ADTRAN INC
Form 10-Q
August 02, 2011

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the Quarterly Period Ended June 30, 2011

OR

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

Commission File Number 0-24612

ADTRAN, INC.

(Exact name of Registrant as specified in its charter)

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

901 Explorer Boulevard, Huntsville, Alabama 35806-2807

(Address of principal executive offices, including zip code)

(256) 963-8000

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer 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

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

Class	Outstanding at July 21, 2011
Common Stock, $.01 Par Value	64,435,328 shares

ADTRAN, INC.
Quarterly Report on Form 10-Q
For the Three and Six Months Ended June 30, 2011
Table of Contents

FORWARD LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements made by or on behalf of ADTRAN. ADTRAN and its representatives may from time to time make written or oral forward-looking statements, including statements contained in this report, our other filings with the Securities and Exchange Commission (SEC) and other communications with our stockholders. Generally, the words, believe, expect, intend, estimate, anticipate, will, may, could and similar expressions identify forward-looking statements. W you that any forward-looking statements made by us or on our behalf are subject to uncertainties and other factors that could cause such statements to be wrong. A list of factors that could materially affect our business, financial condition or operating results is included under Factors that Could Affect Our Future Results in Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Item 2 of Part I of this report. They have also been discussed in Item 1A of Part I in our most recent Annual Report on Form 10-K for the year ended December 31, 2010 filed on February 25, 2011 with the SEC. Though we have attempted to list comprehensively these important factors, we caution investors that other factors may prove to be important in the future in affecting our operating results. New factors emerge from time to time, and it is not possible for us to predict all of these factors, nor can we assess the impact each factor or a combination of factors may have on our business.

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

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ADTRAN, INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands, except per share amounts)

	June 30, 2011	December 31, 2010
ASSETS		
Current Assets		
Cash and cash equivalents	$ 23,787	$ 31,677
Short-term investments	138,690	157,479
Accounts receivable, less allowance for doubtful accounts of $21 and $162 at June 30, 2011 and December 31, 2010, respectively	83,266	70,893
Other receivables	10,425	3,962
Income tax receivable, net	805	2,741
Inventory	86,676	74,274
Prepaid expenses	3,362	3,270
Deferred tax assets, net	12,150	10,617
Total Current Assets	**359,161**	**354,913**
Property, plant and equipment, net	74,961	73,986
Other assets	1,825	1,915
Long-term investments	372,432	261,160
Total Assets	**$ 808,379**	**$ 691,974**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	$ 38,488	$ 22,785
Unearned revenue	9,312	10,138
Accrued expenses	5,957	4,913
Accrued wages and benefits	10,551	12,125
Total Current Liabilities	**64,308**	**49,961**
Deferred tax liabilities, net	8,802	10,350
Other non-current liabilities	15,086	11,841
Bonds payable	46,500	47,500
Total Liabilities	**134,696**	**119,652**
Commitments and contingencies (see Note 11)		
Stockholders Equity		
	797	797

Common stock, par value $0.01 per share; 200,000 shares authorized; 79,652 shares issued and 64,722 shares outstanding at June 30, 2011 and 79,652 shares issued and 63,010 shares outstanding at December 31, 2010				
Additional paid-in capital		208,349		193,866
Accumulated other comprehensive income		21,218		26,948
Retained earnings		785,493		731,962
Less treasury stock at cost: 14,930 and 16,642 shares at June 30, 2011 and December 31, 2010, respectively		(342,174)		(381,251)
Total Stockholders Equity		**673,683**		**572,322**
Total Liabilities and Stockholders Equity	**$**	**808,379**	**$**	**691,974**

See notes to consolidated financial statements

Table of Contents

ADTRAN, INC.
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	**2010**	**2011**	**2010**
Sales	$ 184,227	$ 150,361	$ 349,749	$ 277,388
Cost of sales	77,400	61,032	144,127	112,731
Gross Profit	**106,827**	**89,329**	**205,622**	**164,657**
Selling, general and administrative expenses	30,898	28,455	60,450	55,659
Research and development expenses	24,619	22,257	48,256	45,036
Operating Income	**51,310**	**38,617**	**96,916**	**63,962**
Interest and dividend income	2,003	1,654	3,792	3,181
Interest expense	(594)	(595)	(1,196)	(1,198)
Net realized investment gain	3,372	2,464	6,139	4,656
Other expense, net	(117)	(188)	(242)	(375)
Income before provision for income taxes	**55,974**	**41,952**	**105,409**	**70,226**
Provision for income taxes	(19,031)	(14,201)	(34,208)	(24,281)
Net Income	**$ 36,943**	**$ 27,751**	**$ 71,201**	**$ 45,945**
Weighted average shares outstanding basic	64,690	62,172	64,441	62,086
Weighted average shares outstanding diluted	66,135	63,488	66,044	63,281
Earnings per common share basic	$ 0.57	$ 0.45	$ 1.10	$ 0.74
Earnings per common share diluted	$ 0.56	$ 0.44	$ 1.08	$ 0.73
Dividend per share	$ 0.09	$ 0.09	$ 0.18	$ 0.18

