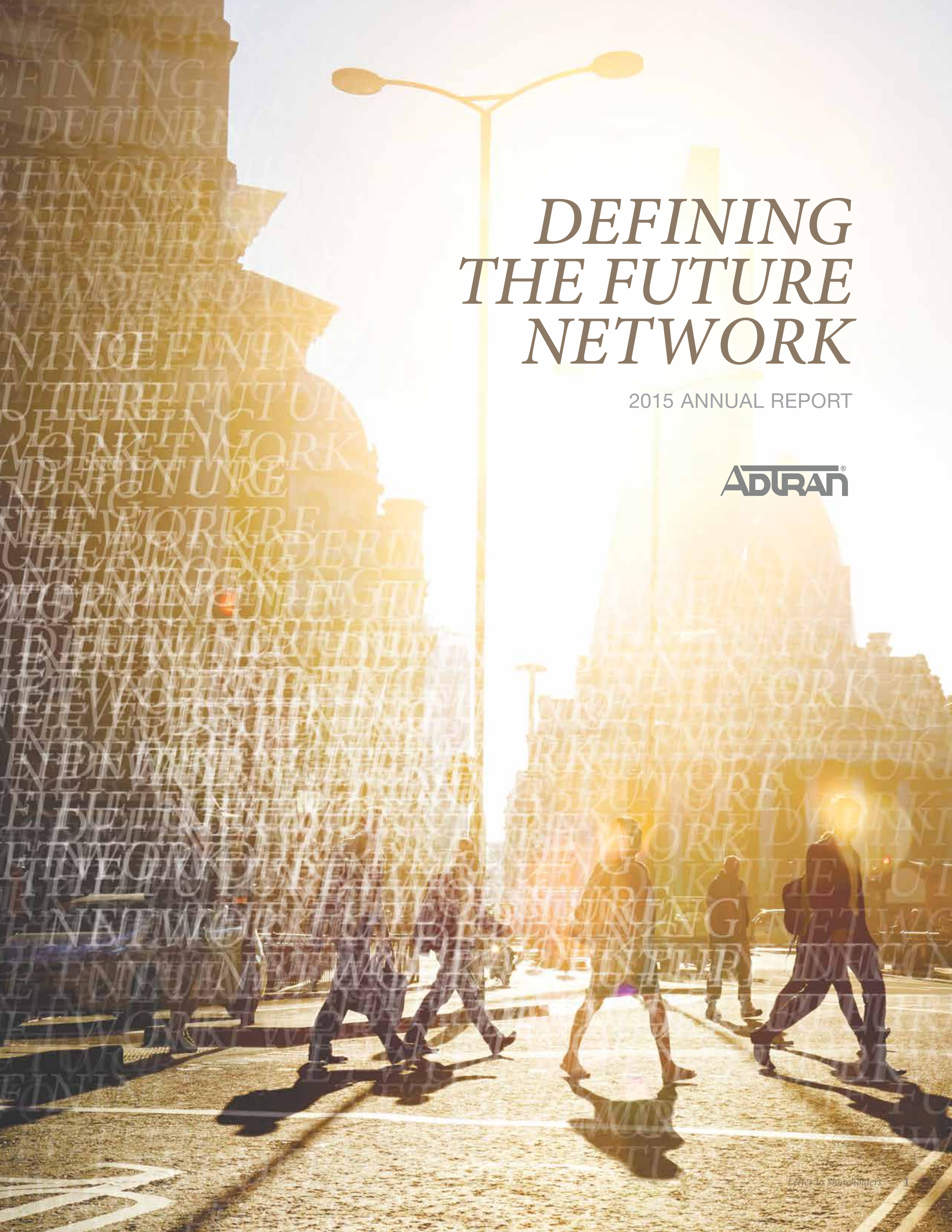


DEFINING THE FUTURE NETWORK

2015 ANNUAL REPORT

DEFINING THE FUTURE NETWORK

2015 ANNUAL REPORT

ADTRAN is an ISO 9001, ISO 14001, and a TL 9000 certified supplier. ADTRAN, Inc. is an Equal Opportunity Employer committed to utilizing Minority Business Enterprises (MBE), Woman-Owned Business Enterprises (WBE) and Disabled Veteran Business Enterprises (DVBE) whenever possible and practical for procurements supporting ADTRAN and our customers.

An Export License is required if these ADTRAN products are sold to a Government Entity outside of the EU+8 (Austria, Australia, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Japan, Latvia, Lithuania, Luxembourg, Malta, Netherlands, New Zealand, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, and the United Kingdom). This is per DOC/BIS ruling G030477 issued June 6, 2003.

Our vision is to enable a fully connected world where the power to communicate is available to everyone, everywhere.

making the impossible

transforming every aspect of how we live, work and play

Broadband is advancing us into the future and today's expectations continue to grow at an accelerating pace. Consumers not only want to be connected everywhere with everything networked, but they also want to be fully empowered with real-time information and the ability to take immediate action. It is unprecedented, complicated and exhilarating, all at the same time. This is what drives us at ADTRAN. It drives our innovation and our quest to engineer highly automated and programmable Gigabit network solutions that are transforming every aspect of how we live, work and play.

At ADTRAN, we come to work every day with this goal in mind. It shapes how we plan, innovate, create and communicate. It shapes every conversation we have with customers, partners, and our channel. It is what inspires us to do more, create more and deliver more value to our ecosystem.

For 30 years, ADTRAN has been making the impossible possible—creating new ways for communication service providers to deliver these types of connections. As our industry continues to evolve, one thing remains constant: ADTRAN and its customers are at the forefront of keeping the world connected.

A LOOK BACK

We entered 2015 knowing it would be a year filled with change for the industry and ADTRAN. We saw the opportunity to lead this change and leap ahead of the market to help develop and define the future network.

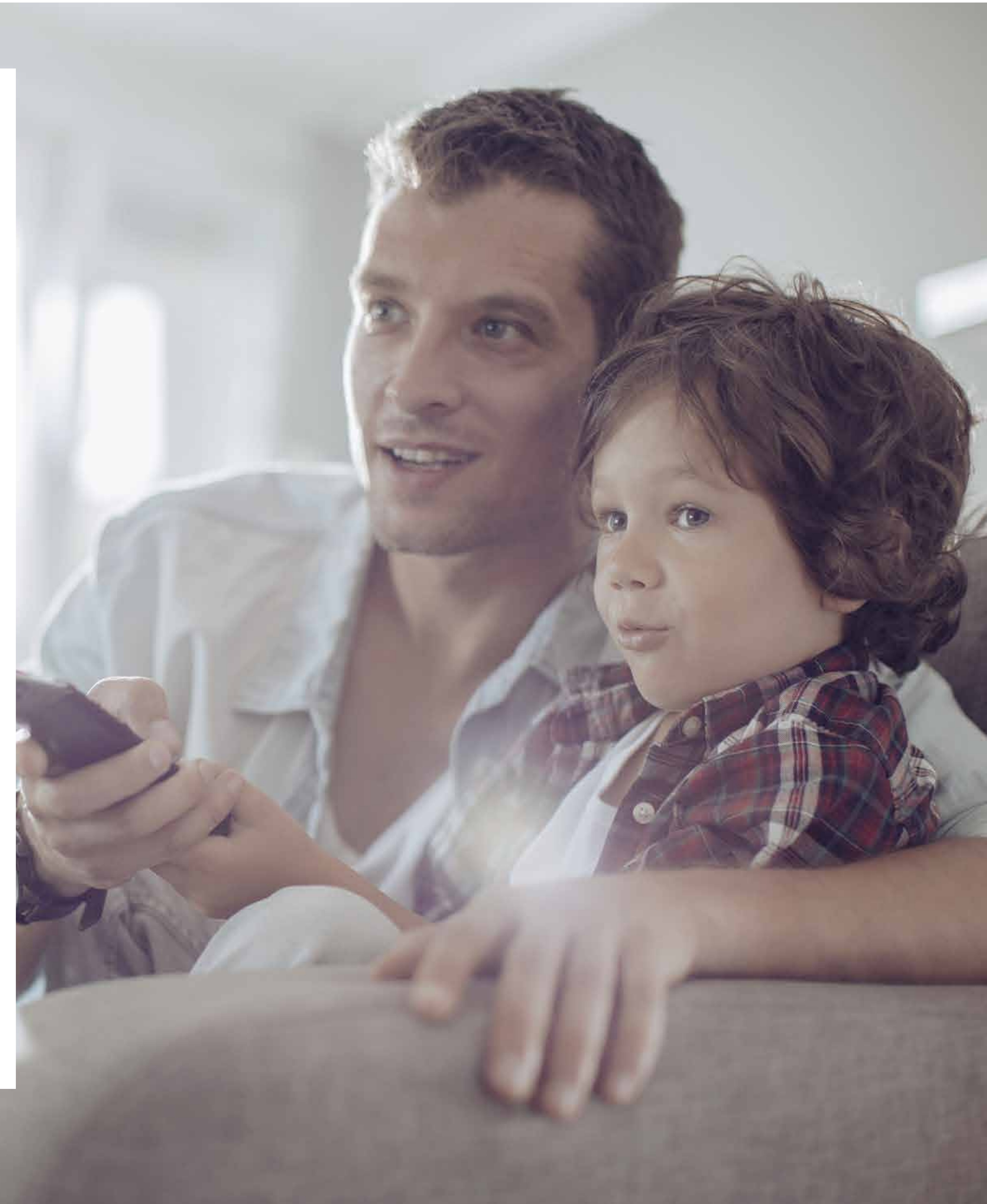
Boundless broadband capacity

Service providers have increasingly turned to ADTRAN because of our deep and unique domain expertise, rich history of innovation and ability to help our customers define networks that work for them on every level.

The industry is ripe for innovation and hungry for boundless broadband capacity as evidenced by the rapid adoption of ADTRAN's Gigabit services technology and widespread interest in our work on G.fast, Super-Vectoring and NG-PON2 solutions. It is evolving toward a more flexible, software-defined service delivery framework that is not limited by rigid technology silos in the access network. Service providers want partners that help them bridge these ideas together and have increasingly turned to ADTRAN because of our deep and unique domain expertise, rich history of innovation and ability to help our customers define networks that work for them on every level.

Around the world, regulatory action played a large role in how the market developed in 2015 and set the course for the near future. In the United States, the Connect America Fund Phase II (CAF-II) has been established to help speed broadband penetration to unserved or underserved communities. Through this program, the federal government has committed $9 billion over a six-year period to help service providers offset the cost of building out broadband infrastructure. Ten carriers accepted a combined total of $1.5 billion annually for the next six years. As the primary broadband access supplier to the large majority of the carriers that have accepted CAF-II funding, ADTRAN is an undeniable leader in broadband access solutions and professional services delivery for CAF projects. With a strong history in these key accounts, we believe the company is well-positioned to play a key role in many of the CAF-II build-outs.

CAF-II, however, is just the beginning of a significant infrastructure investment cycle that will spur even greater investment as other areas of the world position themselves to follow suit. In Europe, efforts are underway to increase broadband speeds to 500Mbps. Deutsche Telekom is investing €6 billion in an all-IP network across Europe. In Australia, the National Broadband Network (NBN) is investing heavily in Fiber-to-the-x (FTTx) technologies that will deliver increased broadband speeds. In Mexico, service providers like América Móvil are pledging to invest billions over the next three years to increase bandwidth and provide faster services to their customers.



ENABLING COMMUNITIES, CONNECTING LIVES

Another inflection point in the infrastructure investment cycle is Gigabit services delivery and the recent introduction of Software Defined Networking (SDN). Operators no longer neatly fit into distinct categories such as Telcos, MSOs and emerging new market entrants. Instead, they are service providers focused on delivering Gigabit speeds, more content and a better customer experience. ADTRAN is well-positioned to take advantage of this momentum with more than 200 Gigabit communities already enabled, as part of our Enabling Communities, Connecting Lives initiative. The rollout of Fiber-to-the-Home (FTTH) solutions to deliver ultra-broadband and Gigabit services is having unprecedented long-term effects on the communities embracing them. These communities are being revitalized, attracting new businesses and industries and enhancing the quality of life for their citizens with new educational, medical and cultural opportunities.

ADTRAN's G.fast solution is in trials with more than 60 service providers globally.

The road to Gigabit and beyond is not an easy one. Traditional service providers are fighting for mindshare with customers as over-the-top (OTT) content providers and wireless service providers erode traditional revenue streams, despite the continued growth in network traffic. In response, ADTRAN is creating new innovative ways to get more bandwidth from existing infrastructure and developing new deployment methods, techniques and technologies such as G.fast, Super-Vectoring and 10-Gigabit PON (10G PON) that will enable more people to benefit from Gigabit speeds faster and more economically than ever before.

G.fast has garnered the attention of service providers for its ability to deliver speeds up to 1Gbps over short distances. ADTRAN's solution is in trials with more than 60 service providers globally and was recently selected as the first SDN-enabled access solution for a large Tier 1 operator in the United States. Complementing this technology are Vectoring and Super-Vectoring. Simply stated, Vectoring is a noise cancelation technique that enables signals over twisted pairs to achieve near theoretical performance parameters, allowing for higher bandwidth and a superior user experience. Super-Vectoring performs in a similar manner but can achieve speeds of up to 600Mbps for shorter distances in applications such as Fiber-to-the-Cabinet (FTTCab) and Fiber-to-the-Distribution-Point (FTTdp). ADTRAN is pleased to be the supplier for the world's largest Vectoring deployment that is underway in Europe.

200+

PREPARING FOR THE FUTURE

Like the customers we serve, we too have to prepare for the future. To this end, we placed a strong focus in 2015 on aligning our organizational structure to leverage the shifts in the industry to capture additional market share and better serve our customers' strategic plans.

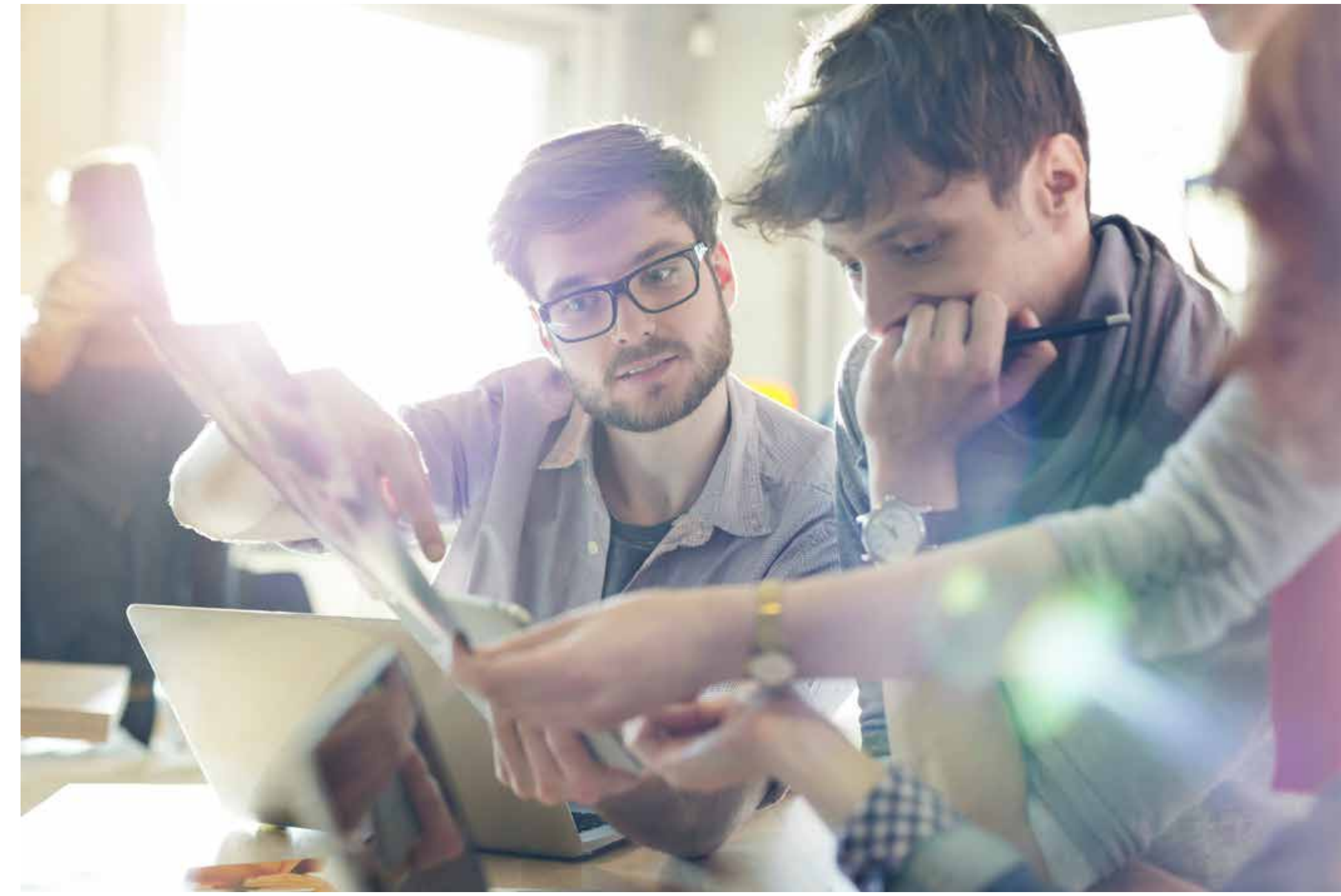
Over the past five years, we have been transitioning into a more software-centric company. This shift has made us more resilient and flexible, better able to meet the rapidly changing needs of our customers and has enabled us to develop the technologies that will be needed to move the network forward. We are now better aligned throughout the organization to meet our customers' needs globally. This improved structure has already had a meaningful impact on how we prioritize Research & Development (R&D) on a global basis and is enabling us to respond faster, more efficiently and more innovatively to the needs of our customers.

software-centric organization

ADTRAN is the only vendor in the market that offers end-to-end expertise from the operator to the desktop.

