KNIGHT PHILIP H
Form 4
November 10, 2005

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

OMB APPROVAL

OMB Number:	3235-0287
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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
KNIGHT PHILIP H

(Last) (First) (Middle)

ONE BOWERMAN DRIVE

(Street)

BEAVERTON, OR 97005

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
NIKE INC [NKE]

3. Date of Earliest Transaction (Month/Day/Year)
11/08/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Class B Common Stock	11/08/2005 (1)		S (2)		7,100	D	$ 87	3,617,455	D	
Class B Common Stock	11/08/2005		S (2)		1,300	D	$ 87.01	3,616,155	D	
Class B Common Stock	11/08/2005		S (2)		1,300	D	$ 87.03	3,614,855	D	
Class B Common Stock	11/08/2005		S (2)		1,300	D	$ 87.02	3,613,555	D	

Class B Common Stock	11/08/2005	S[(2)]	1,000	D	$ 87.04	3,612,555	D
Class B Common Stock	11/08/2005	S[(2)]	400	D	$ 87.07	3,612,155	D
Class B Common Stock	11/08/2005	S[(2)]	1,200	D	$ 87.08	3,610,955	D
Class B Common Stock	11/08/2005	S[(2)]	2,500	D	$ 87.1	3,608,455	D
Class B Common Stock	11/08/2005	S[(2)]	800	D	$ 87.09	3,607,655	D
Class B Common Stock	11/08/2005	S[(2)]	600	D	$ 87.06	3,607,055	D
Class B Common Stock	11/08/2005	S[(2)]	700	D	$ 87.05	3,606,355	D
Class B Common Stock	11/08/2005	S[(2)]	900	D	$ 87.12	3,605,455	D
Class B Common Stock	11/08/2005	S[(2)]	1,400	D	$ 87.15	3,604,055	D
Class B Common Stock	11/08/2005	S[(2)]	100	D	$ 87.16	3,603,955	D
Class B Common Stock	11/08/2005	S[(2)]	600	D	$ 87.14	3,603,355	D
Class B Common Stock	11/08/2005	S[(2)]	1,400	D	$ 87.13	3,601,955	D
Class B Common Stock	11/08/2005	S[(2)]	1,400	D	$ 87.18	3,600,555	D
Class B Common Stock	11/08/2005	S[(2)]	4,400	D	$ 87.2	3,596,155	D
Class B Common	11/08/2005	S[(2)]	2,100	D	$ 87.21	3,594,055	D

Stock								
Class B Common Stock	11/08/2005		S (2)	3,500	D	$ 87.22	3,590,555	D
Class B Common Stock	11/08/2005		S (2)	3,300	D	$ 87.24	3,587,255	D
Class B Common Stock	11/08/2005		S (2)	1,500	D	$ 87.19	3,585,755	D
Class B Common Stock	11/08/2005		S (2)	1,200	D	$ 87.3	3,584,555	D
Class B Common Stock	11/08/2005		S (2)	400	D	$ 87.32	3,584,155	D
Class B Common Stock	11/08/2005		S (2)	500	D	$ 87.31	3,583,655	D
Class B Common Stock	11/08/2005		S (2)	1,900	D	$ 87.29	3,581,755	D
Class B Common Stock	11/08/2005		S (2)	4,400	D	$ 87.23	3,577,355	D
Class B Common Stock	11/08/2005		S (2)	2,300	D	$ 87.27	3,575,055	D
Class B Common Stock	11/08/2005		S (2)	3,500	D	$ 87.28	3,571,555	D
Class B Common Stock	11/08/2005		S (2)	800	D	$ 87.26	3,570,755 (3)	D

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
KNIGHT PHILIP H ONE BOWERMAN DRIVE BEAVERTON, OR 97005	X	X		

Signatures

By: John F. Coburn III For: Philip H. Knight   11/10/2005

**Signature of Reporting Person   Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Pursuant to Company policy, market sales of Company stock by officers and directors are permitted only after the second full trading day after the release of quarterly earnings and ending on the last day of the second month of the following fiscal quarter, except pursuant to approved 10b5-1 trading plans.

(2) Transaction pursuant to a Rule 10b5-1 Plan.

(3) This Form 4 contains thirty of forty-one transactions that were executed on November 8, 2005. An additional form containing the balance of the November 8, 2005 transactions was filed immediately following this form.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. rgin-left:0pt;;text-indent:0pt;;color:#000000;font-family:Times New Roman;font-size:10pt;font-weight:normal;font-style:normal;text-transform:none;font-variant: normal;">

(154

)

Cost of sales

Defined benefit plan adjustments – actuarial
losses

(204
)

(1)

Total reclassifications for the period, before
tax

1,502

Tax (expense) benefit

(663
)

Total reclassifications for the period, net
of tax

$

839

(1) Included in the computation of net periodic pension cost. See Note 5 of Notes to Consolidated Financial Statements.

