a three-year performance period. Depending on the relative total shareholder return over the performance period, the recipient may earn from 0% to 150% of the shares underlying the RSUs, with the shares earned distributed upon the vesting of the RSUs at the end of the three-year performance period. The fair value of the award is based on the market price of our common stock on the date of grant, adjusted for the expected outcome of the impact of market conditions using a Monte Carlo Simulation valuation method. A portion of the granted RSUs also vest and the underlying shares become deliverable upon the death or disability of the recipient or upon a change of control of ADTRAN, as defined by the 2006 Plan. The recipients of the RSUs receive dividend credits based on the shares of common stock underlying the RSUs. The dividend credits are vested and earned in the same manner as the RSUs and will be paid in cash upon the issuance of common stock for the RSUs.

The following table is a summary of our RSUs and restricted stock outstanding as of December 31, 2009 and 2010 and the changes that occurred during 2010:

(In thousands, except per share amounts)	Number of RSUs	Weighted Average Grant Date Fair Value
RSUs and restricted stock outstanding, December 31, 2009	**52**	**$ 21.85**
RSUs and restricted stock granted	35	$ 38.40
RSUs and restricted stock vested		$
RSUs and restricted stock cancelled/forfeited		$
Unvested RSUs and restricted stock, December 31, 2010	**87**	**$ 28.46**

As of December 31, 2010, there was approximately $1.9 million of total unamortized compensation cost related to the non-vested portion of RSUs and restricted stock granted, which will be recognized on a straight-line basis over the remainder of the three-year performance period for RSUs and over the remainder of the one-year vesting period for restricted stock.

Valuation and Expense Information

We use the Black-Scholes option pricing model (Black-Scholes Model) for the purpose of determining the estimated fair value of stock option awards on the date of grant. The Black-Scholes Model requires the input of certain assumptions that involve judgment. Because our stock options have characteristics significantly different from those of traded options, and because changes in the input assumptions can materially affect the fair value estimate, existing models may not provide reliable measures of fair value of our stock options. We use a Monte Carlo Simulation valuation method to value our performance-based RSUs. The fair value of restricted stock issued to our Directors in 2010 is equal to the closing price of our stock on the date of grant. We will continue to assess the assumptions and methodologies used to calculate the estimated fair value of stock-based compensation. If circumstances change, and additional data becomes available over time, we may change our assumptions and methodologies, which may

materially impact our fair value determination.

The following table summarizes stock-based compensation expense related to stock options and RSUs under the Stock Compensation Topic of the FASB ASC for the years ended December 31, 2010, 2009 and 2008, which was recognized as follows:

(In thousands)	2010	2009	2008
Stock-based compensation expense included in cost of sales	**$ 317**	**$ 268**	**$ 253**
Selling, general and administrative expense	3,575	3,039	3,263
Research and development expense	3,825	3,680	3,822
Stock-based compensation expense included in operating expenses	**7,400**	**6,719**	**7,085**
Total stock-based compensation expense	**7,717**	**6,987**	**7,338**
Tax benefit for expense associated with non-qualified options	(650)	(634)	(669)
Total stock-based compensation expense, net of tax	**$ 7,067**	**$ 6,353**	**$ 6,669**

At December 31, 2010, total compensation cost related to non-vested stock options, RSUs and restricted stock not yet recognized was approximately $20.3 million, which is expected to be recognized over an average remaining recognition period of 3.1 years.

Table of Contents

The stock option pricing model requires the use of several significant assumptions that impact the fair value estimate. These variables include, but are not limited to, the volatility of our stock price and employee exercise behaviors. The assumptions and variables used for the current period grants were developed based on guidance in the Stock Compensation Topic of the FASB ASC. There were no material changes made during 2010 to the methodology used to determine our assumptions.

The weighted-average estimated fair value of stock options granted to employees and directors during the twelve months ended December 31, 2010, 2009 and 2008 was $11.69 per share, $8.11 per share and $4.96 per share, respectively, with the following weighted-average assumptions:

	2010	2009	2008
Expected volatility	39.57%	41.86%	41.70%
Risk-free interest rate	1.35%	2.29%	2.43%
Expected dividend yield	1.08%	1.55%	2.33%
Expected life (in years)	5.78	5.10	4.97

We based our estimate of expected volatility for the 12 months ended December 31, 2010, 2009 and 2008 on the sequential historical daily trading data of our common stock for a period equal to the expected life of the options granted. The selection of the historical volatility method was based on available data indicating our historical volatility is as equally representative of our future stock price trends as is our implied volatility. We have no reason to believe the future volatility of our stock price is likely to differ from its past volatility.

The risk-free interest rate assumption is based upon implied yields of U.S. Treasury zero-coupon bonds on the date of grant having a remaining term equal to the expected life of the options granted. The dividend yield is based on our historical and expected dividend payouts.

The expected life of our stock options is based upon historical exercise and cancellation activity of our previous stock-based grants with a ten-year contractual term.

The RSU pricing model also requires the use of several significant assumptions that impact the fair value estimate. The estimated fair value of the RSUs granted to employees 2010, 2009 and 2008 was $39.21, $26.65 and $17.05, respectively, with the following assumptions:

	2010	2009	2008
Expected volatility	40.82%	41.41%	38.61%
Risk-free interest rate	0.51%	1.40%	1.63%
Expected dividend yield	1.07%	1.53%	2.35%
Fair value of future dividend payments	$ 1.07	$ 1.06	$ 1.06

Stock-based compensation expense recognized in our Consolidated Statements of Income for the 12 months ended December 31, 2010, 2009 and 2008 is based on RSUs and options ultimately expected to vest, and has been reduced for estimated forfeitures. Estimates for forfeiture rates are based upon historical experience and are evaluated quarterly. We expect our forfeiture rate for stock option awards to be approximately 2% 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.

Table of Contents

Note 3 Investments

We classify our investments as available-for-sale. At December 31, 2010, we held the following securities and investments, recorded at either fair value or cost.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value / Carrying Value
Deferred compensation plan assets	$ 3,483	$ 770	$ (7)	$ 4,246
Corporate bonds	126,671	630	(229)	127,072
Municipal fixed-rate bonds	71,212	268	(13)	71,467
Municipal variable rate demand notes	116,745			116,745
Fixed income bond fund	526	220		746
Marketable equity securities	11,486	36,657	(133)	48,010
Available-for-sale securities held at fair value	**$ 330,123**	**$ 38,545**	$ **(382)**	**$ 368,286**
Restricted investment held at cost				**48,250**
Other investments held at cost				**2,103**
Total carrying value of available-for-sale investments				**$ 418,639**

At December 31, 2009, we held the following securities and investments, recorded at either fair value or cost.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value / Carrying Value
Deferred compensation plan assets	$ 2,904	$ 528	$ (8)	$ 3,424
Corporate bonds	20,127	287		20,414
Municipal fixed-rate bonds	140,278	1,009	(2)	141,285
Municipal variable rate demand notes	84,359			84,359
Fixed income bond fund	867	296		1,163
Marketable equity securities	9,805	23,927	(197)	33,535
Available-for-sale securities held at fair value	**$ 258,340**	**$ 26,047**	**$ (207)**	**$ 284,180**
Restricted investment held at cost				**48,250**
Other investments held at cost				**2,208**
Total carrying value of available-for-sale investments				**$ 334,638**

At December 31, 2010 and 2009, we held $4.2 million and $3.4 million, respectively, of deferred compensation plan assets, carried at fair value.