See notes to consolidated financial statements

Table of Contents

ADTRAN, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Cash flows from operating activities:		
Net income	$ 71,201	$ 45,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,469	5,218
Amortization of net premium on available-for-sale investments	2,992	2,211
Net realized gain on long-term investments	(6,139)	(4,656)
Net loss on disposal of property, plant and equipment	17	12
Stock-based compensation expense	4,165	3,497
Deferred income taxes	(192)	(2,183)
Tax benefit from stock option exercises	10,318	1,757
Excess tax benefits from stock-based compensation arrangements	(9,180)	(1,579)
Changes in operating assets and liabilities:		
Accounts receivable, net	(12,373)	(3,596)
Other receivables	(6,463)	(3,929)
Income tax receivable, net	1,936	
Inventory	(12,402)	(18,273)
Prepaid expenses and other assets	(176)	(647)
Accounts payable	14,703	18,512
Accrued expenses and other liabilities	1,870	5,798
Income tax payable, net		892
Net cash provided by operating activities	**65,746**	**48,979**
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,287)	(4,789)
Proceeds from sales and maturities of available-for-sale investments	237,459	111,985
Purchases of available-for-sale investments	(335,870)	(137,688)
Net cash used in investing activities	**(104,698)**	**(30,492)**
Cash flows from financing activities:		
Proceeds from stock option exercises	33,022	7,409
Purchases of treasury stock		(10,330)
Dividend payments	(11,596)	(11,171)
Excess tax benefits from stock-based compensation arrangements	9,180	1,579
Net cash provided by (used in) financing activities	**30,606**	**(12,513)**

Net increase (decrease) in cash and cash equivalents	(8,346)	5,974
Effect of exchange rate changes	456	(602)
Cash and cash equivalents, beginning of period	**31,677**	**24,135**
Cash and cash equivalents, end of period	**$ 23,787**	**$ 29,507**

See notes to consolidated financial statements

Table of Contents

ADTRAN, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(In thousands, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements of ADTRAN®, Inc. and its subsidiaries (ADTRAN) have been prepared pursuant to the rules and regulations for reporting on Quarterly Reports on Form 10-Q. Accordingly, certain information and notes required by generally accepted accounting principles for complete financial statements are not included herein. The December 31, 2010 Consolidated Balance Sheet is derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States.

In the opinion of management, all adjustments necessary for a fair presentation of these interim statements have been included and are of a normal and recurring nature. The results of operations for an interim period are not necessarily indicative of the results for the full year. The interim statements should be read in conjunction with the financial statements and notes thereto included in ADTRAN s Annual Report on Form 10-K for the year ended December 31, 2010, filed on February 25, 2011 with the SEC.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expense during the reporting period. Our more significant estimates include the allowance for doubtful accounts, obsolete and excess inventory reserves, warranty reserves, customer rebates, allowance for sales returns, 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.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 requires companies to present the components of net income and other comprehensive income either as one continuous statement or as two consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders equity. While ASU 2011-05 changes the presentation of comprehensive income, it does not change the components that are recognized in net income or comprehensive income under current accounting guidance. This update is effective for fiscal years, and interim periods within those years, ending after December 15, 2011, with early adoption permitted. Since ASU 2011-05 affects presentation only, it will have no effect on our consolidated results of operations or financial condition.

In May 2011, the FASB issued Accounting Standards Update No. 2011-04, *Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*(ASU 2011-04). ASU 2011-04 is intended to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The amendments are of two types: (i) those that clarify the Board s intent about the application of existing fair value measurement and disclosure requirements and (ii) those that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. This update is effective for annual periods beginning after December 15, 2011. We do not expect the adoption of this amendment will have a material impact on our consolidated results of operations or financial condition.

Table of Contents

During the six months ended June 30, 2011, we adopted the following accounting standards, which had no material effect on our consolidated results of operations or financial condition:

In October 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU 2009-13). ASU 2009-13 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. ASU 2009-13 establishes 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. ASU 2009 -13 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.

We generally sell our products and services separately, but in some circumstances products and services may be sold in bundles that contain multiple deliverables. A sale that includes multiple deliverables is evaluated to determine the units of accounting, and the revenue from the arrangement is allocated to each item requiring separate revenue recognition based on the relative selling price and corresponding terms of the contract. We strive to use vendor-specific objective evidence of selling price. When this evidence is not available, we are generally not able to determine third-party evidence of selling price because of the extent of customization among competing products or services from other companies. In these cases, estimated selling price is determined based on the particular circumstances of the arrangement and is used to allocate revenues to each unit of accounting. Revenue is recognized incrementally as the necessary criteria for each item is met.