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The following table presents the tax effects related to the change in each component of other comprehensive income (loss) for the three months ended June 30, 2018 and 2017:

	Three Months Ended June 30, 2018			Three Months Ended June 30, 2017		
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$(111)	$ 29	$ (82)	$2,003	$ (781)	$ 1,222
Unrealized gains (losses) on cash flow hedges	—	—	—	(571)	—	(571)
Reclassification adjustment for amounts related to available-for-sale investments included in net income	251	(65)	186	(1,391)	542	(849)
Reclassification adjustment for amounts related to cash flow hedges included in net income	—	—	—	154	—	154
Reclassification adjustment for amounts related to defined benefit plan adjustments included in net income	7	(2)	5	124	(38)	86
Foreign currency translation adjustment	(3,424)	—	(3,424)	2,619	—	2,619
Total Other Comprehensive Income (Loss)	$(3,277)	$ (38)	$ (3,315)	$2,938	$ (277)	$ 2,661

The following table presents the tax effects related to the change in each component of other comprehensive income for the six months ended June 30, 2018 and 2017:

	Six Months Ended June 30, 2018			Six Months Ended June 30, 2017		
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale	$(458)	$ 119	$ (339)	$4,659	$ (1,817)	$ 2,842

securities						
Unrealized gains (losses) on cash flow hedges	—	—	—	(492)	—	(492)
Reclassification adjustment for amounts related to available-for-sale investments included in net income	324	(73)	251	(1,860)	726	(1,134)
Reclassification adjustment for amounts reclassed to retained earnings related to the adoption of ASU 2016-01	(3,220)	—	(3,220)	—	—	—
Reclassification adjustment for amounts related to cash flow hedges included in net income	—	—	—	154	—	154
Reclassification adjustment for amounts related to defined benefit plan adjustments included in net income	97	(30)	67	204	(63)	141
Foreign currency translation adjustment	(2,582)	—	(2,582)	3,861	—	3,861
Total Other Comprehensive Income (Loss)	$(5,839)	$ 16	$ (5,823)	$6,526	$ (1,154)	$ 5,372

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12. EARNINGS PER SHARE

A summary of the calculation of basic and diluted earnings per share for the three and six months ended June 30, 2018 and 2017 is as follows:

(In thousands, except per share amounts)	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Numerator				
Net income (loss)	$(7,670)	$12,401	$(18,484)	$19,052
Denominator				
Weighted average number of shares – basic	47,856	48,036	48,043	48,232
Effect of dilutive securities				
Stock options	—	279	8	348
PSUs, RSUs and restricted stock	46	98	40	95
Weighted average number of shares – diluted	47,902	48,413	48,091	48,675
Net income (loss) per share – basic	$(0.16)	$0.26	$(0.38)	$0.40
Net income (loss) per share – diluted	$(0.16)	$0.26	$(0.38)	$0.39

Anti-dilutive options to purchase common stock outstanding were excluded from the above calculations. Anti-dilutive options totaled 5.0 million and 4.1 million for the three months ended June 30, 2018 and 2017, respectively, and 4.8 million and 4.1 million for the six months ended June 30, 2018 and 2017.

13. SEGMENT INFORMATION

We operate in two reportable segments: (1) Network Solutions and (2) Services & Support. Network Solutions includes hardware products and next-generation virtualized solutions used in service provider or business networks, as well as prior-generation products. Services & Support includes our suite of ProCloud® managed services, network installation, engineering and maintenance services, and fee-based technical support and equipment repair/replacement plans.

We evaluate the performance of our segments based on gross profit; therefore, selling, general and administrative expenses, research and development expenses, interest and dividend income, interest expense, net realized investment gain/loss, other income/expense and provision for taxes are reported on a company-wide, functional basis only. 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, 2018 and 2017. We do not produce asset information by reportable segment; therefore, it is not reported.

(In thousands)	Three Months Ended June 30, 2018 Sales	June 30, 2017 Sales

		Gross Profit		Gross Profit
Network Solutions	$115,063	$45,434	$155,543	$75,880
Services & Support	12,985	4,562	29,130	8,746
Total	$128,048	$49,996	$184,673	$84,626

	Six Months Ended June 30, 2018		June 30, 2017	
(In thousands)	Sales	Gross Profit	Sales	Gross Profit
Network Solutions	$220,316	$82,075	$299,140	$142,813
Services & Support	28,538	7,654	55,812	15,522
Total	$248,854	$89,729	$354,952	$158,335

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Sales by Category

In addition to our reporting segments, we also report revenue for the following three categories – Access & Aggregation, Customer Devices, and Traditional & Other Products.

The table below presents sales information by category for the three and six months ended June 30, 2018 and 2017:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Access & Aggregation	$84,742	$138,639	$166,422	$258,782
Customer Devices	34,560	33,833	64,661	70,101
Traditional & Other Products	8,746	12,201	17,771	26,069
Total	$128,048	$184,673	$248,854	$354,952

14. LIABILITY FOR WARRANTY RETURNS

Our products generally include warranties of 90 days to five 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 total systems. 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 $10.1 million and $9.7 million at June 30, 2018 and December 31, 2017, respectively. During the three months ended March 31, 2017, we recorded a receivable and a reduction in warranty expense related to a settlement with a third party supplier for a defective component, the impact of which is reflected in the table below. These liabilities are included in accrued expenses in the accompanying Consolidated Balance Sheets.