At December 31, 2010 and 2009, we held $127.1 million and $20.4 million, respectively, of corporate bonds. These bonds are classified as available-for-sale and had an average duration of 2.0 years at December 31, 2010. At December 31, 2010, approximately 3% of our corporate bond portfolio had a credit rating of AAA, 11% had a credit

rating of AA, 51% had a credit rating of A, and 35% had a credit rating of BBB.

At December 31, 2010 and 2009, we held $71.5 million and $141.3 million, respectively, of municipal fixed-rate bonds. These bonds are classified as available-for-sale investments and had an average duration of 1.2 years at December 31, 2010. At December 31, 2010, approximately 15% of our municipal fixed-rate bond portfolio had a credit rating of AAA, 74% had a credit rating of AA, and 11% had a credit rating of A. Because our bond portfolio has a high quality rating and contractual maturities of a short duration, we are able to obtain prices for these bonds derived from observable market inputs, or for similar securities traded in an active market, on a daily basis.

Table of Contents

As of December 31, 2010, corporate and municipal fixed-rate bonds had the following contractual maturities:

(In thousands)	Corporate bonds	Municipal fixed-rate bonds
Less than one year	$ 11,335	$ 29,399
One year to four years	115,737	42,068
Total	**$ 127,072**	**$ 71,467**

At December 31, 2010 and 2009, we held $116.7 million and $84.4 million, respectively, of municipal variable rate demand notes, all of which were classified as available-for-sale short-term investments. At December 31, 2010, 29% of our municipal variable rate demand notes had a credit rating of AAA, 63% had a credit rating of AA, 8% had a credit rating of A, and all contained put options of seven days. Despite the long-term nature of their stated contractual maturities, we routinely buy and sell these securities and we believe that we have the ability to quickly liquidate them. Our investments in these securities are recorded at fair value, and the interest rates reset every seven days. We believe we have the ability to sell our variable rate demand notes to the remarketing agent, tender agent or issuer at par value plus accrued interest in the event we decide to liquidate our investment in a particular variable rate demand note. At December 31, 2010, approximately 28% of our variable rate demand notes were supported by letters of credit from banks that we believe to be in good financial condition. The remaining 72% of our variable rate demand notes were supported by standby purchase agreements. As a result of these factors, we had no cumulative gross unrealized holding gains (losses) or gross realized gains (losses) from these investments. All income generated from these investments was recorded as interest income. We have not been required to record any losses relating to municipal variable rate demand notes.

At December 31, 2010 and 2009, we held $0.7 million and $1.2 million, respectively, of a fixed income bond fund. This bond fund had unrealized gains of $0.2 million and $0.3 million at December 31, 2010 and 2009, respectively.

At December 31, 2010, we held $48.0 million of marketable equity securities, including a single security, of which we held 1.5 million shares, carried at a fair value of $34.2 million. We sold 0.5 million shares of this security during the 12 months ended December 31, 2010. The sales resulted in proceeds of $8.2 million and a realized gain of $8.1 million. This single security traded approximately 1.0 million shares per day in 2010, in an active market on a European stock exchange. This single security comprises $33.7 million of the gross unrealized gains included in the fair value of our marketable equity securities at December 31, 2010. The remaining $3.0 million of gross unrealized gains and $0.1 million of gross unrealized losses at December 31, 2010 were spread amongst more than 415 equity securities. At December 31, 2009, we held $33.5 million of marketable equity securities, including the single security mentioned above, of which we held 2.1 million shares, carried at a fair value of $22.4 million. This single security comprised $21.7 million of the gross unrealized gains included in the fair value of our marketable equity securities at December 31, 2009. The remaining $2.2 million of unrealized gains and $0.2 million of gross unrealized losses at December 31, 2009 were spread amongst more than 375 equity securities.

At December 31, 2010 and 2009, we held a $48.3 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). At December 31, 2010, the estimated fair value of the Bond was approximately $42.5 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor s credit rating of A+. 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. For more information on the Bond, see Note 6 of Notes to Consolidated Financial Statements.

At December 31, 2010 and 2009, we held $2.1 million of other investments carried at cost, consisting of interests in two private equity funds and an investment in a privately held telecommunications equipment manufacturer. The fair value of these investments was estimated to be approximately $10.0 million at December 31, 2010, based on unobservable inputs including information supplied by the company and the fund managers. We have committed to

invest up to an aggregate of $7.9 million in the two private equity funds, and we have contributed $8.0 million as of December 31, 2010, of which $7.4 million has been applied toward these commitments. As of December 31, 2010 we have received distributions related to these two private equity funds of $7.1 million, of which $0.9 million was recorded as investment income. These investments are carried at cost, net of distributions, with distributions in excess of our investment recorded as investment income. The duration of each of these commitments is ten years with $0.1 million expiring in 2013 and $0.4 million expiring in 2012. We have not been required to record any impairment losses related to these investments during the years ended December 31, 2010, 2009 or 2008.

Table of Contents

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. As a result of our review, we did not record any other-than-temporary impairment charge during the fourth quarter of 2010. For each of the years ended December 31, 2010, 2009 and 2008 we recorded a charge of $43 thousand, $2.9 million and $2.4 million, respectively, related to the other-than-temporary impairment of certain marketable equity securities, a fixed income bond fund and deferred compensation plan assets.

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.

Year Ended December 31, *(In thousands)*	**2010**	**2009**	**2008**
Gross realized gains	$ 12,191	$ 1,978	$ 1,884
Gross realized losses	$ (1,183)	$ (3,275)	$ (4,293)

The following table presents the breakdown of investments with unrealized losses at December 31, 2010.

	Continuous Unrealized Loss Position for Less than 12 Months		**Continuous Unrealized Loss Position for 12 Months or Greater**		**Total**	
(In thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
Deferred compensation plan assets	$ 338	$ (7)	$	$	$ 338	$ (7)
Corporate bonds	32,326	(229)			32,326	(229)
Municipal fixed-rate bonds	5,869	(13)			5,869	(13)
Marketable equity securities	2,021	(107)	176	(26)	2,197	(133)
Total	**$ 40,554**	**$ (356)**	**$ 176**	**$ (26)**	**$ 40,730**	**$ (382)**

The increase in unrealized losses during 2010, as reflected in the table above, primarily occurred due to an increase in intermediate term interest rates during the last two months of 2010 primarily impacting our corporate bonds. At December 31, 2010, a total of 160 of our marketable equity securities were in an unrealized loss position.

The following table presents the breakdown of investments with unrealized losses at December 31, 2009.