We adopted this amendment during the first quarter of 2011. The adoption of this amendment had no effect on our consolidated results of operations and financial condition for the three or six months ended June 30, 2011.

In October 2009, the FASB issued Accounting Standards Update No. 2009-14, *Certain Revenue Arrangements that Include Software Arrangements.* ASU 2009-14 changes 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 are no longer within the scope of the software revenue guidance in Subtopic 985-605 of the ASC. In addition, ASU 2009-14 requires that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In that regard, ASU 2009-14 provides 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. ASU 2009-14 also provides guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. ASU 2009-14 also provides 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. We adopted this amendment during the first quarter of 2011. The adoption of this amendment had no effect on our consolidated results of operations and financial condition for the three or six months ended June 30, 2011.

2. INCOME TAXES

Our effective tax rate decreased from 34.6% in the six months ended June 30, 2010 to 32.5% in the six months ended June 30, 2011. The decrease is primarily attributable to the research tax credit and increased tax benefits from a higher volume of stock option exercises during the six months ended June 30, 2011. The inclusion of the benefit for the research tax credit in the six months ended June 30, 2011 resulted in a 2.2 percentage point decrease in our tax rate. In addition, increased benefits from a higher volume of stock option exercises during the six months ended June 30, 2011 resulted in a 1.6 percentage point decrease in our tax rate.

The tax provision rate in 2010 was affected by a benefit related to the completion of an audit for the years 2006 and 2007 by the Internal Revenue Service and a larger manufacturer's deduction. The completion of the audit provided a 1.0 percentage point benefit during the six months ended June 30, 2010. The higher manufacturer's deduction resulted in a 0.7 percentage point benefit in our effective tax rate for the six months ended June 30, 2010. Also, the tax provision rate in the first six months of 2010 did not include the benefit of the research tax credit, which expired on

December 31, 2009. The credit was reinstated during the fourth quarter of 2010.

3. STOCK-BASED COMPENSATION

The following table summarizes the stock-based compensation expense related to stock options, restricted stock units (RSUs) and restricted stock under the Stock Compensation Topic of the FASB Accounting Standards Codification (ASC) for the three and six months ended June 30, 2011 and 2010, which was recognized as follows:

(In thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Stock-based compensation expense included in cost of sales	**$ 89**	**$ 73**	**$ 180**	**$ 141**
Selling, general and administrative expense	999	835	2,006	1,585
Research and development expense	988	900	1,979	1,771
Stock-based compensation expense included in operating expenses	**1,987**	**1,735**	**3,985**	**3,356**
Total stock-based compensation expense	**2,076**	**1,808**	**4,165**	**3,497**
Tax benefit for expense associated with non-qualified options	(276)	(195)	(716)	(372)
Total stock-based compensation expense, net of tax	**$ 1,800**	**$ 1,613**	**$ 3,449**	**$ 3,125**

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

The weighted-average assumptions and value of options granted for the three and six months ended June 30, 2011 and 2010 are summarized as follows:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Expected volatility	37.68%	39.94%	37.68%	41.00%
Risk-free interest rate	2.18%	2.45%	2.18%	2.50%
Expected dividend yield	0.86%	1.31%	0.86%	1.53%
Expected life (in years)	4.94	5.04	4.94	5.18
Weighted-average estimated value	$ 13.93	$ 9.39	$ 13.93	$ 8.19

The fair value of our RSUs is calculated using a Monte Carlo Simulation valuation method. There were no RSU grants during the six months ended June 30, 2011 or 2010.

The fair value of restricted stock is equal to the closing price of our stock on the date of grant. There were no restricted stock grants during the six months ended June 30, 2011 or 2010.

Stock-based compensation expense recognized in our Consolidated Statements of Income for the three and six months ended June 30, 2011 and 2010 is based on options, RSUs and restricted stock ultimately expected to vest, and has been reduced for estimated forfeitures. Estimated forfeitures for stock options were based upon historical experience and approximate 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

As of June 30, 2011, total compensation expense related to non-vested stock options, RSUs and restricted stock not yet recognized was approximately $16.0 million, which is expected to be recognized over an average remaining recognition period of 2.7 years.