A summary of warranty expense and write-off activity for the three and six months ended June 30, 2018 and 2017 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2018	2017	2018	2017
Balance at beginning of period	$9,687	$8,988	$9,724	$8,548
Plus: Amounts charged to cost and expenses	4,860	3,055	6,683	2,314

Less: Deductions	(4,436)	(2,863)	(6,296)	(1,682)
Balance at end of period	$10,111	$9,180	$10,111	$9,180

15. 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 have committed to invest up to an aggregate of $7.9 million in two private equity funds, and we have contributed $8.4 million as of June 30, 2018, of which $7.7 million has been applied to these commitments.

16. SUBSEQUENT EVENTS

On July 17, 2018, we announced that our Board of Directors declared a quarterly cash dividend of $0.09 per common share to be paid to stockholders of record at the close of business on August 1, 2018. The payment date will be August 15, 2018. The quarterly dividend payment will be approximately $4.3 million. 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 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Consolidated Financial Statements and the related notes that appear elsewhere in this document.

OVERVIEW

ADTRAN, Inc. is a leading global provider of networking and communications equipment. Our solutions enable voice, data, video and Internet communications across a variety of network infrastructures. These solutions are deployed by many of the United States' and the world's largest communications service providers (CSPs), distributed enterprises and small and medium-sized businesses, public and private enterprises, and millions of individual users 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.

We report revenue for the following three categories – Access & Aggregation, Customer Devices, and Traditional & Other Products.

Access & Aggregation solutions are used by CSPs to connect their network infrastructure to their subscribers. This category includes software and hardware-based products and services that aggregate and/or originate access technologies. The portfolio of ADTRAN solutions within this category includes a wide array of modular or fixed physical form factors designed to deliver the best technology and economic fit based on the target subscriber density and environmental conditions.

Customer Devices includes our products and services that provide end users access to CSP networks. Our Customer Devices portfolio includes a comprehensive array of service provider and enterprise hardware and software products and services.

Traditional & Other Products generally includes a mix of prior generation technologies' products and services, as well as other products and services that do not fit within the Access & Aggregation or Customer Devices categories.

See Note 13 of Notes to Consolidated Financial Statements in this report for further information regarding these product categories.

Sales were $128.0 million and $248.9 million for the three and six months ended June 30, 2018, compared to $184.7 million and $355.0 million for the three and six months ended June 30, 2017. Our gross margin decreased to 39.0% and 36.1% in the three and six months ended June 30, 2018, from 45.8% and 44.6% in the three and six months ended June 30, 2017. Our operating income margin decreased to (10.0)% and (15.9)% for the three and six months ended June 30, 2018, from 8.9% and 6.6% for the three and six months ended June 30, 2017. Net income (loss) was $(7.7) million and $(18.5) million for the three and six months ended June 30, 2018, compared to $12.4 million and $19.1 million for the three and six months ended June 30, 2017. Our effective tax rate, excluding the effect of the bargain purchase gain in 2018, increased to 31.9% for the three months ended June 30, 2018 from 30.6% for the three months ended June 30, 2017, and decreased to 20.1% for the six months ended June 30, 2018 from 27.3% for the six months ended June 30, 2017. Earnings (loss) per share, assuming dilution, were $(0.16) and $(0.38) for the three and six months ended June 30, 2018, compared to $0.26 and $0.39 for the three and six months ended June 30, 2017.

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, foreign currency exchange rate movements, increased competition, customer order patterns, changes in product and services 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. Factors that could materially affect our business, financial condition or operating results are included in Item 1A of Part I in our most recent Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 23, 2018 with the SEC.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our critical accounting policies and estimates have not changed significantly from those detailed in our most recent Annual Report on Form 10-K for the year ended December 31, 2017, filed on February 23, 2018 with the SEC.

EFFECT OF RECENT ACCOUNTING PRONOUNCEMENTS

See Note 1 of Notes to Consolidated Financial Statements in Item 1 of this Form 10-Q for a full description of recent accounting pronouncements, including the expected dates of adoption and estimated effects on results of operations and financial condition, which is incorporated herein by reference.

RESULTS OF OPERATIONS – THREE AND SIX MONTHS ENDED JUNE 30, 2018 COMPARED TO THREE AND SIX MONTHS ENDED JUNE 30, 2017

SALES

Our sales decreased 30.7% from $184.7 million in the three months ended June 30, 2017 to $128.0 million in the three months ended June 30, 2018, and decreased 29.9% from $355.0 million in the six months ended June 30, 2017 to $248.9 million in the six months ended June 30, 2018. The decrease in sales for the three and six months ended June 30, 2018 is primarily attributable to a merger-related review and slowdown in spending at a domestic Tier 1 customer that particularly affected our Access & Aggregation products, which decreased $53.9 million and $92.4 million over the same three and six month periods last year. The decline in sales to the previously mentioned domestic Tier 1 customer was partially offset by an increase in sales to an international Tier 1 customer. Compared to the same three and six month periods last year, our Customer Devices products increased $0.7 million and decreased $5.4 million, respectively, and our Traditional & Other Products decreased $3.5 million and $8.3 million, respectively.