The ADTRAN Operating System (AOS), launched in the early 2000s, accelerated our need for software expertise. Since that time, we have been assembling software engineers and computer scientists that help us look at our products from a different perspective and chart a course for the network of the future. While traditionally our industry has been focused on hardware development, that model is quickly changing. Today, over 80 percent of our engineering staff is working on software-based projects and embedded designs. We continue to sell hardware-based solutions, but the added value of an ADTRAN product is no longer just a unique hardware design, but innovative virtualized functionality delivered in software. As the industry continues its adoption of SDN and Network Function Virtualization (NFV), we are well-positioned to continue our leadership as a trusted provider of networking solutions.

Seeing the industry move from conversations about SDN and NFV to network implementations, we seized the opportunity to realign our business to capture added market share and better meet the needs of our customers. This shift is creating new opportunities that enable us to leverage our unique domain expertise—understanding what the enterprise needs to grow and what the service provider can and will deliver in terms of capacity and service. Enterprise networks have been and continue to be an important part of our business. As network evolution continues, our alignment in this area will not only maximize the utilization of our resources and provide our customers with the best user experience possible but break down the barriers of traditional enterprise vendors. ADTRAN is the only vendor in the market that offers end-to-end expertise from the operator to the desktop. This alignment will enable us to strengthen our position, bringing even greater value to ADTRAN solutions.



Operators must roll out services quickly and efficiently to keep pace with customer demand and competitive pressures. Our shift to a software-centric organization combined with decades of experience in helping our customers maximize the benefits of advances in access and enterprise technologies positions ADTRAN as the best partner to help them through the transitions ahead. As a result, this has created an excellent growth opportunity for the company through services we provide to our customers.

We established a new services organization in 2015 to meet the growing need for both professional and managed services in our customer base. This organization provides a holistic approach to services for both service providers and end users alike and serves as a strategic partner helping customers with everything from network design and planning to installation and maintenance to development of recurring revenue streams through managed services. Our domain expertise has been an invaluable asset, enabling this segment of business to increase 58 percent year-over-year in the U.S. and Canada, making it the fastest growing area for the company and a 12 percent contributor to company revenue. We anticipate that services will continue to be a revenue driver well into the future with each customer purchase providing the opportunity for services attachment.

INNOVATION THAT MATTERS

We saw a tremendous number of groundbreaking innovations emerge from ADTRAN Labs in 2015. ADTRAN Labs leverages the company's decades of domain experience helping service providers architect access networks, and enterprise customers leverage enhanced broadband connectivity. This expertise makes us uniquely qualified to help solve some of the biggest challenges facing our customers. ADTRAN's team of scientists and engineers shattered conventional limits in connectivity with major industry breakthroughs in 10G PON technologies and global leadership in G.fast solutions.

ADTRAN quickly emerged as a leader in virtual access with truly disruptive open and software-defined network architectures

While service providers are moving forward quickly with the deployment of 1Gbps services, the unabated quest for even greater bandwidth sparked the development of our next-generation 10G PON solutions. This optical technology offers the reliability and flexibility needed for premium business and backhaul services while also delivering the price point and scale needed for mass-market residential applications.

10G PON is being complemented by the entry of XGS-PON, an innovation that ADTRAN pioneered in the international standards committees and industry forums. These 10Gbps technologies deliver greater bandwidth for residential services with additional symmetrical capacity for new services for business applications. In fact, our research in this area resulted in a breakthrough in Class-G optics that will further reduce costs, making it ideal for network operators who have found traditional GPON upgrade paths too costly and/or insufficient to meet the needs of business customers. XGS-PON will enable operators to reuse select NG-PON2 components and optics designed for 10G EPON, reducing both their cost and development time.

Another development was in the area of Time and Wavelength Division Multiplexed Passive Optical Network (TWDM-PON). This NG-PON2 technology opens up new avenues for service providers to increase revenue, reduce cost and lower risk. ADTRAN successfully developed low-cost, fast-switching, time-tunable TWDM transceivers that will enable service providers to have a single architecture for the deployment of both residential and business services.

In 2015, ADTRAN quickly emerged as a leader in virtual access with truly disruptive open and software-defined network architectures, enabling our customers to do more with less by providing the unification of our leading access technologies into our Open Services Architecture (OSA). This was complemented by the development of our first Virtual Network Functions (VNFs) based on our widely adopted AOS. These innovations are being tested in labs and field trials by some of the largest and most innovative service providers and network operators around the world, enabling ADTRAN to define the future network.

A LOOK AHEAD

Building on our momentum in 2015, we anticipate a future with exciting opportunities. The inflection points and new broadband investment cycle discussed in this letter will create new opportunities for strong revenue growth into the future. We will continue to focus on global expansion, profitable growth and customer diversification.

The definition of acceptable speeds for broadband is constantly changing in this highly competitive marketplace. As a result, we anticipate growing demand for our G.fast, NG-PON2 and other next-generation technologies as current lab trials move to deployments. We believe that our software-centric approach to service creation and delivery will enable our customers to more efficiently expand into new business models and realize faster returns from emerging opportunities.

As our customers become more agile, they are looking to ADTRAN as a strategic partner to help them quickly scale and respond to these new market opportunities. As a result, we will see further growth in our professional services business.

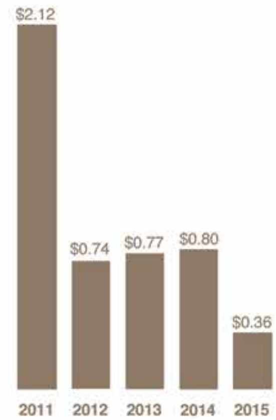
We will continue to work with our customers and partners as advocates for the changes needed to support their businesses and their ability to grow. We will invest in the technologies, products and service infrastructure to enable them to achieve their business goals and market objectives. The future is bright, and we are well-positioned to take advantage of the opportunities before us.

the future is bright

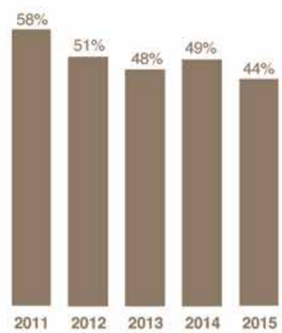
On a final note, I want to extend my sincere thanks to our employees around the world. This has been a year marked by exceptional levels of change and transition and our employees have responded in a positive manner. These men and women have answered the call. I have said it many times before, and it has never been truer—our employees are our greatest asset. Thank you for a job well done!

Tom Stanton, Chairman & CEO
ADTRAN, Inc.

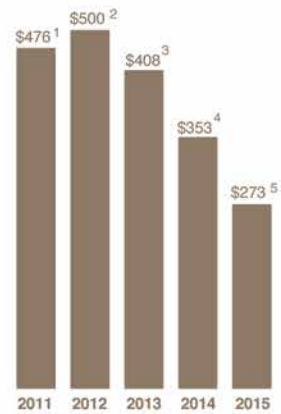
Annual Revenue
(In millions)



Annual Earnings Per Share
(Diluted)



Gross Margin



Unrestricted Cash and Marketable Securities
(In millions)

Consolidated Statements of Income Data

(In thousands, except per share amounts)

Years Ended December 31	2015	2014
Total sales	$600,064	$630,007
Income before provision for income taxes	$25,708	$59,906
Net income	$18,646	$44,620
Earnings per common share (Diluted)	$0.36	$0.80

Consolidated Balance Sheets Data

(In thousands)

Years Ended December 31	2015	2014
Working capital [6]	$238,143	$232,080
Total assets	$632,904	$738,694
Stockholders' equity	$480,160	$549,013

[1] Net of $36 million in stock repurchases and $23 million in dividend payments during 2011

[2] Net of $39 million in stock repurchases and $23 million in dividend payments during 2012

[3] Net of $124 million in stock repurchases and $21 million in dividend payments during 2013

[4] Net of $81 million in stock repurchases and $20 million in dividend payments during 2014

[5] Net of $66 million in stock repurchases and $18 million in dividend payments during 2015

[6] Working capital consists of current assets less current liabilities

Financial Results

This annual report contains forward-looking statements which reflect management's best judgment based on factors currently known. However, these statements involve risks and uncertainties, including the successful development and market acceptance of new products, the degree of competition in the market for such products, the product and channel mix, component costs, manufacturing efficiencies, and other risks detailed in our annual report on Form 10-K for the year ended December 31, 2015. These risks and uncertainties could cause actual results to differ materially from those in the forward-looking statements included in this annual report.

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

ADTRAN's common stock is traded on the NASDAQ Global Select Market under the symbol ADTN. As of February 4, 2016, ADTRAN had 199 stockholders of record and approximately 6,707 beneficial owners of shares held in street name. The following table shows the high and low closing prices per share for our common stock as reported by NASDAQ for the periods indicated.

Common Stock Prices

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
High	$23.38	$19.27	$17.28	$17.52
Low	$18.32	$15.98	$14.38	$14.46
2014	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
High	$27.24	$26.11	$23.17	$22.16
Low	$24.27	$21.29	$20.53	$18.23

The following table shows the shareholder dividends paid in each quarter of 2015 and 2014. The Board of Directors presently anticipates that it will declare a regular quarterly dividend so long as the present tax treatment of dividends exists and adequate levels of liquidity are maintained.

Dividends per Common Share

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	$0.09	$0.09	$0.09	$0.09
2014	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	$0.09	$0.09	$0.09	$0.09

Stock Repurchases

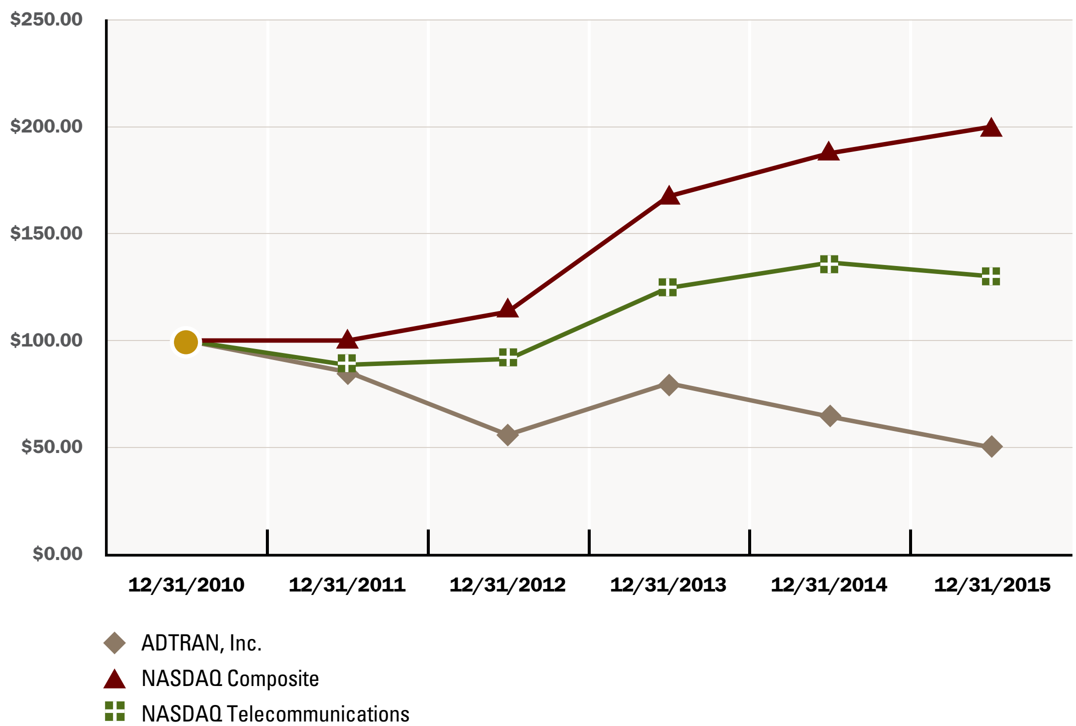
The following table sets forth repurchases of our common stock for the months indicated.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1, 2015 – October 31, 2015	—	—	—	5,848,725
November 1, 2015 – November 30, 2015	22,600	$15.54	22,600	5,826,125
December 1, 2015 – December 31, 2015	—	—	—	5,826,125
Total	**22,600**		**22,600**	

(1 Since 1997, our Board of Directors has approved multiple share repurchase programs that have authorized open market repurchase transactions of up to 45.0 million shares of our common stock. 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), which will commence upon completion of the repurchase plan announced on May 14, 2014. This new authorization is being implemented through open market or private purchases from time to time as conditions warrant.

Stock Performance Graph

Our common stock began trading on the NASDAQ National Market on August 9, 1994. The price information reflected for our common stock in the following performance graph and accompanying table represents the closing sales prices of the common stock for the period from December 31, 2010 through December 31, 2015, on an annual basis. The graph and the accompanying table compare the cumulative total stockholders' return on our common stock with the NASDAQ Telecommunications Index and the NASDAQ Composite Index. The calculations in the following graph and table assume that $100 was invested on December 31, 2010 in each of our common stock, the NASDAQ Telecommunications Index and the NASDAQ Composite Index and also assume dividend reinvestment.



	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15
ADTRAN, Inc.	$100.00	$84.12	$55.34	$77.71	$63.73	$51.43
NASDAQ Composite	$100.00	$100.53	$116.92	$166.19	$188.78	$199.95
NASDAQ Telecommunications	$100.00	$89.84	$91.94	$128.06	$133.34	$128.91

Selected Financial Data

Income Statement Data

(In thousands, except per share amounts)

Year Ended December 31,	2015	2014	2013	2012	2011
Sales	600,064	630,007	641,744	620,614	717,229
Cost of sales	333,167	318,680	332,858	303,971	302,911
Gross profit	**266,897**	**311,327**	**308,886**	**316,643**	**414,318**
Selling, general and administrative expenses	123,542	131,958	129,366	134,523	124,879
Research and development expenses	129,876	132,258	131,055	125,951	100,301
Operating income	**13,479**	**47,111**	**48,465**	**56,169**	**189,138**
Interest and dividend income	3,953	5,019	7,012	7,657	7,642
Interest expense	(596)	(677)	(2,325)	(2,347)	(2,398)
Net realized investment gain	10,337	7,278	8,614	9,550	12,454
Other income (expense), net	(1,465)	1,175	(911)	183	(694)
Gain on bargain purchase of a business	—	—	—	1,753	—
Income before provision for income taxes	**25,708**	**59,906**	**60,855**	**72,965**	**206,142**
Provision for income taxes	(7,062)	(15,286)	(15,061)	(25,702)	(67,565)
Net income	**$18,646**	**$44,620**	**$45,794**	**$47,263**	**$138,577**

Year Ended December 31,	2015	2014	2013	2012	2011
Weighted average shares outstanding—basic	51,145	55,120	59,001	63,259	64,145
Weighted average shares outstanding—assuming dilution (1)	51,267	55,482	59,424	63,774	65,416
Earnings per common share—basic	$0.36	$0.81	$0.78	$0.75	$2.16
Earnings per common share—assuming dilution (1)	$0.36	$0.80	$0.77	$0.74	$2.12
Dividends declared and paid per common share	$0.36	$0.36	$0.36	$0.36	$0.36

Balance Sheet Data

(In thousands)

At December 31,	2015	2014	2013	2012	2011
Working capital (2)	$238,143	$232,080	$277,335	$337,979	$329,311
Total assets	$632,904	$738,694	$789,898	$883,656	$817,514
Total debt	$28,900	$30,000	$46,500	$46,500	$47,000
Stockholders' equity	$480,160	$549,013	$604,606	$692,406	$692,131

(1) Assumes exercise of dilutive stock options calculated under the treasury method. See Notes 1 and 13 of Notes to Consolidated Financial Statements.

(2) Working capital consists of current assets less current liabilities.

Management's Discussion and Analysis of Financial Condition and Results of Operations

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 SPs, 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.

