



ADTRAN, Inc. Reports Second Quarter 2006 Results, Declares Quarterly Cash Dividend and Announces Additional Five Million Share Repurchase Plan

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HUNTSVILLE, Ala. - (BUSINESS WIRE) - July 17, 2006 - ADTRAN, Inc. (NASDAQ:ADTN) reported results for the second quarter of 2006. Sales increased to \$122,296,000 for the quarter compared to \$118,873,000 for the second quarter of 2005. Non-GAAP net income increased to \$22,619,000 for the quarter compared to GAAP net income of \$20,719,000 for the second quarter of 2005. Non-GAAP earnings per share, assuming dilution, were \$0.29 for the quarter compared to GAAP earnings per share, assuming dilution, of \$0.27 for the second quarter of 2005. For the quarter, GAAP net income was \$20,814,000 and GAAP earnings per share, assuming dilution, were \$0.27. Non-GAAP net income and non-GAAP earnings per share for the second quarter exclude the effect of stock compensation expense resulting from the application of Statement of Financial Accounting Standards No. 123R, Share-Based Payment ("SFAS 123R"). SFAS 123R was adopted on a modified prospective basis effective January 1, 2006.

See the table below for reconciliation between non-GAAP and GAAP net income and earnings per share.

For the quarter, gross margin increased to 59.2% compared to 58.5% for the second quarter of 2005.

ADTRAN Chief Executive Officer Tom Stanton stated, "During the quarter, HDSL revenues returned to normal levels and we continued to see the results of share gains in North America with our Broadband Access and Optical Access products. Our outlook for the Company remains very positive as we continue to build momentum in our primary growth areas."

The Company also announced that its Board of Directors has authorized the repurchase of an additional 5,000,000 shares of the Company's common stock to commence upon completion of the repurchase plan announced February 11, 2005. During the second quarter of 2006, the Company repurchased 3,355,000 shares of its common stock under the February 2005 plan. There are 1,359,000 shares remaining to be repurchased under the February 2005 plan. Upon completion of the current plan, the new plan will be implemented through open market purchases from time to time as conditions warrant.

The Company also announced that its Board of Directors declared a cash dividend for the second quarter of 2006. The quarterly cash dividend is \$0.09 per common share to be paid to holders of record at the close of business on August 4, 2006. The ex-dividend date is August 2, 2006 and the payment date is August 18, 2006.

The Company also confirmed that its second quarter conference call will be held Tuesday, July 18 at 9:30 a.m. Central Time. Guidance for the third quarter and year 2006 will be issued during this conference call. This conference call will be web cast live through StreetEvents.com. To listen, simply visit the Investor Relations site at <http://www.adtran.com> or <http://streetevents.com> approximately 10 minutes prior to the start of the call and click on the conference call link provided.

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

ADTRAN, Inc. is one of the world's most successful network access equipment suppliers, with an 18-year history of profitability and a portfolio of more than 1,400 solutions for use in the last mile of today's telecommunications networks. Widely deployed by carriers and enterprises alike, ADTRAN solutions enable voice, data, video, and Internet communications across copper, fiber, and wireless network infrastructures. ADTRAN solutions are currently in use by every major U.S. service provider and many global ones, as well as by thousands of public, private and governmental organizations worldwide.

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

This press release contains forward-looking statements which reflect management's best judgment based on factors currently known. However, these statements involve risks and uncertainties, including the successful development and market acceptance of new products, the degree of competition in the market for such products, the product and channel mix, component costs, manufacturing efficiencies, and other risks detailed in our annual report on Form 10-K for the year ended December 31, 2005. These risks and uncertainties could cause actual results to differ materially from those in the forward-looking statements included in this press release.

This release includes non-GAAP net income, non-GAAP earnings per share data, and other non-GAAP line items from the Non-GAAP Information table in this release, including costs of sales, gross profit, selling, general and administrative expenses, research and development expenses, profit from operations, income before provision for income taxes and provision for income taxes. These measures exclude the effect of stock compensation expense for employee stock options associated with the application of SFAS 123R, which ADTRAN adopted effective January 1, 2006. These measures are not in accordance with, or an alternative for, generally accepted accounting principles and may be different from non-GAAP measures used by other companies. ADTRAN believes that the presentation of the non-GAAP measures, when shown in conjunction with the corresponding GAAP measures, provides useful information to management and investors regarding financial and business trends relating to its financial condition and results of operations. ADTRAN further believes that where adjustments used in calculating non-GAAP net income and non-GAAP earnings per share are based on specific, identified charges that impact different line items in the statements of income, it is useful to investors to know how these specific line items are affected by these adjustments. In particular, as ADTRAN begins to apply SFAS 123R, it believes that it is useful to investors to understand how the expenses associated with the application of SFAS 123R are reflected in its results of operations. The presentation of these non-GAAP measures permits both investors and management to more readily compare past results, which do not include the impact of SFAS 123R, with future results, and to better understand ADTRAN's performance over the periods presented.