	Continuous Unrealized Loss Position for Less than 12 Months		**Continuous Unrealized Loss Position for 12 Months or Greater**		**Total**	
(In thousands)	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
	$	$	$ 160	$ (8)	$ 160	$ (8)

Deferred compensation plan assets						
Municipal fixed-rate bonds	1,481	(2)			1,481	(2)
Marketable equity securities	2,428	(91)	1,834	(106)	4,262	(197)
Total	**$ 3,909**	**$ (93)**	**$ 1,994**	**$ (114)**	**$ 5,903**	**$ (207)**

The decrease in unrealized losses during 2009, as reflected in the table above, primarily occurred due to the improvements in the credit markets and improved equity market conditions. At December 31, 2009, a total of 145 of our marketable equity securities were in an unrealized loss position.

Table of Contents

In accordance with the Fair Value Measurements and Disclosures Topic of the FASB ASC, 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 December 31, 2010 Using			
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 14,532	$ 14,532	$	$
Available for sale securities				
Deferred compensation plan assets	4,246	4,246		
Available-for-sale debt securities				
Corporate bonds	127,072		127,072	
Municipal fixed-rate bonds	71,467		71,467	
Municipal variable rate demand notes	116,745		116,745	
Fixed income bond fund	746	746		
Available-for-sale marketable equity securities				
Marketable equity securities technology industry	35,596	35,596		
Marketable equity securities other	12,414	12,414		
Available-for-sale securities	**368,286**	**53,002**	**315,284**	
Total	**$ 382,818**	**$ 67,534**	**$ 315,284**	**$**

		Fair Value Measurements at December 31, 2009 Using			
(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 18,370	$ 18,370	$	$
Available for sale securities				

Deferred compensation plan assets	3,424	3,424		
Available-for-sale debt securities				
Corporate bonds	20,414		20,414	
Municipal fixed-rate bonds	141,285		141,285	
Municipal variable rate demand notes	84,359		84,359	
Fixed income bond fund	1,163	1,163		
Available-for-sale marketable equity securities				
Marketable equity securities technology industry	23,491	23,491		
Marketable equity securities other	10,044	10,044		
Available-for-sale securities	**284,180**	**38,122**	**246,058**	
Total	**$ 302,550**	**$ 56,492**	**$ 246,058**	**$**

As of December 31, 2010 and 2009, the fair value of the investments in available-for-sale Level 2 corporate bonds and municipal fixed-rate bonds was $198.5 million and $161.7 million, respectively. The fair value of these 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.

Table of Contents

As of December 31, 2010 and 2009, the fair value of the investments in available-for-sale Level 2 municipal variable rate demand notes was $116.7 million and $84.4 million, respectively. These securities 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.

Note 4 Inventory

At December 31, 2010 and 2009, inventory was comprised of the following:

(In thousands)	2010	2009
Raw materials	$ 43,897	$ 27,326
Work in process	2,871	2,662
Finished goods	27,506	15,686
Total	**$ 74,274**	**$ 45,674**

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 December 31, 2010 and 2009, raw materials reserves totaled $7.3 million and $6.6 million, respectively, and finished goods inventory reserves totaled $1.6 million and $1.1 million, respectively.

Note 5 Property, Plant and Equipment

At December 31, 2010 and 2009, property, plant and equipment were comprised of the following:

(In thousands)	2010	2009
Land	$ 4,263	$ 4,263
Building and land improvements	15,507	14,638
Building	68,479	68,495
Furniture and fixtures	16,130	15,746
Computer hardware and software	61,898	57,218
Engineering and other equipment	83,946	80,289
Total Property, Plant and Equipment	**250,223**	**240,649**
Less accumulated depreciation	(176,237)	(166,340)
Total Property, Plant and Equipment (net)	**$ 73,986**	**$ 74,309**

Depreciation expense was $10.2 million, $10.0 million and $9.9 million in 2010, 2009 and 2008, respectively.

Note 6 Alabama State Industrial Development Authority Financing and Economic Incentives

In conjunction with an expansion of our Huntsville, Alabama, facility, we were 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 $20.0 million 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). Wachovia Bank, N.A., Nashville, Tennessee (formerly First Union National Bank of Tennessee) (the Bondholder), which was acquired by Wells Fargo & Company on December 31, 2008, purchased the original bonds from the Bank and made further advances to the Authority, bringing the total amount outstanding to $50.0 million. 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. The interest rate is 5%. The Amended and Restated Bond matures on January 1, 2020. The estimated fair value of the bond at December 31, 2010 was approximately $42.5 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor s credit rating of A+. We are 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 at December 31, 2010 is $48.3 million which is invested in a restricted certificate of deposit. These funds serve as a collateral deposit against the principal of this bond, and 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. 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 that we are required to remit to the state for those employment positions that qualify under the program. For the years ended December 31, 2010, 2009 and 2008, we realized economic incentives totaling $1.5 million, $1.5 million and $1.4 million, respectively.

Table of Contents

We are required to make payments in the amounts necessary to pay the principal and interest on the amounts currently outstanding. Based on positive cash flow from operating activities, we have decided to continue early partial redemptions of the Bond. It is our intent to make annual principal payments in addition to the interest amounts that are due. In connection with this decision, $0.5 million of the Bond debt has been classified as a current liability in the Consolidated Balance Sheets.

Note 7 Income Taxes

A summary of the components of the provision for income taxes as of December 31, 2010, 2009 and 2008 is as follows:

(In thousands)	2010	2009	2008
Current			
Federal	$ 49,144	$ 30,756	$ 37,245
State	6,380	3,615	3,350
Total current	**55,524**	**34,371**	**40,595**
Deferred tax benefit	(1,324)	(1,024)	(903)
Total provision for income taxes	**$ 54,200**	**$ 33,347**	**$ 39,692**

The effective income tax rate differs from the federal statutory rate due to the following:

	2010	2009	2008
Tax provision computed at the federal statutory rate	35.00%	35.00%	35.00%
State income tax provision, net of federal benefit	3.33	3.68	2.95
Federal research credits	(2.90)	(3.37)	(1.86)
Tax-exempt income	(0.46)	(1.05)	(1.59)
State tax incentives	(0.86)	(1.36)	(1.15)
Stock-based compensation	0.34	1.64	1.59
Domestic production activity deduction	(2.37)	(3.33)	(1.62)
Other, net	0.15	(0.21)	0.24
Effective tax rate	**32.23%**	**31.00%**	**33.56%**

Deferred income taxes on the balance sheet result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. The principal components of our current and non-current deferred taxes are as follows:

(In thousands)	2010	2009
Current deferred tax assets		
Accounts receivable	$ 61	$ 46
Inventory	6,032	4,682
Accrued expenses	4,524	3,875
Total current deferred tax assets	**10,617**	**8,603**
Non-current deferred tax assets		
Accrued expenses	102	103
Deferred compensation	1,539	1,364
Stock-based compensation	3,542	2,891
State tax and interest expense	861	1,002

Foreign loss and state credit carry-forwards	5,988	5,559
Valuation allowance	(5,627)	(5,340)
Total non-current deferred tax assets	**6,405**	**5,579**
Total deferred tax assets	**$ 17,022**	**$ 14,182**

	2010	2009
Non-current deferred tax liabilities		
Accumulated depreciation	$ (4,782)	$ (3,809)
Investments	(11,973)	(6,805)
Total non-current deferred tax liabilities	**$ (16,755)**	**$ (10,614)**
Net deferred tax assets	**$ 267**	**$ 3,568**

At December 31, 2010 and 2009, non-current deferred tax liabilities and non-current deferred tax assets, respectively, related to investments reflect deferred taxes on unrealized gains and losses on available-for-sale investments. The net change in non-current deferred taxes associated with these investments, a deferred tax provision of $4.6 million in 2010 and a deferred tax provision of $9.8 million in 2009, is recorded as an adjustment to other comprehensive income, presented in the Consolidated Statements of Changes in Stockholders Equity and Comprehensive Income.