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

Carrier Systems products are used by communications SPs to provide data, voice, and video services to consumers and enterprises. This category includes the following product areas and related services:

Broadband Access
- Total Access® 5000 Series of Multi-Service Access Nodes (MSANs)
- hiX 5600 Series of MSANs
- Total Access 1100/1200 Series of Fiber to the Node (FTTN) products
- hiX 1100 Series of FTTN products
- VDSL2 Vectoring based Digital Subscriber Line Access Multiplexer (DSLAM) products
- ADTRAN 500 Series of FTTdp G.fast Distribution Point Units (DPU)

Optical
- Optical Networking Edge (ONE)
- NetVanta® 8000 Series of Fiber Ethernet Access Devices (EAD)
- NetVanta 8400 Series of 10 Gig Multi-service Edge Switches
- OPTI-6100 and Total Access 3000 optical Multi-Service Provisioning Platforms (MSPP)
- Pluggable Optical Products, including Small Form Factor Pluggable (SFP), 10-Gigabit Fiber Small Form Factor Pluggable (XFP), and SFP+

Time Division Multiplexed (TDM) systems

Business Networking products provide access to communication services and facilitate the delivery of cloud connectivity and enterprise communications to the small and mid-sized enterprise (SME) market. This category includes the following product areas and related services:

Internetworking Products
- Total Access IP Business Gateways
- Optical Network Terminals (ONTs)
- Bluesocket® virtual Wireless LAN (vWLAN®)
- NetVanta
  - Access Routers
  - Enterprise Session Border Controllers (eSBC)
  - Managed Ethernet Switches
  - IP Business Gateways
  - Unified Communications (UC) solutions
  - Carrier Ethernet Network Terminating Equipment (NTE)
  - Carrier Ethernet Routers and Gateways
- Network Management Solutions

Loop Access products are used by carrier and enterprise customers for access to copper-based communications networks. This category includes the following product areas and related services:

- High bit-rate Digital Subscriber Line (HDSL) products
- Digital Data Service (DDS)
- Integrated Services Digital Network (ISDN) products

In addition, we identify subcategories of product revenues, which we divide into Core products and Legacy products. Our Core products consist of Broadband Access and Optical products (included in Carrier Systems) and Internetworking products (included in Business Networking). Our Legacy products include HDSL products (included in Loop Access) and other products not included in the aforementioned Core products. Many of our customers are migrating their networks to deliver higher bandwidth services by utilizing newer technologies. We believe that products and services offered in our core product areas position us well for this migration. Despite occasional increases, we anticipate that revenues of many of our Legacy products, including HDSL, will decline over time; however, revenues from these products may continue for years because of the time required for our customers to transition to newer technologies.

Sales were $600.1 million in 2015 compared to $630.0 million in 2014 and $641.7 million in 2013. Total sales of products in our three core areas, Broadband Access, Optical and Internetworking, decreased 3.3% in 2015 compared to 2014 and increased 2.8% in 2014 compared to 2013. Our gross profit margin was 44.5% in 2015 compared to 49.4% in 2014 and 48.1% in 2013. Net income was $18.6 million in 2015 compared to $44.6 million in 2014 and $45.8 million in 2013. Earnings per share, assuming dilution, were $0.36 in 2015 compared to $0.80 in 2014 and $0.77 in 2013. Earnings per share in 2015, 2014 and 2013 include the effect of the repurchase of 4.0 million, 3.7 million and 5.6 million shares of our stock in those years, respectively.

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

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

Accordingly, our historical financial performance is not necessarily a meaningful indicator of future results, and, in general, management expects that our financial results may vary from period to period. See Note 14 of Notes to Consolidated Financial Statements for additional information. For a discussion of risks associated with our operating results, see Item 1A of our Form 10-K for the year ended December 31, 2015.

Critical Accounting Policies and Estimates

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

- Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the product price is fixed or determinable, collection of the resulting receivable is reasonably assured, and product returns are reasonably estimable. For product sales, revenue is generally recognized upon shipment of the product to our customer in accordance with the title transfer terms of the sales agreement, generally Ex Works, per International Commercial Terms. In the case of consigned inventory, revenue is recognized when the end customer assumes ownership of the product. Contracts that contain multiple deliverables are evaluated to determine the units of accounting, and the consideration from the arrangement is allocated to each unit of accounting based on the relative selling price and corresponding terms of the contract. We 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 instances, we use best estimates to allocate consideration to each respective unit of accounting. These estimates include analysis of respective bills of material and review and analysis of similar product and service offerings. We record revenue associated with installation services when respective contractual obligations are complete. In instances where customer acceptance is required, revenue is deferred until respective acceptance criteria have been met. Contracts that include both installation services and product sales are evaluated for revenue recognition in accordance with contract terms. As a result, installation services may be considered a separate deliverable or may be considered a combined single unit of accounting with the delivered product. Generally, either the purchaser, ADTRAN, or a third party can perform the installation of our products. Sales taxes invoiced to customers are included in revenue, and represent less than one percent of total revenues. The corresponding sales taxes paid are included in cost of goods sold. Value added taxes collected from customers in international jurisdictions are recorded in accrued expenses as a liability. Revenue is recorded net of discounts. Sales returns are accrued based on historical sales return experience, which we believe provides a reasonable estimate of future returns.

  A significant portion of Enterprise Networks products are sold in the United States through a non-exclusive distribution network of major technology distributors. These organizations then distribute or provide fulfillment services to an extensive network of VARs and SIs. VARs and SIs may be affiliated with us as a channel partner, or they may purchase from the distributor on an unaffiliated basis. Additionally, with certain limitations, our distributors may return unused and unopened product for stock-balancing purposes when these returns are accompanied by offsetting orders for products of equal or greater value.

- We carry our inventory at the lower of cost or market, with cost being determined using the first-in, first-out method. We use standard costs for material, labor, and manufacturing overhead to value our inventory. Our standard costs are updated on at least a quarterly basis and any variances are expensed in the current period; therefore, our inventory costs approximate actual costs at the end of each reporting period. We write down our inventory for estimated obsolescence or unmarketable inventory by an amount equal to the difference between the cost of inventory and the estimated fair value based upon assumptions about future demand and market conditions. If actual future demand or market conditions are less favorable than those projected by management, we may be required to make additional inventory write-downs. Our reserve for excess and obsolete inventory was $26.7 million and $24.7 million at December 31, 2015 and 2014, respectively. Inventory disposals charged against the reserve were $0.2 million, $2.1 million and $0.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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

- We estimate our income tax provision or benefit in each of the jurisdictions in which we operate, including estimating exposures related to examinations by taxing authorities. We also make judgments regarding the realization of deferred tax assets, and establish valuation allowances where we believe it is more likely than not that future taxable income in certain jurisdictions will be insufficient to realize these deferred tax assets. Our estimates regarding future taxable income and income tax provision or benefit may vary due to changes in market conditions, changes in tax laws, or other factors. If our assumptions, and consequently our estimates, change in the future, the valuation allowances we have established may be increased or decreased, impacting future income tax expense. At December 31, 2015 and 2014 respectively, the valuation allowance was $7.3 million and $7.5 million. As of December 31, 2015, we have state research tax credit carry-forwards of $4.2 million, which will expire between 2016 and 2030. These carry-forwards were caused by tax credits in excess of our annual tax liabilities to an individual state where we no longer generate sufficient state income. In addition, as of December 31, 2015, we have a deferred tax asset of $8.7 million relating to net operating loss carry-forwards which will expire between 2016 and 2030. These carry-forwards are the result of acquisitions in 2009 and in 2011. The acquired net operating losses are in excess of the amount of estimated earnings. We believe it is more likely than not that we will not realize the full benefits of our deferred tax asset arising from these credits and net operating losses, and accordingly, have provided a valuation allowance against them. This valuation allowance is included in non-current deferred tax liabilities in the accompanying balance sheets.

  We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain. We adjust these reserves, including any impact on the related interest and penalties, as facts and circumstances change.

- Our products generally include warranties of 90 days 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 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 $8.7 million and $8.4 million at December 31, 2015 and 2014, respectively. These liabilities are included in accrued expenses in the accompanying consolidated balance sheets.

- Pension benefit plan obligations are based on various assumptions used by our actuaries in calculating these amounts. These assumptions include discount rates, compensation rate increases, expected return on plan assets, retirement rates, and mortality rates. Actual results that differ from the assumptions and changes in assumptions could affect future expenses and obligations. Our net pension liability totaled $7.6 million and $10.2 million at December 31, 2015 and 2014, respectively. This liability is included in other non-current liabilities in the accompanying Consolidated Balance Sheets.

- We evaluate the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. When evaluating whether goodwill is impaired, we first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If we determine that the two-step quantitative test is necessary, then we compare the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, then the amount of the impairment loss is measured. Our assessment of relevant qualitative factors enabled us to confirm that the fair value of the reporting unit exceeded the carrying amount in 2015; therefore, we did not complete a quantitative assessment. As a result, there were no impairment losses recognized during 2015, 2014 or 2013.

Results of Operations

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

Year Ended December 31,	2015	2014	2013
Sales			
Carrier Networks Division	83.2%	81.0%	78.0%
Enterprise Networks Division	16.8	19.0	22.0
Total sales	100.0%	100.0%	100.0%
Cost of sales	55.5	50.6	51.9
Gross profit	44.5	49.4	48.1
Selling, general and administrative expenses	20.6	20.9	20.2
Research and development expenses	21.6	21.0	20.4
Operating income	2.2	7.5	7.6
Interest and dividend income	0.7	0.8	1.1
Interest expense	(0.1)	(0.1)	(0.4)
Net realized investment gain	1.7	1.2	1.3
Other income (expense), net	(0.2)	0.2	(0.1)
Income before provision for income taxes	4.3	9.5	9.5
Provision for income taxes	(1.2)	(2.4)	(2.3)
Net income	3.1%	7.1%	7.1%

2015 Compared to 2014

Sales

Our sales decreased 4.8% from $630.0 million in 2014 to $600.1 million in 2015. The decrease in sales is primarily attributable to a $16.5 million decrease in sales of our Internetworking products, a $10.8 million decrease in sales of our HDSL and other legacy products, and a $3.9 million decrease in sales of our Broadband Access products.

Carrier Networks sales decreased 2.1% from $510.4 million in 2014 to $499.4 million in 2015. The decrease in sales is primarily attributable to decreases in sales of Broadband Access products and HDSL and other legacy products. The decrease in sales of our Broadband Access products is primarily attributable to decreased sales in the EMEA region and the impact of the strengthening U.S. dollar against the Euro. The decreases in sales of HDSL and other legacy products in North America have been expected as customers continue to upgrade their networks to deliver higher bandwidth services by migrating to newer technologies, including to our core products from our Broadband Access, Internetworking and Optical product lines. While we expect that revenues from HDSL and our other legacy products will continue to decline over time, these revenues may continue for years because of the time required for our customers to transition to newer technologies.

Enterprise Networks sales decreased 15.9% from $119.6 million in 2014 to $100.7 million in 2015. The decrease is attributable to a decrease in sales of our Internetworking products. The decrease in sales of our Internetworking products for this division is primarily attributable to weakness in sales of IP gateway products to the CLEC and MSO markets. Internetworking product sales attributable to Enterprise Networks were 93.8% and 93.6% of the division's sales in 2015 and 2014. Legacy products primarily comprise the remainder of Enterprise Networks sales. Enterprise Networks sales as a percentage of total sales decreased from 19.0% in 2014 to 16.8% in 2015.

International sales, which are included in the Carrier Networks and Enterprise Networks amounts discussed above, decreased 27.3% from $248.6 million in 2014 to $180.7 million in 2015. International sales, as a percentage of total sales, decreased from 39.5% in 2014 to 30.1% in 2015. The decrease in international sales is primarily attributable to decreases in sales in the EMEA region, Latin America, and the Asia-Pacific region.

Carrier Systems product sales decreased $9.3 million in 2015 compared to 2014 primarily due to a $3.9 million decrease in Broadband Access product sales and a $6.6 million decrease in legacy product sales. The decrease in Carrier Systems product sales is primarily attributable to the factors discussed above.

Business Networking product sales decreased $17.3 million in 2015 compared to 2014 primarily due to a $17.6 million decrease in Internetworking product sales in the EN division, partially offset by a $1.1 million increase in Internetworking product sales in the CN division. The changes in sales of our Internetworking products in both of our divisions are primarily attributable to the factors discussed above.

Loop Access product sales decreased $3.4 million in 2015 compared to 2014 primarily due to a $2.5 million decrease in HDSL product sales, which is further discussed above.

Cost of Sales

As a percentage of sales, cost of sales increased from 50.6% in 2014 to 55.5% in 2015. The increase is primarily attributable to the strengthening of the U.S. dollar against the Euro, growth in our service-related material sales in the U.S. market, and customer and product mix.

Carrier Networks cost of sales increased from 52.3% of sales in 2014 to 58.1% of sales in 2015. The increase in Carrier Networks cost of sales as a percentage of sales is primarily attributable to the strengthening of the U.S. dollar against the Euro, growth in our service-related material sales in the U.S. market, and customer and product mix.

Enterprise Networks cost of sales decreased from 43.1% of sales in 2014 to 42.8% of sales in 2015. The decrease in Enterprise Networks cost of sales as a percentage of sales is primarily attributable to product to services mix.

An important part of our strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This may cause variations in our gross profit percentage due to timing differences between the recognition of cost reductions and the lowering of product selling prices.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased 6.4% from $132.0 million in 2014 to $123.5 million in 2015. Selling, general and administrative expenses include personnel costs for administration, finance, information systems, human resources, sales and marketing, and general management, as well as rent, utilities, legal and accounting expenses, bad debt expense, advertising, promotional material, trade show expenses, and related travel costs. The decrease in selling, general and administrative expenses is primarily attributable to decreases in compensation expense, travel expense, and independent contractor expense, partially offset by an increase in professional services and restructuring charges.

Selling, general and administrative expenses as a percentage of sales decreased from 20.9% for the year ended December 31, 2014 to 20.6% for the year ended December 31, 2015. Selling, general and administrative expenses as a percentage of sales will generally fluctuate whenever there is a significant fluctuation in revenues for the periods being compared.

Research and Development Expenses

Research and development expenses decreased 1.8% from $132.3 million in 2014 to $129.9 million in 2015. The decrease in research and development expenses is primarily attributable to decreases in compensation expense and independent contractors, partially offset by an increase in engineering and testing expense and restructuring charges.

Research and development expenses as a percentage of sales increased from 21.0% for the year ended December 31, 2014 to 21.6% for the year ended December 31, 2015. Research and development expenses as a percentage of sales will fluctuate whenever there are incremental product development activities or a significant fluctuation in revenues for the periods being compared.

We expect to continue to incur research and development expenses in connection with our new and existing products and our expansion into international markets. We continually evaluate new product opportunities and engage in intensive research and product development efforts which provide 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 from $5.0 million in 2014 to $4.0 million in 2015. The decrease in interest and dividend income is primarily attributable to a reduction in the average rate of return on our investments as well as a decrease in our average investment balances.

Interest Expense

Interest expense, which is primarily related to our taxable revenue bond, decreased from $0.7 million in 2014 to $0.6 million in 2015. The decrease is primarily attributable to a reduction in the principal and the impact of an interest rate reduction, which occurred during the first quarter of 2014. See "Financing Activities" in "Liquidity and Capital Resources" below for additional information on our taxable revenue bond.

Net Realized Investment Gain

Net realized investment gain increased from $7.3 million in 2014 to $10.3 million in 2015. The increase in realized investment gains is primarily attributable to larger gains from the sale of equity securities in 2015. See "Investing Activities" in "Liquidity and Capital Resources" below for additional information.

Other Income (Expense), net

Other income (expense), net, comprised primarily of miscellaneous income, gains and losses resulting from foreign currency exchange rate movements, and investment account management fees, changed from $1.2 million of income in 2014 to $1.5 million of expense in 2015. The change is primarily attributable to a $2.4 million gain recorded in the fourth quarter of 2014 related to the settlement of working capital items from an acquisition transaction that closed in 2012.

Income Taxes

Our effective tax rate increased from 25.5% in 2014 to 27.5% in 2015. The increase in the effective tax rate between the two periods is primarily attributable to a foreign tax benefit from the elimination of a valuation allowance in 2014, partially offset by a benefit from the closure of an audit and a higher R&D credit in 2015.

Net Income

As a result of the above factors, net income decreased from $44.6 million in 2014 to $18.6 million in 2015. As a percentage of sales, net income decreased from 7.1% in 2014 to 3.1% in 2015.

2014 Compared to 2013

Sales

Our sales decreased 1.8% from $641.7 million in 2013 to $630.0 million in 2014. The decrease in sales is primarily attributable to a $27.2 million decrease in sales of our HDSL and other legacy products and a $12.2 million decrease in sales of our Internetworking products, partially offset by a $27.9 million increase in sales of our Broadband Access products.

Carrier Networks sales increased 1.9% from $500.7 million in 2013 to $510.4 million in 2014. The increase in sales is primarily attributable to increases in sales of Broadband Access products, Internetworking products, and Optical products, partially offset by a decrease in sales of our HDSL and other legacy products. The increase in sales of our Broadband Access products is primarily attributable to an increase in hiX product sales in the EMEA region. The increase in sales of our Internetworking products is primarily attributable to increases in Carrier Ethernet sales and FTTP ONT sales to carriers in North America. The increase in sales of our Optical products is primarily attributable to increased sales of Optical products for broadband access globally and increased sales of our OPTI-6100 products to a domestic tier 1 carrier for Ethernet services to enterprises for wireless backhaul. The decreases in sales of HDSL and other legacy products in North America have been expected as customers continue to upgrade their networks to deliver higher bandwidth services by migrating to newer technologies, including to our core products from our Broadband Access, Internetworking and Optical product lines. While we expect that revenues from HDSL and our other legacy products will continue to decline over time, these revenues may continue for years because of the time required for our customers to transition to newer technologies.