Condensed Balance Sheet
June 30, 2006
Unaudited
(In thousands)

	June 30, 2006

Assets	
Cash & cash equivalents	\$34,668
Short-term investments	159,605
Accounts receivable (net)	64,687
Other receivables	4,694
Inventory (net)	47,201
Prepaid expenses and other current assets	9,780

Total current assets	320,635
Equipment (net)	19,691
Land	4,263
Bldg. & land improvements (net)	59,124
Other assets	499
Long-term investments	190,299

Total long-term assets	273,876
Total assets	<u>\$594,511</u>
Liabilities and stockholders' equity	
Accounts payable	\$26,997
Accrued wages and benefits	9,483
Accrued liabilities	<u>13,467</u>
Total current liabilities	49,947
Deferred tax liabilities	1,576
Other non-current liabilities	4,567
Long term-debt	<u>50,000</u>
Total long-term liabilities	56,143
Total liabilities	106,090
Stockholders' equity	<u>488,421</u>
Total liabilities and stockholders' equity	<u>\$594,511</u>

Condensed Statements of Income
For the three and six month periods ended June 30, 2006 and 2005
(In thousands, except per share data)
Unaudited

	Three Months Ended		Year to Date Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Sales	\$122,296	\$118,873	\$230,944	\$223,450
Cost of Sales	<u>49,865</u>	<u>49,327</u>	<u>94,005</u>	<u>93,676</u>
Gross Profit	72,431	69,546	136,939	129,774
Selling, general and administrative expenses	26,444	24,297	51,210	47,246
Research and development expenses	<u>17,469</u>	<u>16,367</u>	<u>35,235</u>	<u>32,710</u>
Profit from operations	28,518	28,882	50,494	49,818
Interest expense	(633)	(625)	(1,267)	(1,208)
Other income, net	4,397	2,995	8,513	5,843

Income before provision for income taxes	32,282	31,252	57,740	54,453
Provision for income taxes	(11,468)	(10,533)	(20,671)	(18,514)
Net income (1)	\$20,814	\$20,719	\$37,069	\$35,939
Weighted average shares				
Basic	75,324	75,341	75,986	75,543
Diluted (2)	77,284	77,495	78,098	77,437
Earnings per common share				
Basic	\$0.28	\$0.28	\$0.49	\$0.48
Diluted (2)	\$0.27	\$0.27	\$0.47	\$0.46

(1) Net income for the three and six months ended June 30, 2006 included stock-based compensation expense recognized related to stock options, net of tax, of \$1.8 million and \$3.5 million, respectively, under SFAS 123(R). There was no stock-based compensation expense related to stock options under SFAS 123 in the three and six month period ended June 30, 2005 because we did not adopt the recognition provisions of SFAS 123.

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

Non-GAAP Information (1) (2)
For the three and six month periods ended June 30, 2006 and 2005
(In thousands, except per share data)
Unaudited

	Non-GAAP (excludes effects of SFAS 123R)	Effects of SFAS 123R	GAAP	GAAP
	Three Months Ended June 30, 2006	Three Months Ended June 30, 2006	Three Months Ended June 30, 2006	Three Months Ended June 30, 2005
Sales	\$122,296	\$0	\$122,296	\$118,873
Cost of Sales (a)	49,778	87	49,865	49,327
Gross Profit (a)	72,518	87	72,431	69,546
Selling, general and administrative expenses (a)	25,441	1,003	26,444	24,297
Research and development				

expenses (a)	16,497	972	17,469	16,367
Profit from operations (a)	30,580	2,062	28,518	28,882
Interest expense	(633)	0	(633)	(625)
Other income, net	4,397	0	4,397	2,995
Income before provision for income taxes (a)	34,344	2,062	32,282	31,252
Provision for income taxes (b)	(11,725)	(257)	(11,468)	(10,533)
Net income (a)(b)	\$22,619	\$1,805	\$20,814	\$20,719
Weighted average shares				
Basic	75,324	75,324	75,324	75,341
Diluted (3)	77,161	77,284	77,284	77,495
Earnings per common share				
Basic	\$0.30	(\$0.02)	\$0.28	\$0.28
Diluted (3)	\$0.29	(\$0.02)	\$0.27	\$0.27