Network Solutions sales decreased 26.0% from $155.5 million in the three months ended June 30, 2017 to $115.1 million in the three months ended June 30, 2018, and decreased 26.4% from $299.1 million in the six months ended June 30, 2017 to $220.3 million in the six months ended June 30, 2018. The decrease in sales of our Access & Aggregation products for the three and six months ended June 30, 2018 is primarily attributable to a merger-related review and slowdown in spending at a domestic Tier 1 customer, partially offset by an increase in sales to an international Tier 1 customer as discussed further below. The changes for the three and six months ended June 30, 2018 in sales of our Customer Devices products are primarily attributable to the changes in sales of fiber CPE products. While we expect that revenues from Traditional & Other Products will continue to decline over time, these revenues may fluctuate and continue for years because of the time required for our customers to transition to newer technologies.

Services & Support sales decreased 55.4% from $29.1 million in the three months ended June 30, 2017 to $13.0 million in the three months ended June 30, 2018, and decreased 48.9% from $55.8 million in the six months ended June 30, 2017 to $28.5 million in the six months ended June 30, 2018. The decrease in sales for the three and six months ended June 30, 2018 is primarily attributable to a decrease in network installation services for Access & Aggregation products related to the above mentioned merger-related review and slowdown in spending at a domestic Tier 1 customer.

International sales, which are included in the Network Solutions and Services & Support amounts discussed above, increased 57.6% from $38.0 million in the three months ended June 30, 2017 to $59.8 million in the three months ended June 30, 2018, and increased 33.2% from $89.0 million in the six months ended June 30, 2017 to $118.5 million in the six months ended June 30, 2018. International sales, as a percentage of total sales, increased from 20.6% for the three months ended June 30, 2017 to 46.7% for the three months ended June 30, 2018, and increased from 25.1% for the six months ended June 30, 2017 to 47.6% in the six months ended June 30, 2018. The increase in sales for the three months ended June 30, 2018 is primarily attributable to an increase in sales in EMEA, partially offset by a decrease in sales in Americas International. The increase in sales for the six months ended June 30, 2018 is primarily attributable to an increase in sales in EMEA, partially offset by a decrease in sales in APAC and Americas International. The increase in sales in EMEA for the three and six months ended June 30, 2018 is primarily attributable to a network expansion program and a Services award by a large European Tier-1 customer.

Our international revenues are largely focused on broadband infrastructure and are impacted by the decisions of our customers as to timing for installation of new technologies, expansion of their networks and/or network upgrades. Our international customers must make these decisions in the regulatory and political environment in which they operate – both nationally and in some instances, regionally – whether of a multi-country region or a more local region within a country. For example, the European Commission launched a Gigabit Society initiative, and before that, the Digital Agenda, which has provided a favorable market environment for the deployment of ultra-broadband and Gigabit network solutions. Although the overall environment and market demand for broadband service deployment in the European Union have improved, some new broadband technologies are still being reviewed for regulatory and standards compliance, which may affect the timing of those technologies. In Mexico, regulatory changes have created uncertainty for customers resulting in slowdowns in their network buying patterns. The competitive landscape in certain international markets is also impacted by the increased presence of Asian manufacturers that seek to compete aggressively on price. A strengthening U.S. dollar can also negatively impact our revenues in regions such as Latin America, where our products are traditionally priced in U.S. dollars, while in regions where our products are sold in local currency, such as Europe, a stronger U.S. dollar can negatively impact operating income. Consequently, while we expect the global trend towards deployment of more robust broadband speeds and access to continue creating additional market opportunities for us, the factors described above may result in pressure on revenues and operating income. However, we do not presently foresee a significant negative impact to our financial condition based on our strong liquidity and the generally positive environment described above.

We recognized a positive revenue impact in the first half of 2017 due to our being awarded a network expansion program by a large European Tier-1 customer. During the first and second quarters of 2018, this European Tier 1 customer undertook an additional network expansion project. We anticipate that as our Latin American customers resume their network upgrade projects, we may experience further enhancement to our revenues. We have recently announced receipt of a new nation-wide award in the APAC region, as well as additional awards based on new ADTRAN technologies in the EMEA region that we believe will likely result in a positive impact to our revenues. However, a resolution of the regulatory changes affecting a major customer in Mexico has been slower than anticipated, and business with one of our customers in that region has not yet returned to normal levels. We are continuing to pursue opportunities with new customers in this region.

COST OF SALES

As a percentage of sales, cost of sales increased from 54.2% in the three months ended June 30, 2017 to 61.0% in the three months ended June 30, 2018, and increased from 55.4% in the six months ended June 30, 2017 to 63.9% in the six months ended June 30, 2018. The increase in cost of sales as a percentage of sales for the three months ended June 30, 2018 is primarily attributable to a regional revenue shift, customer and product mix, services and support mix and an increase in warranty expense. The increase in cost of sales as a percentage of sales for the six months ended June 30, 2018 is primarily attributable to a regional revenue shift, customer and product mix, services and support mix, an increase in labor expense due to a restructuring program and an increase in warranty expense.