The following table is a summary of our stock options outstanding as of December 31, 2010 and June 30, 2011 and the changes that occurred during the six months ended June 30, 2011:

(In thousands, except per share amounts)	Number of Options		Weighted Avg. Exercise Price	Weighted Avg. Remaining Contractual Life In Years		Aggregate Intrinsic Value
Options outstanding, December 31, 2010	**6,234**	**$**	**23.09**	**6.21**	**$**	**81,561**
Options granted	5	$	41.92			
Options cancelled/forfeited	(40)	$	25.15			
Options exercised	(1,719)	$	19.39			
Options outstanding, June 30, 2011	**4,480**	**$**	**24.51**	**6.59**	**$**	**63,635**
Options exercisable, June 30, 2011	**2,256**	**$**	**23.22**	**4.85**	**$**	**34,947**

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 the quarter and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2011. The 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 the three and six month periods ended June 30, 2011 was $1.5 million and $38.9 million, respectively.

The following table is a summary of our RSUs and restricted stock outstanding as of December 31, 2010 and June 30, 2011 and the changes that occurred during the six months ended June 30, 2011:

(In thousands, except per share amounts)	Number of Shares		Weighted Average Grant Date Fair Value
RSUs and restricted stock outstanding, December 31, 2010	**87**	**$**	**28.46**
RSUs and restricted stock granted		$	
RSUs and restricted stock vested		$	
RSUs and restricted stock cancelled/forfeited		$	
Unvested RSUs and restricted stock, June 30, 2011	**87**	**$**	**28.46**

Table of Contents

4. INVESTMENTS

At June 30, 2011, we held the following securities and investments, recorded at either fair value or cost.

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Carrying Value
Deferred compensation plan assets	$ 6,438	$ 351	$	$ 6,789
Corporate bonds	200,280	971	(362)	200,889
Municipal fixed-rate bonds	117,262	597	(5)	117,854
Municipal variable rate demand notes	94,870			94,870
Fixed income bond fund	526	225		751
Marketable equity securities	12,119	27,516	(212)	39,423
Available-for-sale securities held at fair value	**$ 431,495**	**$ 29,660**	**$ (579)**	**$ 460,576**
Restricted investment held at cost				**48,250**
Other investments held at cost				**2,296**
Total carrying value of available-for-sale investments				**$ 511,122**

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	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 June 30, 2011, we held $6.8 million of deferred compensation plan assets, carried at fair value.

At June 30, 2011, we held $200.9 million of corporate bonds. These bonds are classified as available-for-sale and had an average duration of 2.2 years at June 30, 2011. At June 30, 2011, approximately 1% of our corporate bond portfolio had a credit rating of AAA, 14% had a credit rating of AA, 55% had a credit rating of A, and 30% had a credit rating of BBB. 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 June 30, 2011, we held $117.9 million of municipal fixed-rate bonds. These bonds are classified as available-for-sale and had an average duration of 1.3 years at June 30, 2011. At June 30, 2011, approximately 24% of our municipal fixed-rate bond portfolio had a credit rating of AAA, 58% had a credit rating of AA, and 18% 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.

At June 30, 2011, we held $94.9 million of municipal variable rate demand notes, all of which were classified as available-for-sale. At June 30, 2011, 27% of our municipal variable rate demand notes had a credit rating of AAA, 63% had a credit rating of AA, 10% 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 June 30, 2011, approximately 24% 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 76% 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 recorded any losses relating to municipal variable rate demand notes.

At June 30, 2011, we held $0.8 million of a fixed income bond fund.

At June 30, 2011, we held $39.4 million of marketable equity securities, including a single security, of which we held 1.3 million shares, carried at a fair value of $24.3 million. We sold 0.2 million shares of this security during the six months ended June 30, 2011. The sale of this security resulted in proceeds of $4.2 million and a realized gain of $4.1 million. This single security traded approximately 0.9 million shares per day in the first six months of 2011 in an active market on a European stock exchange. This single security comprises $23.8 million of the gross unrealized gains included in the fair value of our marketable equity securities at June 30, 2011. The remaining $3.7 million of gross unrealized gains and $0.2 million of gross unrealized losses at June 30, 2011 were spread amongst more than 400 equity securities.

At June 30, 2011, 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 June 30, 2011, the estimated fair value of the Bond was approximately $46.0 million, based on a debt security with a comparable interest rate and maturity and a Standard and 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 Debt under Liquidity and Capital Resources in the Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Item 2 of Part I of this report.

At June 30, 2011, we held $2.3 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 $10.5 million at June 30, 2011, 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 $8.4 million as of June 30, 2011, of which $7.7 million has been applied toward these commitments. As of June 30, 2011, we have received distributions related to these two private equity funds of $7.9 million, of which $1.4 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 remaining commitment under the funds is $0.2 million, which expires in 2013. We have not been required to record any impairment losses related to these investments during the six months ended June 30, 2011.

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 recorded an other-than-temporary impairment charge of $12 thousand during the six months ended June 30, 2011 related to three marketable equity securities. For the six months ended June 30, 2010, we recorded an other-than-temporary impairment charge of $42 thousand related to three marketable equity securities.