Enterprise Networks sales decreased 15.2% from $141.0 million in 2013 to $119.6 million in 2014. The decrease is attributable to a decrease in sales of our Internetworking products. The decrease in sales of our Internetworking products for this division is primarily attributable to softer demand in North America and an inventory reduction, primarily at two distribution partners. Internetworking product sales attributable to Enterprise Networks were 93.6% of the division's sales in 2014 and 2013. Legacy products primarily comprise the remainder of Enterprise Networks sales. Enterprise Networks sales as a percentage of total sales decreased from 22.0% in 2013 to 19.0% in 2014.

International sales, which are included in the Carrier Networks and Enterprise Networks amounts discussed above, increased 33.9% from $185.7 million in 2013 to $248.6 million in 2014. International sales, as a percentage of total sales, increased from 28.9% in 2013 to 39.5% in 2014. The increase in international sales is primarily attributable to increases in sales in the EMEA region and Latin America, partially offset by a decrease in sales in the Asia-Pacific region.

Carrier Systems product sales increased $14.8 million in 2014 compared to 2013 primarily due to a $27.9 million increase in Broadband Access product sales, partially offset by a $12.8 million decrease in legacy product sales. The increase in Carrier Systems product sales is primarily attributable to the factors discussed above.

Business Networking product sales decreased $11.9 million in 2014 compared to 2013 primarily due to a $19.9 million decrease in Internetworking product sales in the EN division, partially offset by a $7.7 million increase in Internetworking product sales in the CN division. The changes in sales of our Internetworking products in both of our divisions are primarily attributable to the factors discussed above.

Loop Access product sales decreased $14.7 million in 2014 compared to 2013 primarily due to a $13.8 million decrease in HDSL product sales, which is further discussed above.

Cost of Sales

As a percentage of sales, cost of sales decreased from 51.9% in 2013 to 50.6% in 2014. The decrease is primarily attributable to improving gross margins in our international business, primarily related to lower product costs, partially offset by shifts in domestic customer mix and a higher services mix.

Carrier Networks cost of sales decreased from 53.4% of sales in 2013 to 52.3% of sales in 2014. The decrease in Carrier Networks cost of sales as a percentage of sales is primarily attributable to improving gross margins in our international business, partially offset by shifts in domestic customer mix and a higher services mix.

Enterprise Networks cost of sales decreased from 46.3% of sales in 2013 to 43.1% of sales in 2014. The decrease in Enterprise Networks cost of sales as a percentage of sales is primarily attributable to shifts in customer mix and lower product costs.

An important part of our strategy is to reduce the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. This may cause variations in our gross profit percentage due to timing differences between the recognition of cost reductions and the lowering of product selling prices.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 2.0% from $129.4 million in 2013 to $132.0 million in 2014. Selling, general and administrative expenses include personnel costs for administration, finance, information systems, human resources, sales and marketing, and general management, as well as rent, utilities, legal and accounting expenses, bad debt expense, advertising, promotional material, trade show expenses, and related travel costs. The increase in selling, general and administrative expenses is primarily attributable to increases in travel expenses, marketing expenses, contract services, and legal expenses, partially offset by a decrease in compensation expense. The increase in travel and marketing expenses is primarily attributable to our increased participation in trade shows in the U.S. and the EMEA region.

Selling, general and administrative expenses as a percentage of sales increased from 20.2% for the year ended December 31, 2013 to 20.9% for the year ended December 31, 2014. Selling, general and administrative expenses as a percentage of sales will generally fluctuate whenever there is a significant fluctuation in revenues for the periods being compared.

Research and Development Expenses

Research and development expenses increased 0.9% from $131.1 million in 2013 to $132.3 million in 2014. The increase in research and development expenses is primarily attributable to increases in compensation costs and travel expenses, partially offset by a decrease in independent contractor expense.

Research and development expenses as a percentage of sales increased from 20.4% for the year ended December 31, 2013 to 21.0% for the year ended December 31, 2014. Research and development expenses as a percentage of sales will fluctuate whenever there are incremental product development activities or a significant fluctuation in revenues for the periods being compared.

We expect to continue to incur research and development expenses in connection with our new and existing products and our expansion into international markets. We continually evaluate new product opportunities and engage in intensive research and product development efforts which provide 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 from $7.0 million in 2013 to $5.0 million in 2014. The decrease in interest and dividend income is primarily attributable to an $18.3 million reduction of restricted funds that serves as a collateral deposit against our taxable revenue bond during the first quarter of 2014 and a reduction in the interest rate of that investment from 4.8% to 1.6% (see "Interest Expense" below for corresponding decrease in the interest rate of our taxable revenue bond). See "Financing Activities" in "Liquidity and Capital Resources" below for additional information on our taxable revenue bond.

Interest Expense

Interest expense, which is primarily related to our taxable revenue bond, decreased from $2.3 million in 2013 to $0.7 million in 2014. The decrease is primarily attributable to a $16.5 million principal payment made on our taxable revenue bond during the first quarter of 2014. In connection with this payment, we negotiated a reduction in the interest rate of that bond from 5.0% to 2.0%, and, as noted above, a reduction in the interest rate on the collateral supporting the bond. See "Financing Activities" in "Liquidity and Capital Resources" below for additional information on our taxable revenue bond.

Net Realized Investment Gain

Net realized investment gain decreased from $8.6 million in 2013 to $7.3 million in 2014. The decrease in realized investment gains is primarily attributable to lower gains from the sale of equity securities in 2014. See "Investing Activities" in "Liquidity and Capital Resources" below for additional information.

Other Income (Expense), net

Other income (expense), net, comprised primarily of miscellaneous income, gains and losses resulting from foreign currency exchange rate movements, and investment account management fees, changed from $0.9 million of expense in 2013 to $1.2 million of income in 2014. The change is primarily attributable to a $2.4 million gain recorded in the fourth quarter of 2014 related to the settlement of working capital items from an acquisition transaction that closed in 2012, partially offset by investment account management fees.

Income Taxes

Our effective tax rate increased from 24.7% in 2013 to 25.5% in 2014. The increase in the effective tax rate between the two periods is primarily attributable to two years of research tax credits being recognized in 2013, partially offset by an additional foreign tax benefit from the elimination of a valuation allowance recorded in 2014. Based upon our results of operations in 2014 and expected profitability in future years in a certain international jurisdiction, we concluded that it is more likely than not certain foreign deferred tax assets will be realized.

Net Income

As a result of the above factors, net income decreased from $45.8 million in 2013 to $44.6 million in 2014. As a percentage of sales, net income was 7.1% in 2013 and 2014.

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 December 31, 2015, cash on hand was $84.6 million and short-term investments were $34.4 million, which placed our short-term liquidity at $118.9 million. At December 31, 2014, our cash on hand of $73.4 million and short-term investments of $46.9 million placed our short-term liquidity at $120.4 million. The decrease in short-term liquidity from 2014 to 2015 primarily reflects the timing of short-term cash management requirements.

Operating Activities

Our working capital, which consists of current assets less current liabilities, increased 2.6% from $232.1 million as of December 31, 2014 to $238.1 million as of December 31, 2015. The quick ratio, defined as cash and cash equivalents, short-term investments, and net accounts receivable, divided by current liabilities, increased from 1.75 as of December 31, 2014 to 2.06 as of December 31, 2015. The current ratio, defined as current assets divided by current liabilities, increased from 2.95 as of December 31, 2014 to 3.57 as of December 31, 2015. The changes in our working capital, quick ratio and current ratio are primarily attributable to a decrease in accounts payable, income taxes payable, and an increase in inventory, partially offset by a decrease in short-term investments, accounts receivable, and other receivables. The decrease in income taxes payable is primarily attributable to tax payments made in foreign jurisdictions during 2015. The decrease in short term investments is primarily attributable to share repurchases during 2015.

Net accounts receivable decreased 18.7% from $88.5 million at December 31, 2014 to $71.9 million at December 31, 2015. Our allowance for doubtful accounts was $0.1 million at December 31, 2014 and $19 thousand at December 31, 2015. Quarterly accounts receivable DSO decreased from 57 days as of December 31, 2014 to 48 days as of December 31, 2015. The change in net accounts receivable and DSO is due to changes in customer mix and the timing of sales and collections during the quarter. Certain international customers can have longer payment terms than U.S. customers. Other receivables decreased from $33.3 million at December 31, 2014 to $19.3 million at December 31, 2015. The decrease in other receivables is primarily attributable to the timing of filing returns and collections of value-added tax receivables in our international subsidiaries and the collection of a receivable for additional consideration due from NSN for settlement of the working capital items at December 31, 2014. Other receivables will also fluctuate due to the timing of shipments and collections for materials supplied to our contract manufacturers during the quarter.

Quarterly inventory turnover decreased from 3.5 turns as of December 31, 2014 to 3.3 turns as of December 31, 2015. Inventory increased 6.5% from December 31, 2014 to December 31, 2015. We expect inventory levels to fluctuate as we attempt to maintain sufficient inventory in response to seasonal cycles of our business ensuring competitive lead times while managing the risk of inventory obsolescence that may occur due to rapidly changing technology and customer demand.

Accounts payable decreased 13.7% from $56.4 million at December 31, 2014 to $48.7 million at December 31, 2015. Accounts payable will fluctuate due to variations in the timing of the receipt of supplies, inventory and services and our subsequent payments for these purchases.

Investing Activities

Capital expenditures totaled approximately $11.8 million, $11.3 million and $8.2 million for the years ended December 31, 2015, 2014 and 2013, 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 decreased $95.1 million from $327.6 million at December 31, 2014 to $232.4 million at December 31, 2015. This decrease reflects the impact of our cash needs for share repurchases, shareholder dividends, equipment acquisitions, as well as net realized and unrealized losses, and amortization of net premiums on our combined investments, partially offset by additional funds available for investment provided by our operating activities and stock option exercises by our employees.

We invest all available cash not required for immediate use in operations primarily in securities that we believe bear minimal risk of loss. At December 31, 2015, these investments included corporate bonds of $57.6 million, municipal fixed-rate bonds of $26.4 million, asset-backed bonds of $19.2 million, mortgage/agency-backed bonds of $15.4 million and government bonds of $35.4 million. At December 31, 2014, these investments included corporate bonds of $111.3 million, municipal fixed-rate bonds of $127.8 million and municipal variable rate demand notes of $2.5 million. As of December 31, 2015, our corporate bonds, municipal fixed-rate bonds, asset-backed bonds, mortgage/agency-backed bonds, and government bonds were classified as available-for-sale and had a combined duration of 1.5 years with an average 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.

Our long-term investments decreased 29.4% from $280.6 million at December 31, 2014 to $198.0 million at December 31, 2015. Long-term investments at December 31, 2015 and December 31, 2014 included an investment in a certificate of deposit of $30.0 million, which serves as collateral for our revenue bond, as discussed below. We have investments in various marketable equity securities classified as long-term investments at a cost of $31.6 million and $26.4 million, and with a fair value of $34.3 million and $38.3 million, at December 31, 2015 and December 31, 2014, respectively.

Long-term investments at December 31, 2015 and 2014 also included $12.8 million and $16.3 million, respectively, related to our deferred compensation plan, and $1.3 million and $1.5 million, respectively, of other investments carried at cost, consisting of interests in two private equity funds and an investment in a privately held telecommunications equipment manufacturer.

We review our investment portfolio for potential "other-than-temporary" declines in value on an individual investment basis. We assess, on a quarterly basis, significant declines in value which may be considered other-than-temporary and, if necessary, recognize and record the appropriate charge to write-down the carrying value of such investments. In making this assessment, we take into consideration qualitative and quantitative information, including but not limited to the following: the magnitude and duration of historical declines in market prices, credit rating activity, assessments of liquidity, public filings, and statements made by the issuer. We generally begin our identification of potential other-than-temporary impairments by reviewing any security with a fair value that has declined from its original or adjusted cost basis by 25% or more for six or more consecutive months. We then evaluate the individual security based on the previously identified factors to determine the amount of the write-down, if any. For the years ended December 31, 2015, 2014, and 2013, we recorded charges of $0.2 million, $0.1 million and $25 thousand, respectively, related to the other-than-temporary impairment of certain publicly traded equity securities and our deferred compensation plan assets.

Financing Activities

In conjunction with an expansion of our Huntsville, Alabama, facility, we were approved for participation in an incentive program offered by the State of Alabama Industrial Development Authority (the "Authority"). Pursuant to the program, on January 13, 1995, the Authority issued $20.0 million of its taxable revenue bonds and loaned the proceeds from the sale of the bonds to ADTRAN. The bonds were originally purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the "Bank"). Wachovia Bank, N.A., Nashville, Tennessee (formerly First Union National Bank of Tennessee) (the "Bondholder"), which was acquired by Wells Fargo & Company on December 31, 2008, purchased the original bonds from the Bank and made further advances to the Authority, bringing the total amount outstanding to $50.0 million. An Amended and Restated Taxable Revenue Bond ("Amended and Restated Bond") was issued and the original financing agreement was amended. The Amended and Restated Bond bears interest, payable monthly. The interest rate is 2% per annum. The Amended and Restated Bond matures on January 1, 2020, and is currently outstanding in the aggregate principal amount of $28.9 million. The estimated fair value of the bond using a level 2 valuation technique at December 31, 2015 was approximately $28.7 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor's credit rating of AAA. We are required to make payments to the Authority in amounts necessary to pay the interest on the Amended and Restated Bond. Included in long-term investments at December 31, 2015 is $30.0 million which is invested in a restricted certificate of deposit. These funds serve as a collateral deposit against the principal of this bond, and we have the right to set-off the balance of the Bond with the collateral deposit in order to reduce the balance of the indebtedness.

In conjunction with this program, we are eligible to receive certain economic incentives from the state of Alabama that reduce the amount of payroll withholdings that we are required to remit to the state for those employment positions that qualify under the program. We realized economic incentives related to payroll withholdings totaling $1.3 million for each of the years ended December 31, 2015, 2014 and 2013.

We made a principal payment of $1.1 million and $16.5 million for the years ended December 31, 2015 and 2014, respectively, and we anticipate making a principal payment in 2016. At December 31, 2015, $1.0 million of the bond debt was classified as a current liability in accounts payable in the Consolidated Balance Sheets.

Dividends

During 2015, 2014 and 2013, we paid shareholder dividends totaling $18.4 million, $19.9 million and $21.4 million, respectively. The Board of Directors presently anticipates that it will declare a regular quarterly dividend so long as the present tax treatment of dividends exists and adequate levels of liquidity are maintained. The following table shows dividends paid to our shareholders in each quarter of 2015, 2014 and 2013.

Dividends per Common Share

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	$0.09	$0.09	$0.09	$0.09
2014	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	$0.09	$0.09	$0.09	$0.09
2013	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	$0.09	$0.09	$0.09	$0.09

Stock Repurchase Program

Since 1997, our Board of Directors has approved multiple share repurchase programs that have authorized open market repurchase transactions of up to 45.0 million shares of our common stock. 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), which will commence upon completion of the repurchase plan announced on May 14, 2014. This new authorization will be implemented through open market or private purchases from time to time as conditions warrant. For the years 2015, 2014 and 2013, we repurchased 4.0 million shares, 3.7 million shares and 5.6 million shares, respectively, for a cost of $66.2 million, $80.6 million and $124.3 million, respectively, at an average price of $16.68, $21.96 and $22.16 per share, respectively. We currently have the authority to purchase an additional 5.8 million shares of our common stock under the current plans approved by the Board of Directors.

Stock Option Exercises

To accommodate employee stock option exercises, we issued 0.1 million shares of treasury stock for $1.0 million during the year ended December 31, 2015, 0.1 million shares of treasury stock for $2.8 million during the year ended December 31, 2014, and 0.2 million shares of treasury stock for $3.6 million during the year ended December 31, 2013.

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.

We have various contractual obligations and commercial commitments. The following table sets forth, in millions, the annual payments we are required to make under contractual cash obligations and other commercial commitments at December 31, 2015.

Contractual Obligations

(In millions)	Total	2016	2017	2018	2019	After 2019
Long-term debt	$28.9	$1.0	$—	$—	$—	$27.9
Interest on long-term debt	2.3	0.6	0.6	0.6	0.5	—
Purchase obligations	102.2	99.8	1.7	0.6	0.1	—
Operating lease obligations	13.7	3.8	3.1	1.8	0.9	4.1
Totals	**$147.1**	**$105.2**	**$5.4**	**$3.0**	**$1.5**	**$32.0**

We are required to make payments necessary to pay the interest on the Amended and Restated Bond, currently outstanding in the aggregate principal amount of $28.9 million. The bond matures on January 1, 2020, and bears interest at the rate of 2% per annum. Included in long-term investments are $30.0 million of restricted funds, which is a collateral deposit against the principal amount of this bond. We made a principal payment of $1.1 million and $16.5 million for the years ended December 31, 2015 and 2014, respectively. We anticipate making a principal payment in 2016. At December 31, 2015 and 2014, $1.0 million and $1.2 million, respectively, of the bond debt were classified as a current liability in accounts payable in the Consolidated Balance Sheets. See Note 8 of Notes to Consolidated Financial Statements for additional information.