Network Solutions cost of sales, as a percent of that segment's sales, increased from 51.2% in the three months ended June 30, 2017 to 60.5% in the three months ended June 30, 2018, and increased from 52.3% in the six months ended June 30, 2017 to 62.7% in the six months ended June 30, 2018. The increase in cost of sales as a percentage of sales for the three months ended June 30, 2018 is primarily attributable to a regional revenue shift, customer and product mix and an increase in warranty expense. The increase in cost of sales as a percentage of sales for the six months ended June 30, 2018 is primarily attributable to a regional revenue shift, customer and product mix, an increase in labor expense due to a restructuring program, an increase in warranty expense due to a settlement in first quarter of 2017 with a third party supplier for a defective component and purchase discounts received from a contract manufacturer in the first quarter of 2017.

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.

Services & Support cost of sales, as a percent of that segment's sales, decreased from 70.0% in the three months ended June 30, 2017 to 64.9% in the three months ended June 30, 2018, and increased from 72.2% in the six months ended June 30, 2017 to 73.2% in the six months ended June 30, 2018. The decrease in cost of sales as a percentage of sales for the three months ended June 30, 2018 is primarily attributable to services and support mix. The increase in cost of sales as a percentage of sales for the six months ended June 30, 2018 is primarily attributable to services and support mix and an increase in labor expense due to a restructuring program.

Our Services business has experienced significant growth since 2015 as competitive pressures to expand broadband access and speeds have strained carriers' ability to respond to customer demand. Our Services & Support revenues are comprised of network planning and implementation, maintenance, support and cloud-based management services, with network planning and implementation being the largest and fastest growing component. Compared to our other services, such as maintenance, support and cloud-based management services, our network planning and implementation services typically utilize a higher percentage of internal and subcontracted engineers, professionals and contractors to perform the work for customers. The additional costs incurred to perform these infrastructure and labor-intensive services inherently result in lower average gross margins as compared to maintenance and support services.

As our network planning and implementation revenues grew and are now the largest component of our Services & Support business, our Services & Support segment gross margins decreased versus those reported when maintenance and support comprised the majority of the business. Further, because the growth in our network planning and implementation services has resulted in our Services & Support revenues comprising a larger percentage of our overall revenues, and because our Services & Support gross margins are below those of the Network Solutions segment, our overall corporate gross margins have declined as that business has continued to grow. Within the Services & Support segment, we do expect variability in gross margins from quarter-to-quarter based on the mix of the services recognized.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses decreased 7.6% from $34.7 million in the three months ended June 30, 2017 to $32.1 million in the three months ended June 30, 2018, and decreased 5.6% from $69.5 million in the six months ended June 30, 2017 to $65.6 million in the six months ended June 30, 2018. The decrease in selling, general and administrative expenses for the three months ended June 30, 2018 is primarily attributable to decreases in performance-based compensation expense, travel expense, deferred compensation expense, and independent contractor expense, partially offset by an increase in labor expense due to a restructuring program. The decrease in selling, general and administrative expenses for the six months ended June 30, 2018 is primarily attributable to a decrease in deferred compensation expense, performance-based compensation expense, travel expense, and independent contractor expense, partially offset by an increase in labor expense due to a restructuring program.

As a percentage of sales, selling, general and administrative expenses increased from 18.8% in the three months ended June 30, 2017 to 25.1% in the three months ended June 30, 2018, and increased from 19.6% in the six months ended June 30, 2017 to 26.4% in the six months ended June 30, 2018. Selling, general and administrative expenses as a percentage of sales may fluctuate whenever there is a significant fluctuation in revenues for the periods being compared.

RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses decreased 8.4% from $33.6 million in the three months ended June 30, 2017 to $30.7 million in the three months ended June 30, 2018, and decreased 3.0% from $65.5 million in the six months ended June 30, 2017 to $63.6 million in the six months ended June 30, 2018. The decrease in research and development expenses for the three months ended June 30, 2018 is primarily attributable to decreases in engineering materials, independent contractor expense, amortization of intangibles acquired in the third quarter of 2016 that were fully amortized in 2017, and performance-based compensation expense. The decrease in research and development expenses for the six months ended June 30, 2018 is primarily attributable to decreases in engineering materials and amortization of intangibles acquired in the third quarter of 2016 that were fully amortized in 2017, partially offset by an increase in labor expense due to a restructuring program.

As a percentage of sales, research and development expenses increased from 18.2% in the three months ended June 30, 2017 to 24.0% in the three months ended June 30, 2018, and increased from 18.5% in the six months ended June 30, 2017 to 25.5% in the six months ended June 30, 2018. Research and development expenses as a percentage of sales will fluctuate whenever there are incremental product development activities or significant fluctuations 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.

INTEREST AND DIVIDEND INCOME

Interest and dividend income decreased 6.1% from $1.0 million in the three months ended June 30, 2017 to $0.9 million in the three months ended June 30, 2018, and decreased 6.6% from $1.9 million in the six months ended June 30, 2017 to $1.8 million in the six months ended June 30, 2018. The decrease in interest and dividend income for the three and six months ended June 30, 2018 is primarily attributable to a decrease in investment balances and a decrease in the rate of return on those investments.

INTEREST EXPENSE

Interest expense, which is primarily related to our taxable revenue bond, remained constant at $0.1 million in the three months ended June 30, 2017 and 2018, and $0.3 million in the six months ended June 30, 2017 and 2018, as we had no substantial change in our fixed-rate borrowing. See “Liquidity and Capital Resources” below for additional information on our revenue bond.