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 June 30, 2011 Using		
(In thousands)	**Fair Value**	**Quoted Prices in Active Market for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash equivalents				
Money market funds	$ 10,737	$ 10,737	$	$
Available-for-sale securities				
Deferred compensation plan assets	6,789	6,789		
Available-for-sale debt securities				
Corporate bonds	200,889		200,889	
Municipal fixed-rate bonds	117,854		117,854	
Municipal variable rate demand notes	94,870		94,870	
Fixed income bond fund	751	751		
Available-for-sale marketable equity securities				
Equity securities technology industry	25,591	25,591		
Equity securities other	13,832	13,832		
Available-for-sale securities	**460,576**	**46,963**	**413,613**	
Total	**$ 471,313**	**$ 57,700**	**$ 413,613**	**$**

Table of Contents

	Fair Value Measurements at December 31, 2010 Using			
(In thousands)	Fair Value	Quoted Prices in Active Market for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$ 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				
Equity securities technology industry	35,596	35,596		
Equity securities other	12,414	12,414		
Available-for-sale securities	**368,286**	**53,002**	**315,284**	
Total	**$ 382,818**	**$ 67,534**	**$ 315,284**	**$**

As of June 30, 2011 and December 31, 2010, the fair value of the investments in available-for-sale Level 2 corporate bonds and municipal fixed-rate bonds was $318.7 million and $198.5 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.

As of June 30, 2011 and December 31, 2010, the fair value of the investments in available-for-sale Level 2 municipal variable rate demand notes was $94.9 million and $116.7 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.

5. INVENTORY

At June 30, 2011 and December 31, 2010, inventory consisted of the following:

(In thousands)	June 30, 2011	December 31, 2010
Raw materials	$ 44,177	$ 43,897
Work in process	6,327	2,871
Finished goods	36,172	27,506
Total	**$ 86,676**	**$ 74,274**

We establish reserves for estimated excess, obsolete, or unmarketable inventory equal to the difference between the cost of the inventory and the estimated fair value of the inventory based upon assumptions about future demand and market conditions. At June 30, 2011 and December 31, 2010, raw materials reserves totaled $7.8 million and $7.3 million, respectively, and finished goods inventory reserves totaled $2.0 million and $1.6 million, respectively.

Table of Contents

6. STOCKHOLDERS EQUITY

A summary of the changes in stockholders equity for the six months ended June 30, 2011 is as follows:

(In thousands)	Stockholders Equity
Balance, December 31, 2010	**$ 572,322**
Net income	71,201
Dividend payments	(11,596)
Dividends accrued for unvested restricted stock units	(19)
Net change in unrealized gains and losses on marketable securities (net of deferred taxes)	(5,791)
Reclassification adjustment for amounts included in net income (net of deferred taxes)	(395)
Foreign currency translation adjustment	456
Proceeds from stock option exercises	33,022
Tax benefits from stock option exercises	10,318
Stock-based compensation expense	4,165
Balance, June 30, 2011	**$ 673,683**

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. During the six months ended June 30, 2011, we did not repurchase any shares of our common stock. We 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.

Stock Option Exercises

We issued 1.7 million shares of treasury stock during the six months ended June 30, 2011 to accommodate employee stock option exercises. The stock options had exercise prices ranging from $10.50 to $36.64. We received proceeds totaling $33.0 million from the exercise of these stock options during the six months ended June 30, 2011.

Dividend Payments

During the six months ended June 30, 2011, we paid cash dividends as follows (in thousands except per share amount):

Record Date	Payment Date	Per Share Amount	Total Dividend Paid
February 3, 2011	February 17, 2011	$ 0.09	$ 5,775
April 28, 2011	May 12, 2011	$ 0.09	$ 5,821

Table of Contents

Comprehensive Income

Comprehensive income consists of net income, net change in unrealized gains and losses on marketable securities, reclassification adjustments for amounts included in net income related to impaired securities and foreign currency translation adjustments.

(In thousands)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Net income	$ 36,943	$ 27,751	$ 71,201	$ 45,945
Net change in unrealized gains and losses related to marketable securities, net of deferred tax benefit of $2,029 and $3,404 for the three months ended June 30, 2011 and 2010, respectively, and $2,702 and $631 for the six months ended June 30, 2011 and 2010, respectively	(3,140)	(5,678)	(5,791)	(1,056)
Reclassification adjustment for amounts included in net income, net of deferred tax benefit of $146 and $96 for the three months ended June 30, 2011 and 2010, respectively, and $186 and $127 for the six months ended June 30, 2011 and 2010, respectively	(236)	(160)	(395)	(212)
Foreign currency translation adjustment	369	(770)	456	(602)
Total comprehensive income	**$ 33,936**	**$ 21,143**	**$ 65,471**	**$ 44,075**

7. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2011 and 2010 is as follows:

(In thousands, except per share amounts)	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Numerator				
Net income	$ 36,943	$ 27,751	$ 71,201	$ 45,945
Denominator				
Weighted average number of shares basic	64,690	62,172	64,441	62,086
Effect of dilutive securities				
Stock options	1,387	1,281	1,547	1,169
Restricted stock and restricted stock units	58	35	56	26
Weighted average number of shares diluted	66,135	63,488	66,044	63,281
Net income per share basic	$ 0.57	$ 0.45	$ 1.10	$ 0.74
Net income per share diluted	$ 0.56	$ 0.44	$ 1.08	$ 0.73

Anti-dilutive options to purchase common stock outstanding were excluded from the above calculations. Anti-dilutive options totaled 0.9 million and 2.1 million for the three months ended June 30, 2011 and 2010, respectively, and

0.9 million and 2.8 million for the six months ended June 30, 2011 and 2010, respectively.

8. SEGMENT INFORMATION

We operate in two reportable segments: (1) the Carrier Networks Division and (2) the Enterprise Networks Division. We evaluate the performance of our segments based on gross profit; therefore, selling, general and administrative expenses, research and development expenses, interest and dividend income, interest expense, net realized investment gain/loss, other expense, net and provision for income 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 the three and six months ended June 30, 2011 and 2010. Asset information by reportable segment is not reported, since we do not produce such information internally.

	Three Months Ended			
	June 30, 2011		June 30, 2010	
(In thousands)	**Sales**	**Gross Profit**	**Sales**	**Gross Profit**
Carrier Networks	$ 150,492	$ 87,465	$ 117,579	$ 70,273
Enterprise Networks	33,735	19,362	32,782	19,056
Total	**$ 184,227**	**$ 106,827**	**$ 150,361**	**$ 89,329**

	Six Months Ended			
	June 30, 2011		June 30, 2010	
(In thousands)	**Sales**	**Gross Profit**	**Sales**	**Gross Profit**
Carrier Networks	$ 282,852	$ 166,963	$ 217,103	$ 129,539
Enterprise Networks	66,897	38,659	60,285	35,118
Total	**$ 349,749**	**$ 205,622**	**$ 277,388**	**$ 164,657**

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 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 small and mid-sized enterprises (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). 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.

Table of Contents

The table below presents sales information by product category for the three and six months ended June 30, 2011 and 2010.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Carrier Systems	$ 112,289	$ 73,148	$ 199,039	$ 131,241
Business Networking	35,699	32,165	72,062	58,622
Loop Access	36,239	45,048	78,648	87,525
Total	**$ 184,227**	**$ 150,361**	**$ 349,749**	**$ 277,388**

In addition, we identify subcategories 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.
Subcategory revenues included in the above are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2011**	**2010**	**2011**	**2010**
Growth Products				
Broadband Access (included in Carrier Systems)	$ 77,062	$ 44,971	$ 128,844	$ 81,333
Optical Access (included in Carrier Systems)	22,008	16,128	42,924	27,387
Internetworking (NetVanta & Multi-service Access Gateways) (included in Business Networking)	33,029	27,902	65,912	50,085
Total	**132,099**	**89,001**	**237,680**	**158,805**
Traditional Products				
HDSL (does not include T1) (included in Loop Access)	34,049	42,174	74,994	82,104
Other products (excluding HDSL)	18,079	19,186	37,075	36,479
Total	**52,128**	**61,360**	**112,069**	**118,583**
Total	**$ 184,227**	**$ 150,361**	**$ 349,749**	**$ 277,388**

Sales by Geographic Region

The table below presents sales information by geographic area for the three and six months ended June 30, 2011 and 2010. International sales correlate to shipments with a non-U.S. destination.

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2011**	**2010**	**2011**	**2010**
United States	$ 160,804	$ 142,046	$ 313,917	$ 262,346

International		23,423		8,315		35,832		15,042
Total	**$**	**184,227**	**$**	**150,361**	**$**	**349,749**	**$**	**277,388**

Table of Contents

9. LIABILITY FOR WARRANTY RETURNS

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 $3.6 million at June 30, 2011 and $3.3 million at December 31, 2010. These liabilities are included in accrued expenses in the accompanying Consolidated Balance Sheets.

A summary of warranty expense and write-off activity for the six months ended June 30, 2011 and 2010 is as follows:

Six Months Ended June 30,

- the interest rate that the debt securities will bear and the interest payment dates for the debt securities;
- any conversion or exchange provisions;
- any optional redemption provisions;
- any sinking fund or other provisions that would obligate us to repurchase or otherwise redeem the debt securities;
- any changes to or additional events of default or covenants; and
- any other terms of the debt securities.

We may offer and sell debt securities, including original issue discount debt securities, at a substantial discount below their principal amount. The relevant prospectus supplement will describe special U.S. federal income tax and any other considerations applicable to those securities. In addition, the prospectus supplement may describe certain special U.S. federal income tax or other considerations applicable to any debt securities that are denominated in a currency other than U.S. dollars.