Purchase obligations primarily relate to open purchase orders to our contract manufacturers, component suppliers, and other vendors.

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 December 31, 2015, of which $7.7 million has been applied to these commitments. The additional $0.2 million commitment has been excluded from the table above due to uncertainty of when it will be applied.

We also have obligations related to uncertain income tax positions that have been excluded from the table above due to the uncertainty of when the related expense will be recognized. See Note 9 of Notes to Consolidated Financial Statements for additional information.

Effect of Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 31, 2017, including interim periods within those years. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. We are currently evaluating the transition method that will be elected and the impact that the adoption of ASU 2014-09 will have on our financial position, results of operations and cash flows.

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

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

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

Subsequent Events

On January 19, 2016, the Board declared a quarterly cash dividend of $0.09 per common share to be paid to shareholders of record at the close of business on February 4, 2016. The quarterly dividend payment was $4.4 million and was paid on February 18, 2016.

On February 8, 2016, the Board appointed Anthony Melone as a director filling a previously existing vacancy until the 2016 Annual Meeting of Stockholders.

During the first quarter and as of February 24, 2016, we have repurchased 0.6 million shares of our common stock through open market purchases at an average cost of $18.38 per share. We currently have the authority to purchase an additional 5.2 million shares of our common stock under the current plan approved by the Board of Directors.

We are currently evaluating the way the Company's chief operating decision maker reviews and measures performance of the business. The conclusions of this evaluation may have an impact on our future presentation of our reportable segments.

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, fixed-rate 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 December 31, 2015, $80.8 million of our cash and cash equivalents, primarily certain domestic money market funds and foreign depository accounts, were in excess of government provided insured depository limits.

As of December 31, 2015, approximately $169.6 million of our cash and investments may be directly affected by changes in interest rates. We have performed a hypothetical sensitivity analysis assuming market interest rates increase or decrease by 50 basis points (bps) for an entire year, while all other variables remain constant. At December 31, 2015, we held $62.8 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 December 31, 2015 would reduce annualized interest income on our cash and investments by approximately $0.3 million. In addition, we held $106.1 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 December 31, 2015 would reduce the fair value of our fixed-rate bonds by approximately $0.8 million.

As of December 31, 2014, interest income on approximately $258.4 million of our cash and investments was subject to being directly affected by changes in interest rates. We performed a hypothetical sensitivity analysis assuming market interest rates increase or decrease by 50 bps for an entire year, while all other variables remain constant. A hypothetical 50 bps decline in interest rates as of December 31, 2014 would have reduced annualized interest income on our cash, money market instruments, floating rate corporate bonds and municipal variable rate demand notes by approximately $0.5 million. In addition, a hypothetical 50 bps increase in interest rates as of December 31, 2014 would have reduced the fair value of our municipal and corporate bonds by approximately $1.1 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 Mexican subsidiary, whose functional currency is the United States dollar, our German subsidiary, whose functional currency is the Euro, and our Australian subsidiary, whose functional currency is the Australian dollar. We are exposed to changes in foreign currency exchange rates to the extent of our German subsidiaries use of contract manufacturers and raw material suppliers whom we predominately pay in U.S. dollars. 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 international customers who are invoiced or pay in a non-functional currency. Changes in the monetary exchange rates used to invoice such customers versus the functional currency of the entity billing such customers may adversely affect our results of operations and financial condition. To manage the volatility relating to these typical business exposures, we may enter into various derivative transactions, when appropriate. 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 may be partially mitigated by these derivative instruments.

As of December 31, 2015, we had no material contracts, other than accounts receivable, accounts payable, and loans to a subsidiary, denominated in foreign currencies. As of December 31, 2015, we had no forward contracts outstanding.

For further information about the fair value of our available-for-sale investments and our derivative and hedging activities as of December 31, 2015, see Notes 3 and 4 of Notes to Consolidated Financial Statements.

Report of Independent Registered Public Accounting Firm

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of ADTRAN, Inc. and its subsidiaries at December 31, 2015 and December 31, 2014 and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report On Internal Control Over Financial Reporting*. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Birmingham, Alabama
February 24, 2016

Financial Statements

ADTRAN, INC.

Consolidated Balance Sheets

December 31, 2015 and 2014

(In thousands, except per share amounts)

Assets	2015	2014
Current Assets		
Cash and cash equivalents	$84,550	$73,439
Short-term investments	34,396	46,919
Accounts receivable, less allowance for doubtful accounts of $19 and $136 at December 31, 2015 and 2014, respectively	71,917	88,502
Other receivables	19,321	33,295
Inventory, net	91,533	85,948
Prepaid expenses and other current assets	10,145	5,891
Deferred tax assets, net	18,924	17,095
Total Current Assets	**330,786**	**351,089**
Property, plant and equipment, net	73,233	74,828
Deferred tax assets, net	18,091	17,694
Goodwill	3,492	3,492
Other assets	9,276	10,942
Long-term investments	198,026	280,649
Total Assets	**$632,904**	**$738,694**
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	$48,668	$56,414
Unearned revenue	16,615	22,762
Accrued expenses	12,108	11,077
Accrued wages and benefits	12,857	13,855
Income tax payable, net	2,395	14,901
Total Current Liabilities	**92,643**	**119,009**
Non-current unearned revenue	7,965	10,948
Other non-current liabilities	24,236	30,924
Bonds payable	27,900	28,800
Total Liabilities	**152,744**	**189,681**
Commitments and contingencies (see Note 12)		
Stockholders' Equity		
Common stock, par value $0.01 per share; 200,000 shares authorized; 79,652 shares issued and 49,558 shares outstanding at December 31, 2015 and 79,652 shares issued and 53,431 shares outstanding at December 31, 2014	797	797
Additional paid-in capital	246,879	241,829
Accumulated other comprehensive loss	(8,969)	(75)
Retained earnings	906,772	907,751
Less treasury stock at cost: 30,094 and 26,221 shares at December 31, 2015 and 2014, respectively	(665,319)	(601,289)
Total Stockholders' Equity	**480,160**	**549,013**
Total Liabilities and Stockholders' Equity	**$632,904**	**$738,694**

See notes to consolidated financial statements.

ADTRAN, INC.

Consolidated Statements of Income

Years ended December 31, 2015, 2014 and 2013

(In thousands, except per share amounts)	2015	2014	2013
Sales	$600,064	$630,007	$641,744
Cost of sales	333,167	318,680	332,858
Gross Profit	**266,897**	**311,327**	**308,886**
Selling, general and administrative expenses	123,542	131,958	129,366
Research and development expenses	129,876	132,258	131,055
Operating Income	**13,479**	**47,111**	**48,465**
Interest and dividend income	3,953	5,019	7,012
Interest expense	(596)	(677)	(2,325)
Net realized investment gain	10,337	7,278	8,614
Other income (expense), net	(1,465)	1,175	(911)
Income before provision for income taxes	**25,708**	**59,906**	**60,855**
Provision for income taxes	(7,062)	(15,286)	(15,061)
Net Income	**$18,646**	**$44,620**	**$45,794**
Weighted average shares outstanding—basic	51,145	55,120	59,001
Weighted average shares outstanding—diluted	51,267	55,482	59,424
Earnings per common share—basic	$0.36	$0.81	$0.78
Earnings per common share—diluted	$0.36	$0.80	$0.77

See notes to consolidated financial statements.

ADTRAN, INC.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2015, 2014 and 2013

(In thousands)	2015	2014	2013
Net Income	**$18,646**	**$44,620**	**$45,794**
Other Comprehensive Loss, net of tax:			
Net unrealized gains (losses) on available-for-sale securities	(7,032)	(1,773)	629
Defined benefit plan adjustments	1,862	(4,866)	1,061
Foreign currency translation	(3,724)	(4,189)	(2,205)
Other Comprehensive Loss, net of tax	**$(8,894)**	**$(10,828)**	**$(515)**
Comprehensive Income, net of tax	**$9,752**	**$33,792**	**$45,279**

See notes to consolidated financial statements.

ADTRAN, INC.

Consolidated Statements of Changes in Stockholders' Equity

Years ended December 31, 2015, 2014 and 2013

(In thousands)	Common Shares	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, December 31, 2012	**79,652**	**$797**	**$224,517**	**$861,465**	**$(405,641)**	**$11,268**	**$692,406**
Net income				45,794			45,794
Other comprehensive loss, net of tax						(515)	(515)
Dividend payments				(21,412)			(21,412)
Dividends accrued for unvested restricted stock units				(23)			(23)
Stock options exercised: 191 shares				(762)	4,391		3,629
RSUs and restricted stock vested: 26 shares			(248)	(611)	611		(248)
Purchase of treasury stock: 5,608 shares					(124,267)		(124,267)
Income tax effect of stock compensation arrangements			169				169
Stock-based compensation expense			9,073				9,073
Balance, December 31, 2013	**79,652**	**$797**	**$233,511**	**$884,451**	**$(524,906)**	**$10,753**	**$604,606**
Net income				44,620			44,620
Other comprehensive loss, net of tax						(10,828)	(10,828)
Dividend payments				(19,947)			(19,947)
Dividends accrued for unvested restricted stock units				(19)			(19)
Stock options exercised: 147 shares				(558)	3,397		2,839
RSUs and restricted stock vested: 35 shares			(326)	(796)	796		(326)
Purchase of treasury stock: 3,669 shares					(80,576)		(80,576)
Income tax effect of stock compensation arrangements			81				81
Stock-based compensation expense			8,563				8,563
Balance, December 31, 2014	**79,652**	**$797**	**$241,829**	**$907,751**	**$(601,289)**	**$(75)**	**$549,013**
Net income				18,646			18,646
Other comprehensive loss, net of tax						(8,894)	(8,894)
Dividend payments				(18,449)			(18,449)
Dividends accrued for unvested restricted stock units				(7)			(7)
Stock options exercised: 60 shares				(402)	1,363		961
RSUs and restricted stock vested: 34 shares			(69)	(767)	767		(69)
Purchase of treasury stock: 3,967 shares					(66,160)		(66,160)
Income tax effect of stock compensation arrangements			(1,593)				(1,593)
Stock-based compensation expense			6,712				6,712
Balance, December 31, 2015	**79,652**	**$797**	**$246,879**	**$906,772**	**$(665,319)**	**$(8,969)**	**$480,160**

See notes to consolidated financial statements.

ADTRAN, INC.

Consolidated Statements of Cash Flows

Years ended December 31, 2015, 2014 and 2013

(In thousands)	2015	2014	2013
Cash flows from operating activities			
Net income	$18,646	$44,620	$45,794
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	14,245	14,845	14,628
Amortization of net premium on available-for-sale investments	2,402	4,360	5,956
Net realized gain on long-term investments	(10,337)	(7,278)	(8,614)
Net loss on disposal of property, plant, and equipment	644	142	3
Stock-based compensation expense	6,712	8,563	9,073
Deferred income taxes	(692)	(5,526)	(4,058)
Tax impact from stock option exercises	(40)	81	169
Excess tax benefits from stock-based compensation arrangements	(3)	(63)	(158)
Change in operating assets and liabilities:			
Accounts receivable, net	14,918	(3,910)	(6,742)
Other receivables	11,704	(19,298)	(348)
Inventory	(6,877)	2,144	9,502
Prepaid expenses and other assets	(5,070)	(3,818)	752
Accounts payable	(5,826)	9,973	5,206
Accrued expenses and other liabilities	(10,289)	(166)	(15,146)
Income taxes payable, net	(11,590)	11,168	3,747
Net cash provided by operating activities	**18,547**	**55,837**	**59,764**
Cash flows from investing activities			
Purchases of property, plant, and equipment	(11,753)	(11,256)	(8,173)
Proceeds from disposals of property, plant and equipment	183	1	—
Proceeds from sales and maturities of available-for-sale investments	280,435	230,019	343,567
Purchases of available-for-sale investments	(188,921)	(142,695)	(261,625)
Net cash provided by investing activities	**79,944**	**76,069**	**73,769**
Cash flows from financing activities			
Proceeds from stock option exercises	961	2,839	3,629
Purchases of treasury stock	(66,160)	(80,576)	(124,267)
Dividend payments	(18,449)	(19,947)	(21,412)
Payments on long-term debt	(1,100)	(16,500)	—
Excess tax benefits from stock-based compensation arrangements	3	63	158
Net cash used in financing activities	**(84,745)**	**(114,121)**	**(141,892)**
Net increase (decrease) in cash and cash equivalents	13,746	17,785	(8,359)
Effect of exchange rate changes	(2,635)	(2,644)	(1,800)
Cash and cash equivalents, beginning of year	73,439	58,298	68,457
Cash and cash equivalents, end of year	**$84,550**	**$73,439**	**$58,298**
Supplemental disclosure of cash flow information			
Cash paid during the year for interest	$598	$758	$2,325
Cash paid during the year for income taxes	$20,139	$9,856	$15,431
Supplemental disclosure of non-cash investing activities			
Purchases of property, plant and equipment included in accounts payable	$598	$467	$444

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1 Nature of Business and Summary of Significant Accounting Policies

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 SPs, distributed enterprises and small and medium-sized businesses, public and private enterprises, and millions of individual users worldwide.

Principles of Consolidation

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

Changes in Classifications

We reclassified $2.3 million from other receivables to accounts receivable and $0.8 million from inventory to prepaid expenses and other current assets at December 31, 2014 to conform to the current period presentation.

Out of Period Adjustment

In connection with the preparation of our Consolidated Financial Statements, we recorded corrections of certain out of period, immaterial misstatements that occurred in prior periods, the most significant of which resulted in an increase in Other Expense of $1.3 million in the first quarter of 2015. The aggregate impact of the corrections was a $0.3 million reduction to pre-tax income for the year ended December 31, 2015 and was not material to the current or prior year's annual results.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents represent demand deposits, money market funds, and short-term investments classified as available-for-sale with original maturities of three months or less. We maintain depository investments with certain financial institutions. Although these depository investments may exceed government insured depository limits, we have evaluated the credit worthiness of these applicable financial institutions, and determined the risk of material financial loss due to the exposure of such credit risk to be minimal. As of December 31, 2015, $80.8 million of our cash and cash equivalents, primarily certain domestic money market funds and foreign depository accounts, were in excess of government provided insured depository limits.

Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the immediate or short-term maturity of these financial instruments. The carrying amount reported for bonds payable was $28.9 million, compared to an estimated fair value of $28.7 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor's credit rating of AAA.

Investments with contractual maturities beyond one year, such as our municipal variable rate demand notes, may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. Despite the long-term nature of their stated contractual maturities, we routinely buy and sell these securities and we believe we have the ability to quickly sell them 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. All income generated from these investments was recorded as interest income. We have not been required to record any losses relating to municipal variable rate demand notes.

Long-term investments represent a restricted certificate of deposit held at cost, deferred compensation plan assets, corporate bonds, municipal fixed-rate bonds, asset-backed bonds, mortgage/agency backed bonds, government bonds, marketable equity securities, and other equity investments. Marketable equity securities are reported at fair value as determined by the most recently traded price of the securities at the balance sheet date, although the securities may not be readily marketable due to the size of the available market. Unrealized gains and losses, net of tax, are reported as a separate component of stockholders' equity. Realized gains and losses on sales of securities are computed under the specific identification method and are included in current income. We periodically review our investment portfolio for investments considered to have sustained an other-than-temporary decline in value. Impairment charges for other-than-temporary declines in value are recorded as realized losses in the accompanying consolidated statements of income. All of our investments at December 31, 2015 and 2014 are classified as available-for-sale securities. See Note 3 of Notes to Consolidated Financial Statements for additional information.

Accounts Receivable

We record accounts receivable at net realizable value. Prior to issuing payment terms to a new customer, we perform a detailed credit review of the customer. Credit limits and payment terms are established for each new customer, and are reviewed periodically based on customer collection experience and other financial factors, for revision. At December 31, 2015, three customers accounted for 37.3% of our total accounts receivable. At December 31, 2014, two customers accounted for 24.5% of our total accounts receivable.

We maintain an allowance for doubtful accounts for losses resulting from the inability of our customers to make required payments. We regularly review the allowance for doubtful accounts and consider factors such as the age of accounts receivable balances, the current economic conditions that may affect a customer's ability to pay, significant one-time events and our historical experience. If the financial condition of a customer deteriorates, resulting in an impairment of their ability to make payments, we may be required to record an allowance for doubtful accounts. If circumstances change with regard to individual receivable balances that have previously been determined to be uncollectible (and for which a specific reserve has been established), a reduction in our allowance for doubtful accounts may be required. Our allowance for doubtful accounts was $19 thousand and $0.1 million at December 31, 2015 and December 31, 2014, respectively.