NET REALIZED INVESTMENT GAIN

Net realized investment gains decreased 28.8% from $1.4 million in the three months ended June 30, 2017 to $1.0 million in the three months ended June 30, 2018, and decreased 52.0% from $1.9 million in the six months ended June 30, 2017 to $0.9 million in the six months ended June 30, 2018. The decrease in net realized investment gains for the three and six months ended June 30, 2018 is primarily attributable to changes in fair value on equity securities recognized during the period under ASC 2016-01. Prior to January 1, 2018, changes in fair value were recognized in accumulated other comprehensive income, net of deferred taxes, on the balance sheet. See Note 1, Note 7 and “Investing Activities” in “Liquidity and Capital Resources” below for additional information.

OTHER EXPENSE, NET

Other expense, net, comprised primarily of miscellaneous income, gains and losses on foreign currency transactions, gains and losses on foreign exchange forward contracts, investment account management fees, and scrap raw material sales, decreased 69.8% from $0.7 million of expense in the three months ended June 30, 2017 to $0.2 million of expense in the three months ended June 30, 2018, and decreased 53.2% from $0.6 million of expense in the six months ended June 30, 2017 to $0.3 million of expense in the six months ended June 30, 2018. The change in other expense, net for the three and six months ended June 30, 2018 is primarily attributable to higher losses on foreign exchange contracts in 2017.

GAIN ON BARGAIN PURCHASE OF A BUSINESS

Gain on bargain purchase of a business is related to our acquisition of Sumitomo Electric Lightwave Corp.’s North American EPON business and entry into a technology license and supply agreement with Sumitomo Electric Industries, Ltd. on March 19, 2018. See Note 2 of Notes to Consolidated Financial Statements for additional information.

INCOME TAXES

Our effective tax rate decreased from an expense of 27.3% in the six months ended June 30, 2017 to a benefit of 20.1%, excluding the tax effect of the bargain purchase gain, in the six months ended June 30, 2018. The decrease in the effective tax rate between the two periods is primarily attributable to the change in income and the effect of the U.S. Tax Cuts and Jobs Act, which was signed into law on December 22, 2017.

NET INCOME (LOSS)

As a result of the above factors, net income (loss) decreased $20.1 million from $12.4 million in the three months ended June 30, 2017 to $(7.7) million in the three months ended June 30, 2018, and decreased $37.5 million from $19.1 million in the six months ended June 30, 2017 to $(18.5) million in the six months ended June 30, 2018.

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, shareholder dividends, 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 for at least the next 12 months.

At June 30, 2018, cash on hand was $100.3 million and short-term investments were $6.1 million, which resulted in available short-term liquidity of $106.4 million, of which $83.0 million was held by our foreign subsidiaries. At December 31, 2017, cash on hand was $86.4 million and short-term investments were $16.1 million, which resulted in available short-term liquidity of $102.6 million, of which $56.8 million was held by our foreign subsidiaries. We intend to permanently reinvest the funds held by our foreign subsidiaries outside the U.S. and our current business plans do not indicate a need to repatriate these funds to finance domestic operations. The increase in short-term liquidity from December 31, 2017 to June 30, 2018 is primarily attributable to shifts among available investment option tenures to provide funds for our short-term cash needs.

Operating Activities

Our working capital, which consists of current assets less current liabilities, decreased 26.7% from $306.3 million as of December 31, 2017 to $224.6 million as of June 30, 2018, and our current ratio, defined as current assets divided by current liabilities, decreased from 3.87 as of December 31, 2017 to 2.93 as of June 30, 2018. The decreases in our working capital and current ratio are primarily attributable to decreases in accounts receivable and prepaid expenses and other current assets, and an increase in income tax payable. The quick ratio, defined as cash, cash equivalents, short-term investments, and net accounts receivable, divided by current liabilities, decreased from 2.31 as of December 31, 2017 to 1.57 as of June 30, 2018. The decrease in the quick ratio is primarily attributable to a decrease in accounts receivable and an increase in income tax payable.

Accounts receivable decreased 47.2% from $144.2 million at December 31, 2017 to $76.1 million at June 30, 2018. We had no allowance for doubtful accounts at December 31, 2017 or June 30, 2018. Quarterly accounts receivable days sales outstanding (DSO) decreased from 105 days as of December 31, 2017 to 54 days as of June 30, 2018. The decrease in net accounts receivable is due to the collection of customer-specific payment terms that became due in the first quarter of 2018 and the timing of sales and collections during the quarter. Additionally, certain international customers may have longer payment terms than U.S. customers.

Quarterly inventory turnover decreased from 3.09 turns as of December 31, 2017 to 2.60 turns at June 30, 2018. Inventory decreased 1.6% from $122.5 million at December 31, 2017 to $120.5 million at June 30, 2018. We expect inventory levels to fluctuate as we attempt to maintain sufficient inventory in response to services activity and 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.