Table of Contents

We have deferred tax assets for foreign loss and state credit carry-forwards of $6.0 million which will expire between 2014 and 2029. These carry-forwards were caused by tax credits in excess of our annual tax liabilities to an individual state where we no longer generate sufficient state income and net operating loss carry-forwards acquired through the acquisition of a foreign entity. In accordance with the Income Taxes Topic of the FASB ASC, we believe it is more likely than not that we will not realize the full benefits of the deferred tax asset arising from these losses and credits, and accordingly, have provided a valuation allowance against these assets. We do not provide for U.S. income tax on undistributed earnings of our foreign operations, whose earnings are intended to be permanently reinvested. For years ended December 31, 2010, 2009 and 2008, foreign profits before income taxes were not material.

During 2010, 2009 and 2008, we recorded an income tax benefit of $4.9 million, $1.5 million and $1.0 million, respectively, as an adjustment to equity in accordance with the Stock Compensation Topic of the FASB ASC. This deduction is calculated on the difference between the exercise price of stock option exercises and the market price of the underlying common stock upon exercise.

The change in the unrecognized income tax benefits for 2010, 2009 and 2008 is reconciled below:

(In thousands)	2010	2009	2008
Balance at beginning of period	**$ 2,919**	**$ 2,775**	**$ 2,645**
Increases for tax position related to:			
Prior years	197	390	159
Current year	818	610	718
Decreases for tax positions related to:			
Prior years	(16)	(1)	(119)
Settlements with taxing authorities	(630)	(413)	(49)
Expiration of applicable statute of limitations	(695)	(442)	(579)
Balance at end of period	**$ 2,593**	**$ 2,919**	**$ 2,775**

As of December 31, 2010, 2009, and 2008, our total liability for unrecognized tax benefits was $2.6 million, $2.9 million, and $2.8 million, respectively, of which $2.0 million, $2.3 million, and $2.2 million, respectively, would reduce our effective tax rate if we were successful in upholding all of the uncertain positions and recognized the amounts recorded. We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense. The balances of accrued interest and penalties were $1.0 million as of December 31, 2010 and $1.2 million as of December 31, 2009 and 2008.

We do not anticipate a single tax position generating a significant increase or decrease in our liability for unrecognized tax benefits within 12 months of this reporting date. We file income tax returns in the U.S. federal and various state jurisdictions and several foreign jurisdictions. We have been audited by the Internal Revenue Service and the state of Alabama through the 2007 tax year. Generally, we are not subject to changes in income taxes by any taxing jurisdiction for the years prior to 2007.

Note 8 Employee Benefit Plans

401(k) Savings Plan

We maintain the ADTRAN, Inc. 401(k) Retirement Plan (Savings Plan) for the benefit of our eligible employees. The Savings Plan is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended (Code), and is intended to be a safe harbor 401(k) plan under Code Section 401(k)(12). The Savings Plan allows employees to save for retirement by contributing part of their compensation to the plan on a tax-deferred basis. The Savings Plan also requires us to contribute a safe harbor amount each year. Beginning January 1, 2008, we changed our contribution such that we matched up to 4% of employee contributions (100% of an employee s first 3% of contributions and 50% of their next 2% of contributions), beginning on the employee s one year anniversary date. In calculating our matching contribution, we only use compensation up to the statutory maximum under the Code ($245 thousand for 2010). All contributions under the Savings Plan are 100% vested. Expenses recorded for employer contributions and plan administration costs for the Savings Plan amounted to approximately $4.6 million, $4.2 million

and $3.9 million in 2010, 2009 and 2008, respectively.

Table of Contents

Deferred Compensation Plan

We maintain the ADTRAN, Inc. Deferred Compensation Plan (Deferred Compensation Plan). This plan is offered as a supplement to our tax-qualified 401(k) plan and is available to our management and highly compensated employees who have been designated by our Board of Directors. The deferred compensation plan allows participants to defer all or a portion of certain specified bonuses and up to 25% of remaining cash compensation, and permits us to make matching contributions on a discretionary basis, without the limitations that apply to the 401(k) plan. To date, we have not made any matching contributions under this plan. We have set aside the plan assets in a rabbi trust (Trust) and all contributions are credited to bookkeeping accounts for the participants. The Trust assets are subject to the claims of our creditors in the event of bankruptcy or insolvency. The assets of the Trust are deemed to be invested in pre-approved mutual funds as directed by each participant, and the participant s bookkeeping account is credited with the earnings and losses attributable to those investments. None of the Trust assets are invested in shares of ADTRAN common stock. Benefits are usually distributed six months after termination of employment in a single lump sum cash payment. We account for the deferred compensation plan in accordance with the Compensation Topic of the FASB ASC.

Assets of the Trust are deemed invested in mutual funds that cover an investment spectrum ranging from equities to money market instruments. These mutual funds are publicly quoted and reported at fair value. We account for these investments in accordance with the Investments in Debt and Equity Securities Topic of the FASB ASC. The fair value of the assets held by the Trust and the amounts payable to the plan participants are as follows:

(In thousands)	2010	2009
Fair Value of Plan Assets		
Short-term Investments	$	$
Long-term Investments	4,246	3,424
Total Fair Value of Plan Assets	**$ 4,246**	**$ 3,424**
Amounts Payable to Plan Participants		
Current Liabilities	$	$
Non-current Liabilities	4,246	3,424
Total Amounts Payable to Plan Participants	**$ 4,246**	**$ 3,424**

In accordance with the Compensation Topic of the FASB ASC, changes in the fair value of the plan assets held by the Trust have been included as other income in the accompanying 2010, 2009 and 2008 Consolidated Statements of Income and in other comprehensive income in the accompanying 2010 and 2009 Consolidated Balance Sheets. Changes in the fair value of the deferred compensation liability are included as selling, general and administrative expense in the accompanying 2010, 2009 and 2008 Consolidated Statements of Income. Based on the changes in the total fair value of the Trust s assets, we recorded deferred compensation adjustments in 2010, 2009 and 2008 of $0.4 million, $0.6 million and $(0.9) million, respectively.