	Non-GAAP (excludes effects of SFAS 123R) Six Months Ended June 30, 2006	Effects of SFAS 123R Six Months Ended June 30, 2006	GAAP Six Months Ended June 30, 2006	GAAP Six Months Ended June 30, 2005
Sales	\$230,944	\$0	\$230,944	\$223,450
Cost of Sales (a)	93,835	170	94,005	93,676
Gross Profit (a)	137,109	170	136,939	129,774
Selling, general and administrative expenses (a)	49,250	1,960	51,210	47,246
Research and development expenses (a)	33,336	1,899	35,235	32,710
Profit from operations (a)	54,523	4,029	50,494	49,818
Interest expense	(1,267)	0	(1,267)	(1,208)
Other income, net	8,513	0	8,513	5,843

Income before provision for income taxes (a)	61,769	4,029	57,740	54,453
Provision for income taxes (b)	(21,184)	(513)	(20,671)	(18,514)
Net income (a)(b)	\$40,585	\$3,516	\$37,069	\$35,939
Weighted average shares				
Basic	75,986	75,986	75,986	75,543
Diluted (3)	78,026	78,098	78,098	77,437
Earnings per common share				
Basic	\$0.53	(\$0.04)	\$0.49	\$0.48
Diluted (3)	\$0.52	(\$0.05)	\$0.47	\$0.46

- (1) A reconciliation between net income on a GAAP basis and non-GAAP net income including items (a) through (b) is provided in the table below.
- (2) There was no stock-based compensation expense recorded in fiscal 2005, as we had adopted the footnote disclosure only provision of SFAS 123.
- (3) Assumes exercise of dilutive stock options calculated under the treasury stock method.

RECONCILIATION OF GAAP TO NON-GAAP NET INCOME AND EARNINGS PER SHARE
(In thousands)

	Quarter Ended June 30, 2006	Quarter Ended June 30, 2005	Year to Date June 30, 2006	Year to Date June 30, 2005
GAAP Net Income	\$20,814	\$20,719	\$37,069	\$35,939
(a) Stock-based compensation expense related to stock options (1)	2,062	0	4,029	0
(b) Income tax effect of stock-based compensation expense	(257)	0	(513)	0
Non-GAAP Net Income	\$22,619	\$20,719	\$40,585	\$35,939
GAAP Earnings per common share - diluted	\$0.27	\$0.27	\$0.47	\$0.46
Per share effect of stock-based				

compensation expense	\$0.02	N/A	\$0.05	N/A
Non-GAAP Earnings per common share				
- diluted	\$0.29	\$0.27	\$0.52	\$0.46

(1) For the three months ended June 30, 2006, stock-based compensation expense was allocated as follows: \$87 to cost of sales expense, \$1,003 to selling, general and administrative expense, and \$972 to research and development expense.

For the six months ended June 30, 2006, stock-based compensation expense was allocated as follows: \$170 to cost of sales expense, \$1,960 to selling, general and administrative expense, and \$1,899 to research and development expense.

COMPARISON OF NET INCOME INCLUDING THE EFFECT OF STOCK-BASED
COMPENSATION EXPENSE RELATED TO EMPLOYEE STOCK OPTIONS UNDER
SFAS 123(R) and SFAS 123 (1)
(In thousands)

	Quarter Ended		Year to Date	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Net Income as reported	\$20,814	\$20,719	\$37,069	\$35,939
Plus: total stock-based compensation included in the determination of reported net income, net of tax	1,805	-	3,516	-
Less: total stock-based compensation expense determined under fair value based method for all awards, net of tax	(1,805)	(2,039)	(3,516)	(4,270)
Non-GAAP net income for calculation of diluted earnings per share	\$20,814	\$18,680	\$37,069	\$31,669
Earnings per share				
Diluted - as reported	\$0.27	\$0.27	\$0.47	\$0.46
Diluted - non-GAAP	n/a	\$0.24	n/a	\$0.41

(1) Stock-based compensation expense prior to January 1, 2006 is based on the pro forma application of SFAS 123. Net income and net income per share prior to January 1, 2006 did not include stock-based compensation for stock options because ADTRAN did not adopt the recognition provisions of SFAS 123.

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