Prepaid expense and other current assets decreased 45.2% from $17.3 million at December 31, 2017 to $9.5 million at June 30, 2018. The decrease in prepaid expenses and other current assets is primarily attributable to the recognition of deferred costs related to network installation services that were completed during the first quarter.

Income tax payable increased 203.6% from $3.9 million at December 31, 2017 to $11.9 million at June 30, 2018. The increase in income tax payable is primarily attributable to income taxes accrued for foreign jurisdictions.

Investing Activities

Capital expenditures totaled approximately $4.2 million and $7.5 million for the six months ended June 30, 2018 and 2017, respectively. These expenditures were primarily used to purchase computer hardware, software, manufacturing and test equipment, and building improvements.

Our combined short-term and long-term investments increased $4.1 million from $146.4 million at December 31, 2017 to $150.5 million at June 30, 2018. This increase reflects funds available for investment provided by our operating activities, as well as net realized and unrealized gains and losses and amortization of net premiums on our combined investments, partially offset by our cash needs for capital expenditures, purchases of treasury stock, and shareholder dividends.

We invest all available cash not required for immediate use in operations primarily in securities that we believe bear minimal risk of loss. At June 30, 2018 these investments included corporate bonds of $35.7 million, municipal fixed-rate bonds of $2.2 million, asset-backed bonds of $10.3 million, mortgage/agency-backed bonds of $7.2 million, U.S. government bonds of $8.8 million, and foreign government bonds of $1.4 million. At December 31, 2017, these investments included corporate bonds of $32.5 million, municipal fixed-rate bonds of $2.9 million, asset-backed bonds of $6.5 million, mortgage/agency-backed bonds of $5.5 million, U.S. government bonds of $14.3 million, and foreign government bonds of $0.7 million. As of June 30, 2018, our corporate bonds, municipal fixed-rate bonds, asset-backed bonds, mortgage/agency-backed bonds, U.S. government bonds, and foreign government bonds were classified as available-for-sale and had a combined duration of 1.3 years with an average Standard & Poor's credit rating of AA-. Because our bond portfolio has a high-quality rating and contractual maturities of 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.

Our long-term investments increased 10.9% from $130.3 million at December 31, 2017 to $144.4 million at June 30, 2018. Long-term investments at June 30, 2018 and December 31, 2017 included an investment in a certificate of deposit of $26.7 million and $27.8 million, respectively, which serves as collateral for our revenue bond. See “Debt” below for additional information. We have various equity investments included in long-term investments with a fair value of $37.6 million and $35.7 million, at June 30, 2018 and December 31, 2017, respectively.

Long-term investments at June 30, 2018 and December 31, 2017 also included $20.4 million and $19.9 million, respectively, related to our deferred compensation plans, and $0.5 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.

Financing Activities

Dividends

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. During the six months ended June 30, 2018, we paid dividends totaling $8.7 million.

Debt

We have amounts outstanding under loans made pursuant to an Alabama State Industrial Development Authority revenue bond (the Bond) which totaled $26.7 million at June 30, 2018 and December 31, 2017. At June 30, 2018, the estimated fair value of the Bond was approximately $26.5 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor’s credit rating of AAA. Included in long-term investments are restricted funds in the amount of $26.7 million and $27.8 million at June 30, 2018 and December 31, 2017, respectively, which is a collateral deposit against the principal amount of the 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. The Bond matures on January 1, 2020, and bears interest at the rate of 2% per annum. In conjunction with this program, we are eligible to receive certain economic incentives from the state of Alabama that reduce the amount of payroll withholdings we are required to remit to the state for those employment positions that qualify under this program. We are required to make payments in the amounts necessary to pay the interest on the amounts currently outstanding. It is our intent to make annual principal payments in addition to the interest amounts that are due. In connection with this decision, $1.1 million of the Bond has been classified as a current liability in accounts payable in the Consolidated Balance Sheet at June 30, 2018.

Stock Repurchase Program

Since 1997, our Board of Directors has approved multiple share repurchase programs that have authorized open market repurchase transactions of up to 50.0 million shares of our common stock that are implemented through open market or private purchases from time to time as conditions warrant. During the six months ended June 30, 2018, we repurchased 0.8 million shares of our common stock at an average price of $15.72 per share. As of June 30, 2018, we have the authority to purchase an additional 2.7 million shares of our common stock under the current plans approved by the Board of Directors.

Stock Option Exercises

We issued 24 thousand shares of treasury stock during the six months ended June 30, 2018 to accommodate employee stock option exercises. The stock options had exercise prices ranging from $15.29 to $18.97. We received proceeds totaling $0.4 million from the exercise of these stock options during the six months ended June 30, 2018.

Off-Balance Sheet Arrangements and Contractual Obligations

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. During the six months ended June 30, 2018, there have been no material changes in contractual obligations and commercial commitments from those discussed in our most recent Annual Report on Form 10-K for the year ended December 31, 2017 filed on February 23, 2018 with the SEC.

We have committed to invest up to an aggregate of $7.9 million in two private equity funds, and we have contributed $8.4 million as of June 30, 2018, of which $7.7 million has been applied to these commitments.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in interest rates, foreign currency 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 bonds, municipal fixed-rate bonds, asset-backed bonds, mortgage/agency-backed bonds, U.S. and foreign government bonds and municipal money market instruments denominated in U.S. dollars. Our investment policy provides limitations for issuer concentration, which limits, at the time of purchase, the concentration in any one issuer to 5% of the market value of our total investment portfolio.