Retiree Medical Coverage

We provide medical, dental and prescription drug coverage to one retired former officer and his spouse, for his life, on the same terms as provided to our active officers, and to the spouse of a former deceased officer for up to 30 years. At December 31, 2010 and 2009, this liability totaled $0.2 million.

Note 9 Segment Information and Major Customers

ADTRAN operates two reportable segments: (1) the Carrier Networks Division and (2) the Enterprise Networks Division. The accounting policies of the segments are the same as those described in the Nature of Business and Summary of Significant Accounting Policies (see Note 1) to the extent that such policies affect the reported segment information. We evaluate the performance of our segments based on gross profit; therefore, selling, general and

administrative expense, as well as research and development expenses, interest income/expense, net realized investment gains/loss, other income/expense and provision for taxes are reported on an entity-wide basis only. There are no inter-segment revenues.

The following table presents information about the reported sales and gross profit of our reportable segments for each of the years ended December 31, 2010, 2009 and 2008. Asset information by reportable segment is not reported, since we do not produce such information internally.

Sales and Gross Profit by Market Segment	**2010**		**2009**		**2008**	
(In thousands)	**Sales**	**Gross Profit**	**Sales**	**Gross Profit**	**Sales**	**Gross Profit**
Carrier Networks	$ 476,030	$ 283,310	$ 371,349	$ 219,681	$ 392,219	$ 236,168
Enterprise Networks	129,644	75,553	112,836	67,281	108,457	62,737
	$ 605,674	**$ 358,863**	**$ 484,185**	**$ 286,962**	**$ 500,676**	**$ 298,905**

Table of Contents

Sales by Product

Our three major product categories are Carrier Systems, Business Networking and Loop Access.

Carrier Systems products are used by communications service providers to provide last mile access in support of data, voice and video services to consumers and enterprises. The Carrier Systems category includes our broadband access products comprised of Total Access® 5000 multi-service access and aggregation platform products, Total Access 1100/1200 Series Fiber-To-The-Node (FTTN) products, and Digital Subscriber Line Access Multiplexer (DSLAM) products. Our broadband access products are used by service providers to deliver high-speed Internet access, Voice over Internet Protocol (VoIP), IP Television (IPTV), and/or Ethernet services from the central office or remote terminal locations to customer premises. The Carrier Systems category also includes our optical access products. These products consist of optical access multiplexers including our family of OPTI products and our Optical Networking Edge (ONE) products. Optical access products are used to deliver higher bandwidth services, or to aggregate large numbers of low bandwidth services for transportation across fiber optic infrastructure. Total Access 1500 products, 303 concentrator products, M13 multiplexer products, and a number of mobile backhaul products are also included in the Carrier Systems product category.

Business Networking products provide access to telecommunication services, facilitating the delivery of converged services and Unified Communications to the SME market. The Business Networking category includes Internetworking products and Integrated Access Devices (IADs). Internetworking products consist of our Total Access IP Business Gateways, Optical Network Terminals (ONTs), and NetVanta product lines. NetVanta products include multi-service routers, managed Ethernet switches, IP Private Branch Exchange (PBX) products, IP phone products, Unified Communications solutions, Unified Threat Management (UTM) solutions, and Carrier Ethernet Network Terminating Equipment (NTE). Integrated Access Device (IAD) products consist of our Total Access 600 Series and the Total Access 850.

Loop Access products are used by carrier and enterprise customers for access to copper-based telecommunications networks. The Loop Access category includes products such as: Digital Data Service (DDS) and Integrated Services Digital Network (Total Reach) products, High bit-rate Digital Subscriber Line (HDSL) products including Total Access 3000 HDSL and Time Division Multiplexed-Symmetrical HDSL (TDM-SHDSL) products, T1/E1/T3, Channel Service Units/Data Service Units, and TRACER fixed wireless products.

The table below presents sales information by product category for the years ended December 31, 2010, 2009 and 2008:

(In thousands)	**2010**	**2009**	**2008**
Carrier Systems	$ 289,314	$ 215,715	$ 206,225
Business Networking	127,233	100,451	89,577
Loop Access	189,127	168,019	204,874
Total	**$ 605,674**	**$ 484,185**	**$ 500,676**

In addition, we identify sub-categories of product revenues, which we divide into growth products, representing our primary growth areas, and traditional products. Our growth products consist of Broadband Access and Optical Access products (included in Carrier Systems) and Internetworking products (included in Business Networking) and our traditional products include HDSL products (included in Loop Access) and other products not included in the aforementioned growth products.

The table below presents subcategory revenues for the years ended December 31, 2010, 2009 and 2008:

(In thousands)	**2010**	**2009**	**2008**
Growth Products			
Broadband Access (included in Carrier Systems)	$ 176,116	$ 111,470	$ 102,335
Optical Access (included in Carrier Systems)	66,206	60,596	53,844
	111,123	79,979	65,791

Internetworking (NetVanta® & Multi-service Access Gateways) (included in Business Networking)			
Total	**$ 353,445**	**$ 252,045**	**$ 221,970**
Traditional Products			
HDSL (does not include T1) (included in Loop Access)	177,249	150,276	179,814
Other products (excluding HDSL)	74,980	81,864	98,892
Total	**$ 252,229**	**$ 232,140**	**$ 278,706**
Total	**$ 605,674**	**$ 484,185**	**$ 500,676**

Table of Contents

Sales by Geographic Region

The following is sales information by geographic area for the years ended December 31, 2010, 2009 and 2008. International sales correlate to shipments with a non-U.S. destination.

(In thousands)	2010	2009	2008
United States	$ 573,845	$ 456,402	$ 470,563
International	31,829	27,783	30,113
Total	**$ 605,674**	**$ 484,185**	**$ 500,676**

Single customers comprising more than 10% of our revenue in 2010 include Qwest Communications International, Inc. at 20%, AT&T Inc. at 18%, and Verizon Communications, Inc. at 11%. Single customers comprising more than 10% of our revenue in 2009 include AT&T Inc. at 22%, Qwest Communications International, Inc. at 19%, and Verizon Communications, Inc. at 11%. Single customers comprising more than 10% of our revenue in 2008 include AT&T Inc. at 24%, Qwest Communications International, Inc. at 16%, Verizon Communications, Inc. at 12%, and Embarq Corporation (formerly Sprint Corporation) at 10%. No other customer accounted for 10% or more of our sales in 2010, 2009 or 2008.

Sales to Major Service Providers amounted to approximately 72%, 69% and 72% of total sales during the years ended December 31, 2010, 2009 and 2008, respectively. In addition, a significant portion of our products are sold directly to distributors and certain value-added resellers, which accounted for approximately 26%, 28% and 25% of our revenue for each of the years ended December 31, 2010, 2009 and 2008, respectively.

As of December 31, 2010, long-lived assets, net totaled $74.0 million, which includes $73.0 million held in the United States and $1.0 million held outside the United States. As of December 31, 2009, long-lived assets, net totaled $74.3 million, which includes $73.9 million held in the United States and $0.4 million held outside the United States.