Other Receivables

Other receivables are comprised primarily of amounts due from subcontract manufacturers for product component transfers, accrued interest on investments and on a restricted certificate of deposit, amounts due from various jurisdictions for value-added tax, and amounts due from employee stock option exercises. At December 31, 2014, other receivables also included a receivable due from NSN related to working capital items settled during the fourth quarter of 2014 and collected in January 2015.

Inventory

Inventory is carried at the lower of cost or market, with cost being determined using the first-in, first-out method. Standard costs for material, labor and manufacturing overhead are used to value inventory. Standard costs are updated at least quarterly; therefore, inventory costs approximate actual costs at the end of each reporting period. We establish reserves for estimated excess, obsolete or unmarketable inventory equal to the difference between the cost of the inventory and the estimated fair value of the inventory based upon assumptions about future demand and market conditions. When we dispose of excess and obsolete inventories, the related disposals are charged against the inventory reserve. See Note 5 of Notes to Consolidated Financial Statements for additional information.

Property, Plant and Equipment

Property, plant and equipment, which is stated at cost, is depreciated using the straight-line method over the estimated useful lives of the assets. We depreciate building and land improvements from five to 39 years, office machinery and equipment from three to seven years, engineering machinery and equipment from three to seven years, and computer software from three to five years. Expenditures for repairs and maintenance are charged to expense as incurred. Betterments that materially prolong the lives of the assets are capitalized. Gains and losses on the disposal of property, plant and equipment are recorded in operating expenses. See Note 6 of Notes to Consolidated Financial Statements for additional information.

Liability for Warranty

Our products generally include warranties of 90 days 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 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 $8.7 million and $8.4 million at December 31, 2015 and 2014, respectively. These liabilities are included in accrued expenses in the accompanying consolidated balance sheets.

A summary of warranty expense and write-off activity for the years ended December 31, 2015, 2014 and 2013 is as follows:

(In thousands)

Year Ended December 31,	2015	2014	2013
Balance at beginning of period	$8,415	$8,977	$9,653
Plus: Amounts charged to cost and expenses	2,998	3,103	4,051
Less: Deductions	(2,674)	(3,665)	(4,727)
Balance at end of period	**$8,739**	**$8,415**	**$8,977**

Pension Benefit Plan Obligations

We maintain a defined benefit pension plan covering employees in certain foreign countries. Pension benefit plan obligations are based on various assumptions used by our actuaries in calculating these amounts. These assumptions include discount rates, compensation rate increases, expected return on plan assets, retirement rates and mortality rates. Actual results that differ from the assumptions and changes in assumptions could affect future expenses and obligations.

Stock-Based Compensation

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

Under the provisions of our approved plans, we made grants of performance-based restricted stock units to certain of our executive officers in 2015, 2014, and 2013. The restricted stock units are subject to a market condition based on the relative total shareholder return of ADTRAN against all the companies in the NASDAQ Telecommunications Index and vest at the end of a three-year performance period. The restricted stock units are converted into shares of common stock upon vesting. Depending on the relative total shareholder return over the performance period, the executive officers may earn from 0% to 150% of the number of restricted stock units granted. The fair value of the award is based on the market price of our common stock on the date of grant, adjusted for the expected outcome of the impact of market conditions using a Monte Carlo Simulation valuation method. The recipients of the restricted stock units also earn dividend credits during the performance period, which will be paid in cash upon the issuance of common stock for the restricted stock units.

Stock-based compensation expense recognized in 2015, 2014 and 2013 was approximately $6.7 million, $8.6 million and $9.1 million, respectively. As of December 31, 2015, total compensation cost related to non-vested stock options, restricted stock units and restricted stock not yet recognized was approximately $14.8 million, which is expected to be recognized over an average remaining recognition period of 2.7 years. See Note 2 of Notes to Consolidated Financial Statements for additional information.

Impairment of Long-Lived Assets

We review long-lived assets used in operations for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and the undiscounted cash flows estimated to be generated by the asset are less than the asset's carrying value. An impairment loss would be recognized in the amount by which the recorded value of the asset exceeds the fair value of the asset, measured by the quoted market price of an asset or an estimate based on the best information available in the circumstances. There were no impairment losses recognized during 2015, 2014 or 2013.

Goodwill and Purchased Intangible Assets

We evaluate the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. When evaluating whether goodwill is impaired, we first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If we determine that the two-step quantitative test is necessary, then we compare the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds its fair value, then the amount of the impairment loss is measured. There were no impairment losses recognized during 2015, 2014 or 2013. Purchased intangible assets with finite lives are carried at cost, less accumulated amortization. Amortization is recorded over the estimated useful lives of the respective assets, which is 2.5 to 14 years.

Research and Development Costs

Research and development costs include compensation for engineers and support personnel, outside contracted services, depreciation and material costs associated with new product development, the enhancement of current products, and product cost reductions. We continually evaluate new product opportunities and engage in intensive research and product development efforts. Research and development costs totaled $129.9 million, $132.3 million and $131.1 million for the years ended December 31, 2015, 2014 and 2013, respectively.

Other Comprehensive Income

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

The following table presents changes in accumulated other comprehensive income, net of tax, by component for the years ended December 31, 2013, 2014 and 2015:

(In thousands)	Unrealized Gains (Losses) on Available-for-Sale Securities	Defined Benefit Plan Adjustments	Foreign Currency Adjustments	Total
Balance at December 31, 2012	**$10,108**	**$(1,952)**	**$3,112**	**$11,268**
Other comprehensive income (loss) before reclassifications	5,508	1,061	(2,205)	4,364
Amounts reclassified from accumulated other comprehensive income	(4,879)	—	—	(4,879)
Balance at December 31, 2013	**$10,737**	**$(891)**	**$907**	**$10,753**
Other comprehensive income (loss) before reclassifications	2,363	(4,866)	(4,189)	(6,692)
Amounts reclassified from accumulated other comprehensive income	(4,136)	—	—	(4,136)
Balance at December 31, 2014	**$8,964**	**$(5,757)**	**$(3,282)**	**$(75)**
Other comprehensive income (loss) before reclassifications	(844)	1,589	(3,724)	(2,979)
Amounts reclassified from accumulated other comprehensive income	(6,188)	273	—	(5,915)
Balance at December 31, 2015	**$1,932**	**$(3,895)**	**$(7,006)**	**$(8,969)**

The following tables present the details of reclassifications out of accumulated other comprehensive income for the years ended December 31, 2015, 2014 and 2013:

(In thousands)	2015	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income Is Presented
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$10,348	Net realized investment gain
Impairment expense	(203)	Net realized investment gain
Defined benefit plan adjustments – actuarial losses	(396)	*(1)*
Total reclassifications for the period, before tax	9,749	
Tax (expense) benefit	(3,834)	
Total reclassifications for the period, net of tax	**$5,915**	

(1) Included in the computation of net periodic pension cost. See Note 10 of Notes to Consolidated Financial Statements.

(In thousands)	2014	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income Is Presented
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$6,895	Net realized investment gain
Impairment expense	(115)	Net realized investment gain
Total reclassifications for the period, before tax	6,780	
Tax (expense) benefit	(2,644)	
Total reclassifications for the period, net of tax	**$4,136**	

(In thousands)	2013	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statement Where Net Income Is Presented
Unrealized gains (losses) on available-for-sale securities:		
Net realized gain on sales of securities	$8,023	Net realized investment gain
Impairment expense	(25)	Net realized investment gain
Total reclassifications for the period, before tax	7,998	
Tax (expense) benefit	(3,119)	
Total reclassifications for the period, net of tax	**$4,879**	

The following tables present the tax effects related to the change in each component of other comprehensive income for the years ended December 31, 2015, 2014 and 2013:

		2015	
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$(1,384)	$540	(844)
Reclassification adjustment for amounts included in net income	(9,749)	3,834	(5,915)
Defined benefit plan adjustments	2,303	(714)	1,589
Foreign currency translation adjustment	(3,724)	—	(3,724)
Total Other Comprehensive Income (Loss)	**$(12,554)**	**$3,660**	**$(8,894)**

		2014	
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$3,874	$(1,511)	$2,363
Reclassification adjustment for amounts included in net income	(6,780)	2,644	(4,136)
Defined benefit plan adjustments	(7,052)	2,186	(4,866)
Foreign currency translation adjustment	(4,189)	—	(4,189)
Total Other Comprehensive Income (Loss)	**$(14,147)**	**$3,319**	**$(10,828)**

		2013	
(In thousands)	Before-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized gains (losses) on available-for-sale securities	$9,030	$(3,522)	$5,508
Reclassification adjustment for amounts included in net income	(7,998)	3,119	(4,879)
Defined benefit plan adjustments	1,061	—	1,061
Foreign currency translation adjustment	(2,205)	—	(2,205)
Total Other Comprehensive Income (Loss)	**$(112)**	**$(403)**	**$(515)**

Income Taxes

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

We establish reserves to remove some or all of the tax benefit of any of our tax positions at the time we determine that the positions become uncertain. We adjust these reserves, including any impact on the related interest and penalties, as facts and circumstances change.

Foreign Currency

We record transactions denominated in foreign currencies on a monthly basis using exchange rates from throughout the year. Assets and liabilities denominated in foreign currencies are translated at the balance sheet dates using the closing rates of exchange between those foreign currencies and the functional currency with any transaction gains or losses reported in other income (expense). Our primary exposures to foreign currency exchange rate movements are with our Mexican subsidiary, whose functional currency is the United States dollar, German subsidiary, whose functional currency is the Euro, and our Australian subsidiary, whose functional currency is the Australian dollar. Adjustments resulting from translating financial statements of international subsidiaries are recorded as a component of accumulated other comprehensive income (loss).

Revenue Recognition

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the product price is fixed or determinable, collection of the resulting receivable is reasonably assured, and product returns are reasonably estimable. For product sales, revenue is generally recognized upon shipment of the product to our customer in accordance with the title transfer terms of the sales agreement, generally Ex Works, per International Commercial Terms. In the case of consigned inventory, revenue is recognized when the end customer assumes ownership of the product. Contracts that contain multiple deliverables are evaluated to determine the units of accounting, and the consideration from the arrangement is allocated to each unit of accounting based on the relative selling price and corresponding terms of the contract. We 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 instances, we use best estimates to allocate consideration to each respective unit of accounting. These estimates include analysis of respective bills of material and review and analysis of similar product and service offerings. We record revenue associated with installation services when respective contractual obligations are complete. In instances where customer acceptance is required, revenue is deferred until respective acceptance criteria have been met. Contracts that include both installation services and product sales are evaluated for revenue recognition in accordance with contract terms. As a result, installation services may be considered a separate deliverable or may be considered a combined single unit of accounting with the delivered product. Generally, either the purchaser, ADTRAN, or a third party can perform the installation of our products. Shipping fees are recorded as revenue and the related cost is included in cost of sales. Sales taxes invoiced to customers are included in revenues, and represent less than one percent of total revenues. The corresponding sales taxes paid are included in cost of goods sold. Value added taxes collected from customers in international jurisdictions are recorded in accrued expenses as a liability. Revenue is recorded net of discounts. Sales returns are accrued based on historical sales return experience, which we believe provides a reasonable estimate of future returns.

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

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

Unearned Revenue

Unearned revenue primarily represents customer billings on our maintenance service programs and unearned revenues relating to multiple element contracts where we still have contractual obligations to our customers. We currently offer maintenance contracts ranging from one to five years, primarily on Enterprise Networks Division products sold through distribution channels. Revenue attributable to maintenance contracts is recognized on a straight-line basis over the related contract term. In addition, we provide software maintenance and a variety of hardware maintenance services to Carrier Networks Division customers under contracts with terms up to ten years. When we defer revenue related to multiple-element contracts where we still have contractual obligations, we also defer the related costs. Deferred costs are included in prepaid expenses and other assets and totaled $5.2 million and $0.8 million at December 31, 2015 and 2014, respectively.

Other Income (Expense), Net

Other income (expense), net, is comprised primarily of miscellaneous income and expense, gains and losses on foreign currency transactions, and investment account management fees. For the year ended December 31, 2014, other income (expense), net included a $2.4 million gain related to the settlement of working capital items from an acquisition transaction that closed in 2012.

Earnings per Share

Earnings per common share, and earnings per common share assuming dilution, are based on the weighted average number of common shares and, when dilutive, common equivalent shares outstanding during the year. See Note 13 of Notes to Consolidated Financial Statements for additional information.

Dividends

During 2015, 2014 and 2013, we paid shareholder dividends totaling $18.4 million, $19.9 million and $21.4 million, respectively. The Board of Directors presently anticipates that it will declare a regular quarterly dividend so long as the present tax treatment of dividends exists and adequate levels of liquidity are maintained. The following table shows dividends paid to our shareholders in each quarter of 2015, 2014 and 2013.

Dividends per Common Share

2015	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	$0.09	$0.09	$0.09	$0.09
2014	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	$0.09	$0.09	$0.09	$0.09
2013	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
	$0.09	$0.09	$0.09	$0.09

On January 19, 2016, the Board of Directors declared a quarterly cash dividend of $0.09 per common share to be paid to shareholders of record at the close of business on February 4, 2016. The ex-dividend date was February 2, 2016 and the payment date was February 18, 2016. The quarterly dividend payment was $4.4 million.

Business Combinations

We use the acquisition method to account for business combinations. Under the acquisition method of accounting, we recognize the assets acquired and liabilities assumed at their fair value on the acquisition date. Goodwill is measured as the excess of the consideration transferred over the net assets acquired. Costs incurred to complete the business combination, such as legal, accounting or other professional fees, are charged to general and administrative expenses as they are incurred.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, including most industry-specific revenue recognition guidance throughout the Industry Topics of the Codification. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 to fiscal years beginning after December 31, 2017, including interim periods within those years. ASU 2014-09 allows for either full retrospective or modified retrospective adoption. We are currently evaluating the transition method that will be elected and the impact that the adoption of ASU 2014-09 will have on our financial position, results of operations and cash flows.

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

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

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

2 Stock Incentive Plans

Stock Incentive Program Descriptions

On January 23, 2006, the Board of Directors adopted the ADTRAN, Inc. 2006 Employee Stock Incentive Plan (2006 Plan), which authorized 13.0 million shares of common stock for issuance to certain employees and officers through incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. The 2006 Plan was adopted by stockholder approval at our annual meeting of stockholders held on May 9, 2006. Options granted under the 2006 Plan typically become exercisable beginning after one year of continued employment, normally pursuant to a four-year vesting schedule beginning on the first anniversary of the grant date, and have a ten-year contractual term. The 2006 Plan was replaced on May 13, 2015 by the ADTRAN, Inc. 2015 Employee Stock Incentive Plan (2015 Plan). Expiration dates of options outstanding at December 31, 2015 under the 2006 Plan range from 2016 to 2025.

Our stockholders approved the 2010 Directors Stock Plan (2010 Directors Plan) on May 5, 2010, under which 0.5 million shares of common stock have been reserved. This plan replaces the 2005 Directors Stock Option Plan. The 2010 Directors Plan provides that the Company may issue stock options, restricted stock and restricted stock units to our non-employee directors. Stock awards issued under the 2010 Directors Plan normally become vested in full on the first anniversary of the grant date. Options issued under the 2010 Directors Plan have a ten-year contractual term. Expiration dates of options outstanding under both plans at December 31, 2015 range from 2016 to 2019.

On January 20, 2015, the Board of Directors adopted the 2015 Plan, which authorizes 7.7 million shares of common stock for issuance to certain employees and officers through incentive stock options and non-qualified stock options, stock appreciation rights, restricted stock and restricted stock units. The 2015 Plan was adopted by stockholder approval at our annual meeting of stockholders held on May 13, 2015. Restricted stock and restricted stock units granted under the 2015 Plan reduce the shares authorized for issuance under the 2015 Plan by 2.5 shares of common stock for each share underlying the award. Options granted under the 2015 Plan typically become exercisable beginning after one year of continued employment, normally pursuant to a four-year vesting schedule beginning on the first anniversary of the grant date, and have a ten-year contractual term. Expiration dates of options outstanding at December 31, 2015 under the 2015 Plan are in the year 2025.

The following table summarizes stock-based compensation expense related to stock options, RSUs and restricted stock for the years ended December 31, 2015, 2014 and 2013, which was recognized as follows:

(In thousands)	2015	2014	2013
Stock-based compensation expense included in cost of sales	**$280**	**$479**	**$465**
Selling, general and administrative expense	3,261	4,185	4,443
Research and development expense	3,171	3,899	4,165
Stock-based compensation expense included in operating expenses	**6,432**	**8,084**	**8,608**
Total stock-based compensation expense	**6,712**	**8,563**	**9,073**
Tax benefit for expense associated with non-qualified options	(862)	(1,157)	(1,298)
Total stock-based compensation expense, net of tax	**$5,850**	**$7,406**	**$7,775**

At December 31, 2015, total compensation cost related to non-vested stock options not yet recognized was approximately $13.3 million, which is expected to be recognized over an average remaining recognition period of 2.8 years.