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 June 30, 2018, $98.3 million of our cash and cash equivalents, primarily certain domestic money market funds, commercial paper and foreign depository accounts, were in excess of government provided insured depository limits.

As of June 30, 2018, approximately $67.7 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 June 30, 2018, we held $23.0 million of cash and variable-rate investments where a change in interest rates would impact our interest income. A hypothetical 50 bps decline in interest rates as of June 30, 2018 would reduce annualized interest income on our cash and investments by approximately $0.1 million. In addition, we held $44.7 million of fixed-rate bonds whose fair values may be directly affected by a change in interest rates. A hypothetical 50 bps increase in interest rates as of June 30, 2018 would reduce the fair value of our fixed-rate bonds by approximately $0.3 million.

As of June 30, 2017, approximately $148.2 million of our cash and investments was subject to being directly affected by changes in interest rates. We have performed a hypothetical sensitivity analysis assuming market interest rates increase or decrease by 50 bps for the entire year, while all other variables remain constant. A hypothetical 50 bps decline in interest rates as of June 30, 2017 would have reduced annualized interest income on our cash, money market instruments and variable rate demand notes by approximately $0.3 million. In addition, a hypothetical 50 bps increase in interest rates as of June 30, 2017 would have reduced the fair value of our fixed-rate bonds by approximately $0.4 million.

We are exposed to changes in foreign currency exchange rates to the extent that such changes affect our revenue and gross margin on revenue derived from some international customers, expenses, and assets and liabilities held in non-functional currencies related to our foreign subsidiaries. Our primary exposures to foreign currency exchange rates are with our German subsidiary, whose functional currency is the Euro, our Australian subsidiary, whose functional currency is the Australian dollar, and our Mexican subsidiary, whose functional currency is the United States dollar. We are exposed to changes in foreign currency exchange rates to the extent of our German subsidiary's use of contract manufacturers and raw material suppliers whom we predominately pay in U.S. dollars. We may establish cash flow hedges utilizing foreign exchange forward contracts to reduce the risk that movements in exchange rates will adversely affect the net cash flows resulting from the planned purchase of products from foreign suppliers. As a result, changes in currency exchange rates could cause variations in gross margin in the products that we sell in the EMEA region.

We have certain customers and suppliers who are invoiced or pay in a non-functional currency. Changes in the monetary exchange rates may adversely affect our results of operations and financial condition, as outstanding non-functional balances are revalued to the functional currency through profit and loss. When appropriate, we utilize foreign exchange forward contracts to help manage the volatility relating to these valuation exposures. All changes in the fair value of our derivative instruments that do not qualify for or are not designated for hedged accounting transactions are recognized as other expense, net in the Consolidated Statements of Income. We do not hold or issue derivative instruments for trading or other speculative purposes. All non-functional currencies billed would result in a combined hypothetical gain or loss of $0.1 million if the U.S. dollar weakened or strengthened 10% against the billing currencies. Any gain or loss would be partially mitigated by these derivative instruments.

As of June 30, 2018, we had no material contracts, other than accounts receivable and accounts payable, denominated in foreign currencies. As of June 30, 2018, we did not have any forward contracts outstanding.

For further information about the fair value of our investments and our derivative and hedging activities as of June 30, 2018, see Notes 7 and 8 of Notes to Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

(a) 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 ADTRAN. 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 quarterly report, have concluded that our disclosure controls and procedures are effective.

(b) 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.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

A list of factors that could materially affect our business, financial condition or operating results is described in Part I, Item 1A, “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017. There have been no material changes to our risk factors since our Annual Report on Form 10-K for the year ended December 31, 2017, other than the following risk factor:

Increased tariffs caused by changes in trade policies of the United States or other countries in which we do business, which could trigger retaliatory actions by affected countries resulting in “trade wars”, may increase costs for material imported into the United States and other countries. This in turn may increase our cost of goods and result in reduced profit margins or customer demand for some of our products or in trading partners limiting their trade with the United States.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2018 – April 30, 2018	—	$ —	—	2,930,655
May 1, 2018 – May 31, 2018	92,000	$ 14.09	92,000	2,838,655
June 1, 2018 – June 30, 2018	92,000	$ 14.21	92,000	2,746,655
Total	184,000		184,000	

On July 14, 2015, our Board of Directors authorized the repurchase of an additional 5.0 million shares of our common stock (bringing the total shares authorized for repurchase to 50.0 million). This authorization will be implemented through open market or private purchases from time to time as conditions warrant.

ITEM 6. EXHIBITS

Exhibits.

Exhibit No.	Description
31	Rule 13a-14(a)/15d-14(a) Certifications
32	Section 1350 Certifications
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
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURE

Pursuant to the requirements 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.

ADTRAN, Inc.

(Registrant)

Date: August 3, 2018 /s/ Roger D. Shannon
Roger D. Shannon
Senior Vice President of Finance,
Chief Financial Officer,
Corporate Treasurer and Secretary
(Principal Financial Officer)

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