Note 10 Commitments and Contingencies

In the ordinary course of business, we may be subject to various legal proceedings and claims, including employment disputes, patent claims, disputes over contract agreements and other commercial disputes. In some cases, claimants seek damages or other relief, such as royalty payments related to patents, which, if granted, could require significant expenditures. Although the outcome of any claim or litigation can never be certain, it is our opinion that the outcome of all contingencies of which we are currently aware will not materially affect our business, operations, financial condition or cash flows.

We lease office space and equipment under operating leases which expire at various dates through 2016. As of December 31, 2010, future minimum rental payments under non-cancelable operating leases with original maturities of greater than 12 months are approximately as follows:

(In thousands)	
2011	$ 1,547
2012	1,086
2013	714
2014	682
Thereafter	769
Total	**$ 4,798**

Rental expense was approximately $1.8 million for the year ended December 31, 2010 and $1.5 million for years ended December 31, 2009 and 2008.

Table of Contents

Note 11 Earnings per Share

A summary of the calculation of basic and diluted earnings per share (EPS) for the years ended December 31, 2010, 2009 and 2008 is as follows:

(In thousands, except for per share amounts)	Year Ended 2010	2009	2008
Numerator			
Net Income	$ 113,989	$ 74,221	$ 78,581
Denominator			
Weighted average number of shares basic	62,490	62,459	63,549
Effect of dilutive securities stock options	1,389	897	859
Weighted average number of shares diluted	**63,879**	**63,356**	**64,408**
Net income per share basic	$ 1.82	$ 1.19	$ 1.24
Net income per share diluted	$ 1.78	$ 1.17	$ 1.22

For each of the years ended December 31, 2010, 2009 and 2008, 2.0 million, 3.5 million and 3.5 million stock options were outstanding but were not included in the computation of that year s diluted EPS because the options exercise prices were greater than the average market price of the common shares, therefore making them anti-dilutive under the treasury stock method.

Note 12 Summarized Quarterly Financial Data (Unaudited)

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

Unaudited Quarterly Operating Results

(In thousands, except for per share amounts)

Three Months Ended	**March 31, 2010**	**June 30, 2010**	**September 30, 2010**	**December 31, 2010**
Net sales	$ 127,027	$ 150,361	$ 162,957	$ 165,329
Gross profit	$ 75,328	$ 89,329	$ 97,299	$ 96,907
Operating income	$ 25,345	$ 38,617	$ 45,045	$ 44,857
Net income	$ 18,194	$ 27,751	$ 32,084	$ 35,960
Earnings per common share	$ 0.29	$ 0.45	$ 0.51	$ 0.57
Earnings per common share assuming dilution (1)	$ 0.29	$ 0.44	$ 0.50	$ 0.56

Three Months Ended	**March 31, 2009**	**June 30, 2009**	**September 30, 2009**	**December 31, 2009**
Net sales	$ 110,364	$ 121,528	$ 128,062	$ 124,231
Gross profit	$ 67,460	$ 71,690	$ 74,457	$ 73,355
Operating income	$ 22,901	$ 26,135	$ 28,959	$ 26,236
Net income	$ 15,184	$ 18,839	$ 21,583	$ 18,615
Earnings per common share	$ 0.24	$ 0.30	$ 0.34	$ 0.30
Earnings per common share assuming dilution (1)	$ 0.24	$ 0.30	$ 0.34	$ 0.29

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

Note 13 Related Party Transactions

We employ the law firm of our director emeritus for legal services. All bills for services rendered by this firm are reviewed and approved by our Chief Financial Officer. We believe that the fees for such services are comparable to those charged by other firms for services rendered to us. For the years ended 2010, 2009 and 2008, we incurred fees of $10 thousand per month for these legal services.

Table of Contents

Note 14 Subsequent Events

On January 18, 2011, the Board declared a quarterly cash dividend of $0.09 per common share to be paid to stockholders of record at the close of business on February 3, 2011. The quarterly dividend payment was $5.8 million and was paid on February 17, 2011. In July 2003, our Board of Directors elected to begin declaring quarterly dividends on our common stock considering the tax treatment of dividends and adequate levels of Company liquidity.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Internal control over financial reporting.* Section 404 of the Sarbanes-Oxley Act of 2002 requires management to include in this Annual Report on Form 10-K a report on management s assessment of the effectiveness of our internal control over financial reporting, as well as a report from our independent registered public accounting firm on the effectiveness of internal control over financial reporting. Management s report on internal control over financial reporting and the related report from our independent registered public accounting firm are located in Item 8. Financial Statements and Supplementary Data of this report.

(b) *Evaluation of disclosure controls and procedures.* Our Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) for the company. Our Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of our disclosure controls and procedures as of the end of the period covered by this annual report, have concluded that our disclosure controls and procedures are effective.

(c) *Changes in internal control over financial reporting.* There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information relating to nominees for director of ADTRAN and compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth under the captions Proposal 1 Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance and Corporate Governance, respectively, in the Proxy Statement for the Annual Meeting of Stockholders to be held on May 4, 2011. Such information is incorporated herein by reference. The definitive Proxy Statement will be filed with the Securities and Exchange Commission no later than 120 days after December 31, 2010. Information relating to the executive officers of ADTRAN, pursuant to Instruction 3 of Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K, is set forth at Part I, Item 4A of this report under the caption Executive Officers of the Registrant. This information is incorporated herein by reference.

Code of Ethics

We have adopted the ADTRAN, Inc. Code of Business Conduct and Ethics, which applies to all employees, officers and directors of ADTRAN. The Code of Business Conduct and Ethics meets the requirements of a code of ethics as defined by Item 406 of Regulation S-K, and applies to our Chief Executive Officer, Chief Financial Officer (who is both our principal financial and principal accounting officer), as well as all other employees, as indicated above. The Code of Business Conduct and Ethics also meets the requirements of a code of conduct under NASDAQ listing standards. The Code of Business Conduct and Ethics is posted on our website at www.adtran.com under the links Investor Relations Corporate Governance ADTRAN Code of Business Conduct and Ethics. We intend to disclose any amendments to the Code of Business Conduct and Ethics, as well as any waivers for executive officers or directors, on our website at www.adtran.com.

Table of Contents

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 relating to executive compensation and other matters is set forth under the captions Executive Compensation, Director Compensation and Corporate Governance in the Proxy Statement referred to in Item 10. This information is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information relating to ownership of common stock of ADTRAN by certain persons is set forth under the caption Share Ownership of Principal Stockholders and Management in the Proxy Statement referred to in Item 10 above. Such information is incorporated herein by reference. Information regarding securities authorized for issuance under equity compensation plans of ADTRAN is set forth under the caption Equity Compensation Plan Information in the Proxy Statement referred to in Item 10. This information is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Information relating to existing or proposed relationships or transactions between ADTRAN and any affiliate of ADTRAN is set forth under the captions Certain Relationships and Related Transactions and Corporate Governance in the Proxy Statement referred to in Item 10. This information is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information relating to ADTRAN s principal accountant s fees and services is set forth under the caption Principal Accountant Fees and Services in the Proxy Statement referred to in Item 10. This information is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Documents Filed as Part of This Report.