Stock Options

The following table is a summary of our stock options outstanding as of December 31, 2014 and 2015 and the changes that occurred during 2015:

(In thousands, except per share amounts)	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value
Options outstanding, December 31, 2014	**6,981**	**$23.62**	**6.45**	**$10,625**
Options granted	1,204	$15.35		
Options exercised	(60)	$16.00		
Options forfeited	(289)	$20.86		
Options expired	(728)	$27.75		
Options outstanding, December 31, 2015	**7,108**	**$21.97**	**6.42**	**$3,284**
Options vested and expected to vest, December 31, 2015	**6,954**	**$22.09**	**6.35**	**$3,094**
Options exercisable, December 31, 2015	**4,506**	**$24.29**	**4.93**	**$978**

All of the options above were issued at exercise prices that approximated fair market value at the date of grant. At December 31, 2015, 6.7 million options were available for grant under the shareholder approved plans.

The aggregate intrinsic values in the table above represent the total pre-tax intrinsic value (the difference between ADTRAN's closing stock price on the last trading day of 2015 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on December 31, 2015. The amount of aggregate intrinsic value will change based on the fair market value of ADTRAN's stock.

The total pre-tax intrinsic value of options exercised during 2015, 2014 and 2013 was $0.1 million, $0.7 million and $1.1 million, respectively. The fair value of options fully vesting during 2015, 2014 and 2013 was $6.6 million, $7.7 million and $7.7 million, respectively.

The following table further describes our stock options outstanding as of December 31, 2015:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	Options Outstanding at 12/31/15 *(in thousands)*	Weighted Avg. Remaining Contractual Life in Years	Weighted Average Exercise Price	Options Exercisable at 12/31/15 *(in thousands)*	Weighted Average Exercise Price
$14.88 – 16.96	1,628	8.03	$15.32	430	$15.27
$16.97 – 18.97	1,798	8.02	$18.14	827	$17.63
$18.98 – 23.46	1,290	2.65	$23.08	1,288	$23.08
$23.47 – 29.71	967	7.43	$24.15	536	$24.38
$29.72 – 41.92	1,425	5.29	$31.94	1,425	$31.94
	7,108			**4,506**	

Restricted Stock and RSUs

Under the 2015 Plan, awards other than stock options, including restricted stock and RSUs, may be granted to certain employees and officers. The number of shares of common stock earned by a recipient pursuant to the RSUs is subject to a market condition based on ADTRAN's relative total shareholder return against all companies in the NASDAQ Telecommunications Index at the end of a three-year performance period. Depending on the relative total shareholder return over the performance period, the recipient may earn from 0% to 150% of the shares underlying the RSUs, with the shares earned distributed upon the vesting of the RSUs at the end of the three-year performance period. The fair value of the award is based on the market price of our common stock on the date of grant, adjusted for the expected outcome of the impact of market conditions using a Monte Carlo Simulation valuation method. A portion of the granted RSUs also vest and the underlying shares become deliverable upon the death or disability of the recipient or upon a change of control of ADTRAN, as defined by the 2015 Plan. The recipients of the RSUs receive dividend credits based on the shares of common stock underlying the RSUs. The dividend credits are vested and earned in the same manner as the RSUs and are paid in cash upon the issuance of common stock for the RSUs.

The following table is a summary of our RSUs and restricted stock outstanding as of December 31, 2014 and 2015 and the changes that occurred during 2015:

(In thousands except per share amounts)	Number of Shares	Weighted Average Grant Date Fair Value
Unvested RSUs and restricted stock outstanding, December 31, 2014	**104**	**$22.81**
RSUs and restricted stock granted	57	$17.47
RSUs and restricted stock vested	(38)	$20.71
RSUs and restricted stock forfeited	(12)	$23.10
Adjustments to shares granted due to shares earned at vesting	(5)	$19.90
Unvested RSUs and restricted stock outstanding, December 31, 2015	**106**	**$21.09**

At December 31, 2015, total compensation cost related to the non-vested portion of RSUs and restricted stock not yet recognized was approximately $1.5 million, which is expected to be recognized over an average remaining recognition period of 1.9 years.

Valuation and Expense Information

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

The stock option pricing model requires the use of several assumptions that impact the fair value estimate. These variables include, but are not limited to, the volatility of our stock price and employee exercise behaviors. There were no changes made during 2015 to the methodology used to determine our assumptions.

The weighted-average estimated fair value of stock options granted to employees during the years ended December 31, 2015, 2014 and 2013 was $4.28 per share, $6.31 per share and $8.35 per share, respectively, with the following weighted-average assumptions:

	2015	2014	2013
Expected volatility	34.57%	39.05%	39.92%
Risk-free interest rate	1.81%	1.79%	1.71%
Expected dividend yield	2.35%	1.90%	1.52%
Expected live (in years)	6.23	6.33	6.36

We based our estimate of expected volatility for the years ended December 31, 2015, 2014 and 2013 on the sequential historical daily trading data of our common stock for a period equal to the expected life of the options granted. The selection of the historical volatility method was based on available data indicating our historical volatility is as equally representative of our future stock price trends as is our implied volatility. We have no reason to believe the future volatility of our stock price is likely to differ from its past volatility.

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

The RSU pricing model also requires the use of several significant assumptions that impact the fair value estimate. The estimated fair value of the RSUs granted to employees during the years ended December 31, 2015, 2014 and 2013 was $17.64 per share, $22.11 per share and $27.72 per share, respectively, with the following assumptions:

	2015	2014	2013
Expected volatility	31.34%	36.40%	38.83%
Risk-free interest rate	1.20%	0.96%	0.61%
Expected dividend yield	2.35%	1.89%	1.52%

Stock-based compensation expense recognized in our Consolidated Statements of Income for the years ended December 31, 2015, 2014 and 2013 is based on RSUs and options ultimately expected to vest, and has been reduced for estimated forfeitures. Estimates for forfeiture rates are based upon historical experience and are evaluated quarterly. We expect our forfeiture rate for stock option awards to be approximately 3.7% annually. We estimated a 0% forfeiture rate for our RSUs and restricted stock due to the limited number of recipients and historical experience for these awards.

3 Investments

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

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

At December 31, 2014, we held the following securities and investments, recorded at either fair value or cost:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value/ Carrying Value
Deferred compensation plan assets	$13,897	$2,409	$(12)	$16,294
Corporate bonds	111,261	186	(186)	111,261
Municipal fixed-rate bonds	127,341	480	(34)	127,787
Municipal variable rate demand notes	2,465	—	—	2,465
Marketable equity securities	26,399	12,395	(539)	38,255
Available-for-sale securities held at fair value	**$281,363**	**$15,470**	**$(771)**	**$296,062**
Restricted investment held at cost				**30,000**
Other investments held at cost				**1,506**
Total carrying value of available-for-sale investments				**$327,568**

As of December 31, 2015, corporate and municipal fixed-rate bonds had the following contractual maturities:

(In thousands)	Corporate bonds	Municipal fixed-rate bonds	Asset-backed bonds	Mortgage/ Agency-backed bonds	Government bonds
Less than one year	$14,852	$19,544	$—	$—	$—
One to two years	23,364	4,982	238	1,000	2,949
Two to three years	19,398	1,679	6,126	2,495	17,264
Three to five years	—	219	9,337	—	15,185
Five to ten years	—	—	3,235	603	—
More than ten years	—	—	303	11,275	—
Total	**$57,614**	**$26,424**	**$19,239**	**$15,373**	**$35,398**

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 review our investment portfolio for potential "other-than-temporary" declines in value on an individual investment basis. We assess, on a quarterly basis, significant declines in value which may be considered other-than-temporary and, if necessary, recognize and record the appropriate charge to write-down the carrying value of such investments. In making this assessment, we take into consideration qualitative and quantitative information, including but not limited to the following: the magnitude and duration of historical declines in market prices, credit rating activity, assessments of liquidity, public filings, and statements made by the issuer. We generally begin our identification of potential other-than-temporary impairments by reviewing any security with a fair value that has declined from its original or adjusted cost basis by 25% or more for six or more consecutive months. We then evaluate the individual security based on the previously identified factors to determine the amount of the write-down, if any. For each of the years ended December 31, 2015, 2014 and 2013, we recorded a charge of $0.2 million, $0.1 million and $25 thousand, respectively, related to the other-than-temporary impairment of certain marketable equity securities and our deferred compensation plan assets.

Realized gains and losses on sales of securities are computed under the specific identification method. The following table presents gross realized gains and losses related to our investments for the years ended December 31, 2015, 2014 and 2013:

(In thousands)

Year Ended December 31,	2015	2014	2013
Gross realized gains	$10,906	$7,586	$8,932
Gross realized losses	$(569)	$(308)	$(318)

The following table presents the breakdown of investments with unrealized losses at December 31, 2015:

(In thousands)	Continuous Unrealized Loss Position for Less than 12 Months		Continuous Unrealized Loss Position for 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Deferred compensation plan assets	$1,243	$(53)	$92	$(13)	$1,335	$(66)
Corporate bonds	35,952	(566)	3,042	(168)	38,994	(734)
Municipal fixed-rate bonds	9,160	(18)	—	—	9,160	(18)
Asset-backed bonds	16,857	(44)	—	—	16,857	(44)
Mortgage/Agency-backed bonds	15,216	(91)	—	—	15,216	(91)
Government bonds	35,397	(248)	—	—	35,397	(248)
Marketable equity securities	14,364	(1,564)	374	(129)	14,738	(1,693)
Total	**$128,189**	**$(2,584)**	**$3,508**	**$(310)**	**$131,697**	**$(2,894)**

The following table presents the breakdown of investments with unrealized losses at December 31, 2014:

(In thousands)	Continuous Unrealized Loss Position for Less than 12 Months		Continuous Unrealized Loss Position for 12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Deferred compensation plan assets	$49	$(3)	$278	$(9)	$327	$(12)
Corporate bonds	31,021	(186)	—	—	31,021	(186)
Municipal fixed-rate bonds	30,339	(34)	—	—	30,339	(34)
Marketable equity securities	4,824	(478)	208	(61)	5,032	(539)
Total	**$66,233**	**$(701)**	**$486**	**$(70)**	**$66,719**	**$(771)**

The increase in unrealized losses during 2015, as reflected in the table above results from changes in market positions associated with our equity investment portfolio. At December 31, 2015, a total of 594 of our marketable equity securities were in an unrealized loss position.

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

Fair Value Measurements at December 31, 2015 Using

(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$1,271	$1,271	$—	$—
Commercial paper	11,696	—	11,696	$—
Cash equivalents	**12,967**	**1,271**	**11,696**	**$—**
Available-for-sale securities				
Deferred compensation plan assets	12,834	12,834	—	—
Available-for-sale debt securities				
Corporate bonds	57,614	—	57,614	—
Municipal fixed-rate bonds	26,424	—	26,424	—
Asset-backed bonds	19,239	—	19,239	—
Mortgage/Agency-backed bonds	15,373	—	15,373	—
Government bonds	35,398	35,398	—	—
Available-for-sale marketable equity securities				
Marketable equity securities—technology industry	5,384	5,384	—	—
Marketable equity securities—other	28,867	28,867	—	—
Available-for-sale securities	**201,133**	**82,483**	**118,650**	**—**
Total	**$214,100**	**$83,754**	**$130,346**	**$—**

Fair Value Measurements at December 31, 2014 Using

(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Money market funds	$1,163	$1,163	$—	$—
Available-for-sale securities				
Deferred compensation plan assets	16,294	16,294	—	—
Available-for-sale debt securities				
Corporate bonds	111,261	—	111,261	—
Municipal fixed-rate bonds	127,787	—	127,787	—
Municipal variable rate demand notes	2,465	—	2,465	—
Available-for-sale marketable equity securities				
Marketable equity securities—technology industry	9,661	9,661	—	—
Marketable equity securities—other	28,594	28,594	—	—
Available-for-sale securities	**296,062**	**54,549**	**241,513**	**—**
Total	**$297,225**	**$55,712**	**$241,513**	**$—**

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

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

4 Derivative Instruments and Hedging Activities

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

As of December 31, 2015, we had no forward contracts outstanding.

The fair values of our derivative instruments recorded in the Consolidated Balance Sheet as of December 31, 2015 and 2014 were as follows:

(In thousands)	Balance Sheet Location	2015	2014
Derivatives Not Designated as Hedging Instruments (Level 2):			
Foreign exchange contracts – asset derivatives	Other receivables	$—	$249
Foreign exchange contracts – liability derivatives	Accounts payable	$—	$(10)

The change in the fair values of our derivative instruments recorded in the Consolidated Statements of Income during the years ended December 31, 2015 and 2014 were as follows:

(In thousands)	Income Statement Location	2015	2014
Derivatives Not Designated as Hedging Instruments:			
Foreign exchange contracts	Other income (expense)	$511	$1,852

5 Inventory

At December 31, 2015 and 2014, inventory was comprised of the following:

(In thousands)	2015	2014
Raw materials	$34,223	$34,831
Work in process	2,893	3,750
Finished goods	54,417	47,367
Total Inventory, net	**$91,533**	**$85,948**

We establish reserves for estimated excess, obsolete, or unmarketable inventory equal to the difference between the cost of the inventory and the estimated fair value of the inventory based upon assumptions about future demand and market conditions. At December 31, 2015 and 2014, raw materials reserves totaled $17.5 million and $16.9 million, respectively, and finished goods inventory reserves totaled $9.2 million and $7.8 million, respectively.

6 Property, Plant and Equipment

At December 31, 2015 and 2014, property, plant and equipment were comprised of the following:

(In thousands)	2015	2014
Land	$4,575	$4,575
Building and land improvements	25,667	22,374
Building	68,301	68,301
Furniture and fixtures	17,347	16,468
Computer hardware and software	76,389	74,603
Engineering and other equipment	112,132	109,501
Total Property, Plant and Equipment	**304,411**	**295,822**
Less accumulated depreciation	(231,178)	(220,994)
Total Property, Plant and Equipment, net	**$73,233**	**$74,828**

Depreciation expense was $12.3 million, $12.5 million and $12.2 million in 2015, 2014, and 2013, respectively.

7 Goodwill and Intangible Assets

Goodwill, all of which relates to our acquisition of Bluesocket, Inc. and is included in our Enterprise Networks division, was $3.5 million at December 31, 2015 and 2014. We evaluate the carrying value of goodwill during the fourth quarter of each year and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. We have elected to first assess the qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit to which the goodwill is assigned is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. If we determine that it is more likely than not that its fair value is less than its carrying amount, then the two-step impairment test will be performed. Based on the results of our qualitative assessment in 2015, we concluded that it was not necessary to perform the two-step impairment test. There have been no impairment losses recognized since the acquisition in 2011.

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

The following table presents our intangible assets as of December 31, 2015 and 2014:

(In thousands)	2015			2014		
	Gross Value	Accumulated Amortization	Net Value	Gross Value	Accumulated Amortization	Net Value
Customer relationships	$5,828	$(2,627)	$3,201	$6,310	$(2,136)	$4,174
Developed technology	5,720	(4,329)	1,391	6,005	(3,577)	2,428
Intellectual property	2,340	(1,854)	486	2,340	(1,520)	820
Trade names	270	(265)	5	270	(205)	65
Other	11	(11)	—	12	(11)	1
Total	**$14,169**	**$(9,086)**	**$5,083**	**$14,937**	**$(7,449)**	**$7,488**

Amortization expense was $1.9 million, $2.3 million and $2.4 million for the years ended December 31, 2015, 2014 and 2013, respectively.

As of December 31, 2015, the estimated future amortization expense of intangible assets is as follows:

(In thousands)	Amount
2016	$1,657
2017	1,150
2018	694
2019	301
2020	279
Thereafter	1,002
Total	**$5,083**

8 Alabama State Industrial Development Authority Financing and Economic Incentives

In conjunction with an expansion of our Huntsville, Alabama, facility, we were approved for participation in an incentive program offered by the State of Alabama Industrial Development Authority (the "Authority"). Pursuant to the program, on January 13, 1995, the Authority issued $20.0 million of its taxable revenue bonds and loaned the proceeds from the sale of the bonds to ADTRAN. The bonds were originally purchased by AmSouth Bank of Alabama, Birmingham, Alabama (the "Bank"). Wachovia Bank, N.A., Nashville, Tennessee (formerly First Union National Bank of Tennessee) (the "Bondholder"), which was acquired by Wells Fargo & Company on December 31, 2008, purchased the original bonds from the Bank and made further advances to the Authority, bringing the total amount outstanding to $50.0 million. An Amended and Restated Taxable Revenue Bond ("Amended and Restated Bond") was issued and the original financing agreement was amended. The Amended and Restated Bond bears interest, payable monthly. The interest rate is 2% per annum. The Amended and Restated Bond matures on January 1, 2020, and is currently outstanding in the aggregate principal amount of $28.9 million. The estimated fair value of the bond using a level 2 valuation technique at December 31, 2015 was approximately $28.7 million, based on a debt security with a comparable interest rate and maturity and a Standard & Poor's credit rating of AAA. We are required to make payments to the Authority in amounts necessary to pay the interest on the Amended and Restated Bond. Included in long-term investments at December 31, 2015 is $30.0 million which is invested in a restricted certificate of deposit. These funds serve as a collateral deposit against the principal of this bond, and we have the right to set-off the balance of the Bond with the collateral deposit in order to reduce the balance of the indebtedness.