Payment of Interest and Exchange

Each debt security will be represented by either one or more global securities registered in the name of The Depository Trust Company, as Depositary, or a nominee of the Depositary (we will refer to any debt security represented by a global debt security as a book-entry debt security), or a certificate issued in definitive registered form (we will refer to any debt security represented by a certificated security as a certificated debt security), as described in the applicable prospectus supplement.

Certificated Debt Securities

You may transfer or exchange certificated debt securities at the trustee's office or paying agencies in accordance with the terms of the indenture. No service charge will be made for any transfer or exchange of certificated debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with a transfer or exchange.

You may transfer certificated debt securities and the right to receive the principal of, premium and interest on certificated debt securities only by surrendering the old certificate representing those certificated debt securities and either we or the trustee will reissue the old certificate to the new holder or we or the trustee will issue a new certificate to the new holder.

Book-Entry Debt Securities

We may issue the debt securities of a series in the form of one or more book-entry debt securities that would be deposited with a depositary or its nominee identified in the prospectus supplement. We may issue book-entry debt securities in either temporary or permanent form. We will describe in the prospectus supplement the terms of any depositary arrangement and the rights and limitations of owners of beneficial interests in any book-entry debt security.

Provisions Relating only to the Senior Debt Securities

The senior debt securities will rank equally in right of payment with all of our other senior and unsubordinated debt. The senior debt securities will be effectively subordinated, however, to all of our secured debt to the extent of the value of the collateral for that debt. We will disclose the amount of our secured debt in the prospectus supplement.

Provisions Relating only to the Subordinated Debt Securities

Subordinated Debt Securities Subordinated to Senior Indebtedness. The subordinated debt securities will rank junior in right of payment to all of our Senior Indebtedness. "Senior Indebtedness" will be defined in a supplemental indenture or authorizing resolutions respecting any issuance of a series of subordinated debt securities, and the definition will be set forth in the prospectus supplement.

Payment Blockages. The subordinated indenture will provide that no payment of principal, interest and any premium on the subordinated debt securities may be made in the event:

- we or our property is involved in any voluntary or involuntary liquidation or bankruptcy;
- we fail to pay the principal, interest, any premium or any other amounts on any Senior Indebtedness within any applicable grace period or the maturity of such Senior Indebtedness is accelerated following any other default, subject to certain limited exceptions set forth in the subordinated indenture; or
- any other default on any Senior Indebtedness occurs that permits immediate acceleration of its maturity, in which case a payment blockage on the subordinated debt securities will be imposed for a maximum of 179 days at any one time.

No Limitation on Amount of Senior Debt. The subordinated indenture will not limit the amount of Senior Indebtedness that we may incur, unless otherwise indicated in the prospectus supplement.

DESCRIPTION OF GUARANTEES OF DEBT SECURITIES

This summary description is not meant to be a complete description of the guarantees of debt securities that we may offer. At the time of an offering and sale of debt securities, this prospectus together with the accompanying prospectus supplement will contain the material terms of the guarantees, if any, of the debt securities being offered.

If specified in the applicable prospectus supplement, certain of our subsidiaries may guarantee the debt securities. Guarantees may be secured or unsecured and senior or subordinated. The particular terms of guarantees of a particular issue of debt securities will be described in the related prospectus supplement.

DESCRIPTION OF WARRANTS

The following describes some of the general terms and provisions of warrants we may issue. Warrants may be issued independently or together with any other securities offered by any prospectus supplement and other offering materials, if any, and may be attached to or separate from those securities. Warrants may be issued under warrant agreements to be entered into between us and a warrant agent or may be represented by individual warrant certificates, all as specified in the applicable prospectus supplement and other offering materials, if any. The warrant agent, if any, for any series of warrants will act solely as our agent and will not assume any obligation or relationship of agency or trust for or with any holders or beneficial owners of warrants.

A prospectus supplement and any other offering materials relating to any warrants we may issue will specify the terms of the warrants, including:

- the title and aggregate number of the warrants;
- the price or prices at which the warrants will be issued;

- the title, amount and terms of the securities purchasable upon exercise of the warrants;
- the title, amount and terms of the securities offered with the warrants and the number of warrants issued with each such security;
- the date, if any, on and after which the warrants and the related securities will be separately transferable;
- the price at which the related securities may be purchased upon exercise of the warrants;

6

- the exercise period for the warrants;
- the minimum or maximum number of warrants which may be exercised at any one time;
- any applicable anti-dilution, redemption or call provisions;
- any applicable book-entry provisions; and
- any other terms of the warrants.