1. Consolidated Financial Statements

   The consolidated financial statements of ADTRAN and the report of independent registered public accounting firm thereon are set forth under Part II, Item 8 of this report.

   Consolidated Balance Sheets as of December 31, 2010 and 2009

   Consolidated Statements of Income for the years ended December 31, 2010, 2009 and 2008

   Consolidated Statements of Changes in Stockholders Equity and Other Comprehensive Income for the years ended December 31, 2010, 2009 and 2008

   Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008

   Notes to Consolidated Financial Statements
2. Consolidated Financial Statement Schedule

   Schedule II Valuation and Qualifying Accounts
3. Exhibits

The following exhibits are filed with or incorporated by reference in this report. Where such filing is made by incorporation by reference to a previously filed registration statement or report, such registration statement or report is identified in parentheses. We will furnish any exhibit upon request to: ADTRAN, Inc., Attn: Investor Relations, P.O. Box 140000, 901 Explorer Boulevard, Huntsville, Alabama 35806. There is a charge of $0.50 per page to cover expenses for copying and mailing.

68

Table of Contents

Exhibit Number	Description
3.1	Certificate of Incorporation, as amended (Exhibit 3.1 to ADTRAN s Registration Statement on Form S-1, No. 33-81062 (the Form S-1 Registration Statement)).
3.2	Bylaws, as amended (Exhibit 3.1 to ADTRAN s Current Report on Form 8-K filed October 16, 2007).
10.1	Documents relative to the $50,000,000 Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) issued by the Alabama State Industrial Development Authority, consisting of the following:
	(a) First Amended and Restated Financing Agreement dated April 25, 1997, among the State Industrial Development Authority, a public corporation organized under the laws of the State of Alabama (the Authority), ADTRAN and First Union National Bank of Tennessee, a national banking corporation (the Bondholder) (Exhibit 10.1(a) to ADTRAN s Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (the 1997 Form 10-Q)).
	(b) First Amended and Restated Loan Agreement dated April 25, 1997, between the Authority and ADTRAN (Exhibit 10.1(b) to the 1997 Form 10-Q).
	(c) First Amended and Restated Specimen Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) (Exhibit 10.1(c) to the 1997 Form 10-Q).
	(d) First Amended and Restated Specimen Note from ADTRAN to the Bondholder, dated April 25, 1997 (Exhibit 10.1(d) to the 1997 Form 10-Q).
	(e) Amended and Restated Investment Agreement dated January 3, 2002 between ADTRAN and First Union National Bank (successor-in-interest to First Union National Bank of Tennessee (the Successor Bondholder)) (Exhibit 10.1(e) to ADTRAN s Annual Report on Form 10-K for the year ended December 31, 2002 (the 2002 Form 10-K)).
	(f) Resolution of the Authority authorizing the amendment of certain documents, dated April 25, 1997, relating to the $50,000,000 Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) (Exhibit 10.1(f) to the 1997 Form 10-Q).
	(g) Resolution of ADTRAN authorizing the First Amended and Restated Financing Agreement, the First Amended and Restated Loan Agreement, the First Amended and Restated Note, and the Investment Agreement (Exhibit 10.1(g) to the 1997 Form 10-Q).
	(h) Amendment to First Amended and Restated Financing Agreement and First Amended and Restated Loan Agreement dated January 3, 2002 between ADTRAN and the Successor Bondholder (Exhibit 10.1(h) to the 2002 Form 10-K).
10.2	Tax Indemnification Agreement dated July 1, 1994 by and among ADTRAN and the stockholders of ADTRAN prior to ADTRAN s initial public offering of Common Stock (Exhibit 10.5 to the 1994 Form 10-K).

Table of Contents

Exhibit Number	Description
10.3	Management Contracts and Compensation Plans:
	(a) Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended by the First, Second and Third Amendments thereto (Exhibit 10.3(a) to the 2002 Form 10-K).
	(b) Amended and Restated 1995 Directors Stock Option Plan, as amended by the First and Second Amendments thereto (Exhibit 10.3(b) to the 2002 Form 10-K).
	(c) Third Amendment to the Amended and Restated 1995 Directors Stock Option Plan (Exhibit 10.3(c) to ADTRAN s Annual Report on Form 10-K for the year ended December 31, 2003 (the 2003 Form 10-K)).
	(d) ADTRAN, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (Exhibit 10.3(d) to ADTRAN s Form 10-K filed on February 27, 2009).
	(e) ADTRAN, Inc. Management Incentive Bonus Plan (Exhibit 10.1 to ADTRAN s Form 8-K on February 3, 2006).
	(f) ADTRAN, Inc. 2006 Employee Stock Incentive Plan (Exhibit 4.1 to ADTRAN s Registration Statement on Form S-8 (File No. 333-133927) filed on May 9, 2006).
	(g) First Amendment to the ADTRAN, Inc. 2006 Employee Stock Incentive Plan (Exhibit 10.3(h) to ADTRAN s Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K)).
	(h) Form of Nonqualified Stock Option Agreement under the 2006 Employee Stock Incentive Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed June 8, 2006).
	(i) Form of Incentive Stock Option Agreement under the 2006 Employee Stock Incentive Plan (Exhibit 10.2 to ADTRAN s Form 8-K filed June 8, 2006).
	(j) ADTRAN, Inc. 2005 Directors Stock Option Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed on May 20, 2005).
	(k) First Amendment to the ADTRAN, Inc. 2005 Directors Stock Option Plan (Exhibit 10.3(l) to the 2007 Form 10-K).
	(l) Summary of Non-Employee Director Compensation (Exhibit 10.3(k) to ADTRAN s Form 10-K filed on February 28, 2007).
	(m) Form of Performance Shares Agreement under the ADTRAN, Inc. 2006 Employee Stock Incentive Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed on November 6, 2008).
	(n) Form of Performance Shares Agreement under the ADTRAN, Inc. 2006 Employee Stock Incentive Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed on November 9, 2010).

21*	Subsidiaries of ADTRAN.
23*	Consent of PricewaterhouseCoopers LLP.
24*	Powers of Attorney.
31*	Rule 13a-14(a)/15d-14(a) Certifications.
32*	Section 1350 Certifications.

Table of Contents

Exhibit Number	Description
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 25, 2011.

ADTRAN, Inc.
(Registrant)

By: /s/ James E. Matthews

James E. Matthews
Senior Vice President Finance,
Chief Financial Officer, Treasurer, Secretary and Director
(Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on February 25, 2011.

Signature	**Title**
/s/ Thomas R. Stanton	Chief Executive Officer and Chairman of the Board
Thomas R. Stanton	
/s/ James E. Matthews	Senior Vice President-Finance, Chief Financial Officer, Treasurer, Secretary and Director
James E. Matthews	
/s/ Balan Nair*	Director
Balan Nair	
/s/ William L. Marks*	Director
William L. Marks	
/s/ Roy J. Nichols*	Director
Roy J. Nichols	
/s/ H. Fenwick Huss *	Director
H. Fenwick Huss	
/s/ Ross K. Ireland *	Director
Ross K. Ireland	

*By: /s/ James E. Matthews

James E. Matthews as Attorney in Fact

Table of Contents

Schedule

ADTRAN, INC.
SCHEDULE II
VALUATION AND QUALIFYING ACCOUNTS

Column A	**Column B**	**Column C**	**Column D**	**Column E**	**Column F**
(In thousands)	**Balance at Beginning of Period**	**Assumed on Acquisition**	**Charged to Costs & Expenses**	**Deductions**	**Balance at End of Period**
Year ended December 31, 2010					
Allowance for Doubtful Accounts	$ 138		72	48	$ 162
Inventory Reserve	$ 7,750		1,992	810	$ 8,932
Warranty Liability	$ 2,833		5,309	4,838	$ 3,304
Deferred Tax Asset Valuation Allowance	$ 5,340		391	104	$ 5,627
Year ended December 31, 2009					
Allowance for Doubtful Accounts	$ 38	3	102	5	$ 138
Inventory Reserve	$ 7,728		1,681	1,659	$ 7,750
Warranty Liability	$ 2,812		2,665	2,644	$ 2,833
Deferred Tax Asset Valuation Allowance	$ 1,581	3,549	251	41	$ 5,340
Year ended December 31, 2008					
Allowance for Doubtful Accounts	$ 109		(18)	53	$ 38
Inventory Reserve	$ 6,424		2,261	957	$ 7,728
Warranty Liability	$ 2,944		2,261	2,393	$ 2,812
Deferred Tax Asset Valuation Allowance	$ 1,236		345		$ 1,581

Table of Contents

ADTRAN, INC.
INDEX OF EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation, as amended (Exhibit 3.1 to ADTRAN s Registration Statement on Form S-1, No. 33-81062 (the Form S-1 Registration Statement)).
3.2	Bylaws, as amended (Exhibit 3.1 to ADTRAN s Current Report on Form 8-K filed October 16, 2007).
10.1	Documents relative to the $50,000,000 Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) issued by the Alabama State Industrial Development Authority, consisting of the following:
	(a) First Amended and Restated Financing Agreement dated April 25, 1997, among the State Industrial Development Authority, a public corporation organized under the laws of the State of Alabama (the Authority), ADTRAN and First Union National Bank of Tennessee, a national banking corporation (the Bondholder) (Exhibit 10.1(a) to ADTRAN s Quarterly Report on Form 10-Q for the quarter ended March 31, 1997 (the 1997 Form 10-Q)).
	(b) First Amended and Restated Loan Agreement dated April 25, 1997, between the Authority and ADTRAN (Exhibit 10.1(b) to the 1997 Form 10-Q).
	(c) First Amended and Restated Specimen Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) (Exhibit 10.1(c) to the 1997 Form 10-Q).
	(d) First Amended and Restated Specimen Note from ADTRAN to the Bondholder, dated April 25, 1997 (Exhibit 10.1(d) to the 1997 Form 10-Q).
	(e) Amended and Restated Investment Agreement dated January 3, 2002 between ADTRAN and First Union National Bank (successor-in-interest to First Union National Bank of Tennessee (the Successor Bondholder)) (Exhibit 10.1(e) to ADTRAN s Annual Report on Form 10-K for the year ended December 31, 2002 (the 2002 Form 10-K)).
	(f) Resolution of the Authority authorizing the amendment of certain documents, dated April 25, 1997, relating to the $50,000,000 Taxable Revenue Bond, Series 1995 (ADTRAN, Inc. Project) (Exhibit 10.1(f) to the 1997 Form 10-Q).
	(g) Resolution of ADTRAN authorizing the First Amended and Restated Financing Agreement, the First Amended and Restated Loan Agreement, the First Amended and Restated Note, and the Investment Agreement (Exhibit 10.1(g) to the 1997 Form 10-Q).
	(h) Amendment to First Amended and Restated Financing Agreement and First Amended and Restated Loan Agreement dated January 3, 2002 between ADTRAN and the Successor Bondholder (Exhibit 10.1(h) to the 2002 Form 10-K).
10.2	

Tax Indemnification Agreement dated July 1, 1994 by and among ADTRAN and the stockholders of ADTRAN prior to ADTRAN s initial public offering of Common Stock (Exhibit 10.5 to the 1994 Form 10-K).

Table of Contents

Exhibit Number	Description
10.3	Management Contracts and Compensation Plans:
	(a) Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended by the First, Second and Third Amendments thereto (Exhibit 10.3(a) to the 2002 Form 10-K).
	(b) Amended and Restated 1995 Directors Stock Option Plan, as amended by the First and Second Amendments thereto (Exhibit 10.3(b) to the 2002 Form 10-K).
	(c) Third Amendment to the Amended and Restated 1995 Directors Stock Option Plan (Exhibit 10.3(c) to ADTRAN s Annual Report on Form 10-K for the year ended December 31, 2003 (the 2003 Form 10-K)).
	(d) ADTRAN, Inc. Deferred Compensation Plan, as amended and restated as of January 1, 2008 (Exhibit 10.3(d) to ADTRAN s Form 10-K filed on February 27, 2009).
	(e) ADTRAN, Inc. Management Incentive Bonus Plan (Exhibit 10.1 to ADTRAN s Form 8-K on February 3, 2006).
	(f) ADTRAN, Inc. 2006 Employee Stock Incentive Plan (Exhibit 4.1 to ADTRAN s Registration Statement on Form S-8 (File No. 333-133927) filed on May 9, 2006).
	(g) First Amendment to the ADTRAN Inc. 2006 Employee Stock Incentive Plan (Exhibit 10.3(h) to ADTRAN s Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 Form 10-K)).
	(h) Form of Nonqualified Stock Option Agreement under the 2006 Employee Stock Incentive Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed June 8, 2006).
	(i) Form of Incentive Stock Option Agreement under the 2006 Employee Stock Incentive Plan (Exhibit 10.2 to ADTRAN s Form 8-K filed June 8, 2006).
	(j) ADTRAN, Inc. 2005 Directors Stock Option Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed on May 20, 2005).
	(k) First Amendment to the ADTRAN, Inc. 2005 Directors Stock Option Plan (Exhibit 10.3(l) to the 2007 Form 10-K).
	(l) Summary of Non-Employee Director Compensation (Exhibit 10.3(k) to ADTRAN s Form 10-K filed on February 28, 2007).
	(m) Form of Performance Shares Agreement under the ADTRAN, Inc. 2006 Employee Stock Incentive Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed on November 6, 2008).
	(n) Form of Performance Shares Agreement under the ADTRAN, Inc. 2006 Employee Stock Incentive Plan (Exhibit 10.1 to ADTRAN s Form 8-K filed on November 9, 2010).

21*	Subsidiaries of ADTRAN.
23*	Consent of PricewaterhouseCoopers LLP.
24*	Powers of Attorney.
31*	Rule 13a-14(a)/15d-14(a) Certifications.
32*	Section 1350 Certifications.

Table of Contents

Exhibit Number	Description
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed herewith

** Pursuant to Regulation S-T, this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.