DESCRIPTION OF UNITS

As specified in the applicable prospectus supplement, we may issue units consisting of one or more debt securities, shares of common stock, shares of preferred stock or warrants or any combination of such securities, including guarantees of any securities.

A prospectus supplement and any other offering materials relating to any units issued under the registration statement of which this prospectus is a part will specify the terms of the units, including:

- the terms of the units and of any of the debt securities, common stock, preferred stock, warrants and guarantees comprising the units, including whether and under what circumstances the securities comprising the units may be traded separately;
- a description of the terms of any unit agreement governing the units; and
- a description of the provisions for the payment, settlement, transfer or exchange of the units.

PLAN OF DISTRIBUTION

We may distribute our securities from time to time in one or more transactions at a fixed price or prices. We may change these prices from time to time. We may also distribute our securities at market prices prevailing at the time of sale, at prices related to prevailing market prices or at negotiated prices. We will describe the distribution method for each offering in a prospectus supplement, including, with respect to our equity securities, sales deemed to be an “at the market offering” as defined in Rule 415(a)(4) under the Securities Act to or through a market maker or directly into an existing trading market on an exchange or otherwise.

We may sell our securities in any of the following ways:

- through underwriters or dealers,
- through agents who may be deemed to be underwriters as defined in the Securities Act,
- directly to one or more purchasers,
- directly to holders of warrants exercisable for our securities upon the exercise of their warrants, or
- through a combination of any of these methods of sale.

The prospectus supplement and other offering materials, if any, for a particular offering will set forth the terms of the offering, purchase price, the proceeds we will receive from the offering, any delayed delivery arrangements, the securities exchanges on which the securities will be listed, if any, and any underwriting arrangements, including underwriting discounts and other items constituting underwriters' compensation and any discounts or concessions allowed or reallowed or paid to dealers. We may have agreements with the underwriters, dealers and agents who participate in the distribution to indemnify them against certain civil liabilities, including liabilities under the Securities Act, or to contribute to payments which they may be required to make.

Any common stock sold pursuant to a prospectus supplement will be listed on the NASDAQ Global Select Market or other national securities exchange. Preferred stock, warrants and debt securities may or may not be listed on the NASDAQ Global Select Market or other national securities exchange. Securities offered may be a new issue of securities with no established trading market. Any underwriters to whom or agents through whom these securities are sold by us for public offering and sale may make a market in these securities, but such underwriters or agents will not be obligated to do so and may discontinue any market making at any time without notice. No assurance can be given as to the liquidity of or the trading market for any such securities.

If we use underwriters in the sale, the securities we offer will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. Our securities may be offered to the public either through underwriting syndicates represented by one or more managing underwriters or directly by one or more firms acting as underwriters. The underwriter or underwriters with respect to a particular underwritten offering of securities will be named in the prospectus supplement relating to that offering and, if an underwriting syndicate is used, the managing underwriter or underwriters will be set forth on the cover of that prospectus supplement or in the other offering materials.

If we use dealers in an offering of our securities, we will sell the securities to the dealers as principals. The dealers may then resell the securities to the public at varying prices to be determined by those dealers at the time of resale. The names of the dealers and the terms of the transaction will be set forth in a prospectus supplement or other offering materials, if any. Any initial public offering price and any discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

We may also offer our securities directly, or though agents we designate, from time to time at fixed prices, which we may change, or at varying prices determined at the time of sale. We will name any agent we use and describe the terms of the agency, including any commissions payable by us to the agent, in a prospectus supplement and other offering materials, if any. Unless otherwise indicated in the prospectus supplement and other offering materials, any agent we use will act on a reasonable best efforts basis for the period of its appointment.

In certain states, our securities may be sold only through registered or licensed brokers or dealers. In addition, in certain states, our securities may not be sold unless they have been registered or qualified for sale in that state or an exemption from registration or qualification is available and is complied with.

Representatives of the underwriters through whom our securities are sold for public offering and sale may engage in over-allotment, stabilizing transactions, syndicate short covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the offered securities so long as the stabilizing bids do not exceed a specified maximum.

EXPERTS

The consolidated financial statements and management’s assessment of the effectiveness of internal control over financial reporting incorporated by reference in this prospectus and elsewhere in the registration statement have been so incorporated by reference in reliance upon the reports of Grant Thornton LLP, independent registered public accountants, upon the authority of said firm as experts in accounting and auditing in giving said reports.

LEGAL MATTERS

The validity of the securities offered hereby and tax matters will be passed upon for us by Ledgewood, a professional corporation, Philadelphia, Pennsylvania. Underwriters, dealers and agents, if any, who we will identify in a prospectus supplement, may have their counsel pass upon certain legal matters in connection with any offering we make.

Up to $50,000,000 of Shares
Common Stock

PROSPECTUS SUPPLEMENT

Cantor Fitzgerald & Co. BTIG

July 10, 2014