In conjunction with this program, we are eligible to receive certain economic incentives from the state of Alabama that reduce the amount of payroll withholdings that we are required to remit to the state for those employment positions that qualify under the program. We realized economic incentives related to payroll withholdings totaling $1.3 million for each of the years ended December 31, 2015, 2014 and 2013.

We made a principal payment of $1.1 million and $16.5 million for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015, $1.0 million of the bond debt was classified as a current liability in accounts payable in the Consolidated Balance Sheets.

9 Income Taxes

A summary of the components of the provision for income taxes for the years ended December 31, 2015, 2014 and 2013 is as follows:

(In thousands)	2015	2014	2013
Current			
Federal	$7,504	$7,626	$15,641
State	279	599	2,041
International	(29)	12,587	1,437
Total Current	**7,754**	**20,812**	**19,119**
Deferred			
Federal	(585)	(1,083)	(3,606)
State	(66)	(123)	(412)
International	(41)	(4,320)	(40)
Total Deferred	**(692)**	**(5,526)**	**(4,058)**
Total Provision for Income Taxes	**$7,062**	**$15,286**	**$15,061**

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

	2015	2014	2013
Tax provision computed at the federal statutory rate	35.00%	35.00%	35.00%
State income tax provision, net of federal benefit	4.86	2.69	3.98
Federal research credits	(12.55)	(4.05)	(9.24)
Foreign taxes	2.10	(7.26)	(2.93)
Tax-exempt income	(1.94)	(1.25)	(1.11)
State tax incentives	(5.04)	(2.21)	(2.19)
Stock-based compensation	6.91	3.06	2.97
Domestic production activity deduction	(3.17)	(1.15)	(1.80)
Other, net	1.30	0.69	0.07
Effective Tax Rate	**27.47%**	**25.52%**	**24.75%**

Income before provision for income taxes for the years ended December 31, 2015, 2014 and 2013 is as follows:

(In thousands)	2015	2014	2013
U.S. entities	$27,400	$23,812	$51,752
International entities	(1,692)	36,094	9,103
Total	**$25,708**	**$59,906**	**$60,855**

Income before provision for income taxes for international entities reflects income based on statutory transfer pricing agreements. This amount does not correlate to consolidated international revenues, many of which occur from our U.S. entity.

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

(In thousands)	2015	2014
Current deferred tax assets		
Accounts receivable	$7	$53
Inventory	12,558	10,405
Accrued expenses	6,359	6,637
Total Current Deferred Tax Assets	**18,924**	**17,095**
Non-current deferred tax assets		
Accrued expenses	—	1,232
Deferred compensation	5,072	6,424
Stock-based compensation	4,704	5,832
Uncertain tax positions related to state taxes and related interest	1,026	1,176
Pensions	5,729	4,844
Foreign losses	5,389	3,547
State losses and credit carry-forwards	4,187	4,023
Federal loss and research carry-forwards	5,886	6,998
Valuation allowance	(7,250)	(7,463)
Total Non-current Deferred Tax Assets	**24,743**	**26,613**
Total Deferred Tax Assets	**$43,667**	**$43,708**
Non-current deferred tax liabilities		
Property, plant and equipment	$(3,315)	$(3,632)
Accrued expenses	(2,791)	—
Intellectual property	(476)	(711)
Investments	(70)	(4,576)
Total Non-current Deferred Tax Liabilities	**$(6,652)**	**$(8,919)**
Net Deferred Tax Assets	**$37,015**	**$34,789**

At December 31, 2015 and 2014, non-current deferred taxes related to our investments and our defined benefit pension plan, reflect deferred taxes on the net unrealized gains on available-for-sale investments and deferred taxes on unrealized losses in our pension plan. The net change in non-current deferred taxes associated with these items, a deferred tax benefit of $3.7 million and $3.3 million in 2015 and 2014, respectively, is recorded as an adjustment to other comprehensive income, presented in the Consolidated Statements of Comprehensive Income.

Based upon our results of operations in 2015 and expected profitability in future years in a certain international jurisdiction, we concluded that it is more likely than not certain foreign deferred tax assets will be realized. A reversal of the valuation allowance on these deferred tax assets, which includes a change in estimate of the years beginning balance, resulted in a deferred income tax benefit totaling $4.6 million in 2014. As of December 31, 2015, the remaining valuation allowance primarily relates to deferred tax assets related to state credit carry-forwards from tax credits in excess of our annual tax liability to an individual state where we do not generate sufficient state income to offset the credit and net operating losses in foreign jurisdictions. We believe it is more likely than not that we will not realize the full benefits of the deferred tax assets arising from these losses and credits, and accordingly, we have provided a valuation allowance against these deferred tax assets. The deferred tax assets for foreign and domestic carry-forwards, unamortized research and development costs, and state credit carry-forwards of $16.3 million will expire between 2016 and 2030. The loss carry-forwards were acquired through acquisitions in 2009 and 2011. We will continue to assess the realization of our deferred tax assets and related valuations allowances. We do not provide for U.S. income tax on undistributed earnings of our foreign operations, whose earnings are intended to be permanently reinvested. These earnings are not required to service debt or fund our U.S. operations. It is impracticable to determine the amount of any unrecognized deferred tax liability for temporary differences related to investments in foreign subsidiaries.

During 2015, 2014 and 2013, we recorded an income tax benefit (expense) of ($40) thousand, $0.1 million and $0.2 million, respectively, as an adjustment to equity. This deduction is calculated on the difference between the exercise price of stock option exercises and the market price of the underlying common stock upon exercise.

The change in the unrecognized income tax benefits for the years ended December 31, 2015, 2014 and 2013 is reconciled below:

(In thousands)	2015	2014	2013
Balance at beginning of period	**$3,334**	**$3,240**	**$2,926**
Increases for tax position related to:			
Prior years	—	—	89
Current year	280	522	549
Decreases for tax positions related to:			
Prior years	(29)	—	—
Settlements with taxing authorities	(103)	—	(141)
Expiration of applicable statute of limitations	(945)	(428)	(183)
Balance at end of period	**$2,537**	**$3,334**	**$3,240**

As of December 31, 2015, 2014, and 2013, our total liability for unrecognized tax benefits was $2.5 million, $3.3 million, and $3.2 million, respectively, of which $1.8 million, $2.6 million, and $2.5 million, respectively, would reduce our effective tax rate if we were successful in upholding all of the uncertain positions and recognized the amounts recorded. We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense. As of December 31, 2015, 2014 and 2013, the balances of accrued interest and penalties were $0.9 million, $1.0 million and $1.0 million, respectively.

We do not anticipate a single tax position generating a significant increase or decrease in our liability for unrecognized tax benefits within 12 months of this reporting date. We file income tax returns in the U.S. federal and various state jurisdictions and several foreign jurisdictions. We are currently under audit by the Internal Revenue Service. Generally, we are not subject to changes in income taxes by any taxing jurisdiction for the years prior to 2013.

10 Employee Benefit Plans

Pension Benefit Plan

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

The pension benefit plan obligations and funded status at December 31, 2015 and 2014, are as follows:

(In thousands)	2015	2014
Change in projected benefit obligation:		
Projected benefit obligation at beginning of period	$(30,507)	$(23,354)
Service cost	(1,314)	(1,189)
Interest cost	(615)	(836)
Actuarial gain (loss)	2,325	(8,166)
Benefit payments	81	2
Effects of foreign currency exchange rate changes	3,179	3,036
Projected benefit obligation at end of period	**$(26,851)**	**$(30,507)**
Change in plan assets:		
Fair value of plan assets at beginning of period	$20,338	$20,773
Actual return on plan assets	988	2,315
Effects of foreign currency exchange rate changes	(2,113)	(2,750)
Fair value of plan assets at end of period	**$19,213**	**$20,338**
Funded (unfunded) status at end of period	**$(7,638)**	**$(10,169)**

The accumulated benefit obligation was $25.1 million and $29.2 million at December 31, 2015 and 2014, respectively. The decrease in the accumulated benefit obligation and the change in actuarial gain (loss) is primarily attributable to an increase in the discount rate used in 2015 to determine the accumulated benefit obligation.

The net amounts recognized in the balance sheet for the unfunded pension liability as of December 31, 2015 and 2014 are as follows:

(In thousands)	2015	2014
Current liability	$—	$—
Non-current liability	(7,638)	(10,169)
Total	**$(7,638)**	**$(10,169)**

The components of net periodic pension cost and amounts recognized in other comprehensive income for the years ended December 31, 2015, 2014 and 2013 are as follows:

(In thousands)	2015	2014	2013
Net periodic benefit cost:			
Service cost	$1,314	$1,189	$1,198
Interest cost	615	836	745
Expected return on plan assets	(1,011)	(1,086)	(1,010)
Amortization of actuarial losses	407	—	—
Net periodic benefit cost	**1,325**	**939**	**933**
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net actuarial (gain) loss	(2,303)	7,052	(1,061)
Amortization of actuarial losses	(396)	—	—
Amount recognized in other comprehensive income	**(2,699)**	**7,052**	**(1,061)**
Total recognized in net periodic benefit cost and other comprehensive income	**$(1,374)**	**$7,991**	**$(128)**

The amounts recognized in accumulated other comprehensive income as of December 31, 2015 and 2014 are as follows:

(In thousands)	2015	2014
Net actuarial (gain) loss	$5,245	$7,943

The defined benefit pension plan is accounted for on an actuarial basis, which requires the selection of various assumptions, including an expected rate of return on plan assets and a discount rate. The expected return on our German plan assets that is utilized in determining the benefit obligation and net periodic benefit cost is derived from periodic studies, which include a review of asset allocation strategies, anticipated future long-term performance of individual asset classes, risks using standard deviations and correlations of returns among the asset classes that comprise the plans' asset mix. While the studies give appropriate consideration to recent plan performance and historical returns, the assumptions are primarily long-term, prospective rates of return.

Another key assumption in determining net pension expense is the assumed discount rate to be used to discount plan obligations. The discount rate has been derived from the returns of high-quality, corporate bonds denominated in Euro currency with durations close to the duration of our pension obligations.

The weighted-average assumptions that were used to determine the net periodic benefit cost for the years ended December 31, 2015, 2014 and 2013 are as follows:

	2015	2014	2013
Discount rates	2.20%	3.70%	3.50%
Rate of compensation increase	2.25%	2.25%	2.25%
Expected long-term rates of return	5.40%	5.40%	5.40%

The weighted-average assumptions that were used to determine the benefit obligation at December 31, 2015 and 2014:

	2015	2014
Discount rates	2.64%	2.20%
Rate of compensation increase	2.25%	2.25%

Actuarial gains and losses are recorded in accumulated other comprehensive income. To the extent unamortized gains and losses exceed 10% of the higher of the market-related value of assets or the projected benefit obligation, the excess is amortized as a component of net periodic pension cost over the remaining service period of active participants. We estimate that $0.2 million will be amortized from accumulated other comprehensive income into net periodic pension cost in 2016 for the net actuarial loss.

We do not anticipate making a contribution to this pension plan in 2016. The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid to participants:

(In thousands)	
2016	$242
2017	401
2018	563
2019	739
2020	999
2021-2025	5,054
Total	**$7,998**

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

Fair Value Measurements at December 31, 2015 Using

(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$3	$3	$—	$—
Available-for-sale securities				
Bond funds				
Corporate bonds	11,633	11,633	—	—
Government bonds	1,960	1,960	—	—
Equity funds				
Large cap blend	4,604	4,604	—	—
Large cap value	258	258	—	—
Balanced fund	755	755	—	—
Available-for-sale securities	**19,210**	**19,210**	—	—
Total	**$19,213**	**$19,213**	**$—**	**$—**

Fair Value Measurements at December 31, 2014 Using

(In thousands)	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$4	$4	$—	$—
Available-for-sale securities				
Bond funds				
Corporate bonds	12,587	12,587	—	—
Government bonds	2,172	2,172	—	—
Equity funds				
Large cap blend	4,488	4,488	—	—
Large cap value	268	268	—	—
Balanced fund	819	819	—	—
Available-for-sale securities	**20,334**	**20,334**	—	—
Total	**$20,338**	**$20,338**	**$—**	**$—**

Our investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investments guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by asset class, which is currently 75% for bond funds and 25% for equity funds.

The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plans' actuarial assumptions, and achieve asset returns that are competitive with like institutions employing similar investment strategies.

The investment policy is periodically reviewed by us and a designated third-party fiduciary for investment matters. The policy is established and administered in a manner that is compliant at all times with applicable government regulations.

401(k) Savings Plan

We maintain the ADTRAN, Inc. 401(k) Retirement Plan (Savings Plan) for the benefit of our eligible employees. The Savings Plan is intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended (Code), and is intended to be a "safe harbor" 401(k) plan under Code Section 401(k)(12). The Savings Plan allows employees to save for retirement by contributing part of their compensation to the plan on a tax-deferred basis. The Savings Plan also requires us to contribute a "safe harbor" amount each year. We match up to 4% of employee contributions (100% of an employee's first 3% of contributions and 50% of their next 2% of contributions), beginning on the employee's one year anniversary date. In calculating our matching contribution, we only use compensation up to the statutory maximum under the Code ($265 thousand for 2015). All contributions under the Savings Plan are 100% vested. Expenses recorded for employer contributions and plan administration costs for the Savings Plan amounted to approximately $4.7 million, $4.5 million and $4.5 million in 2015, 2014 and 2013, respectively.

Deferred Compensation Plans

We maintain four deferred compensation programs for certain executive management employees and our Board of Directors.

For our executive management employees, the ADTRAN, Inc. Deferred Compensation Program for Employees is offered as a supplement to our tax-qualified 401(k) plan and is available to certain executive management employees who have been designated by our Board of Directors. This deferred compensation plan allows participants to defer all or a portion of certain specified bonuses and up to 25% of remaining cash compensation, and permits us to make matching contributions on a discretionary basis, without the limitations that apply to the 401(k) plan. To date, we have not made any matching contributions under this plan. We also maintain the ADTRAN, Inc. Equity Deferral Program for Employees. Under this plan, participants may elect to defer all or a portion of their vested Performance Share awards to the Plan. Such deferrals shall continue to be held and deemed to be invested in shares of ADTRAN stock unless and until the amounts are distributed or such deferrals are moved to another deemed investment pursuant to an election made by the Participant.

For our Board of Directors, we maintain the ADTRAN, Inc. Deferred Compensation Program for Directors. This program allows our Board of Directors to defer all or a portion of monetary remuneration paid to the Director, including, but not limited to, meeting fees and annual retainers. We also maintain the ADTRAN, Inc. Equity Deferral Program for Directors. Under this plan, participants may elect to defer all or a portion of their vested employer stock awards. Such deferrals shall continue to be held and deemed to be invested in shares of ADTRAN stock unless and until the amounts are distributed or such deferrals are moved to another deemed investment pursuant to an election made by the Director.

We have set aside the plan assets for all plans in a rabbi trust (Trust) and all contributions are credited to bookkeeping accounts for the participants. The Trust assets are subject to the claims of our creditors in the event of bankruptcy or insolvency. The assets of the Trust are deemed to be invested in pre-approved mutual funds as directed by each participant, and the participant's bookkeeping account is credited with the earnings and losses attributable to those investments. Benefits are scheduled to be distributed six months after termination of employment in a single lump sum payment or annual installments paid over a three or ten year term. Distributions will be made on a pro rata basis from each of the hypothetical investments of the Participant's account in cash. Any whole shares of ADTRAN, Inc. common stock that are distributed will be distributed in-kind.

Assets of the Trust are deemed invested in mutual funds that cover an investment spectrum ranging from equities to money market instruments. These mutual funds are publicly quoted and reported at fair value. The fair value of the assets held by the Trust and the amounts payable to the plan participants are as follows:

(In thousands)	2015	2014
Fair Value of Plan Assets		
Long-term Investments	$12,834	$16,294
Total Fair Value of Plan Assets	**$12,834**	**$16,294**
Amounts Payable to Plan Participants		
Non-current Liabilities	$12,834	$16,294
Total Amounts Payable to Plan Participants	**$12,834**	**$16,294**

Interest and dividend income of the Trust have been included in interest and dividend income in the accompanying 2015, 2014 and 2013 Consolidated Statements of Income. Changes in the fair value of the plan assets held by the Trust have been included in accumulated other comprehensive income in the accompanying 2015 and 2014 Consolidated Balance Sheets. Changes in the fair value of the deferred compensation liability are included as selling, general and administrative expense in the accompanying 2015, 2014 and 2013 Consolidated Statements of Income. Based on the changes in the total fair value of the Trust's assets, we recorded deferred compensation income (expense) in 2015, 2014 and 2013 of $0.3 million, $(0.7) million and $(2.8) million, respectively.

Retiree Medical Coverage

We provide medical, dental and prescription drug coverage to one retired former officer and his spouse, for his life, on the same terms as provided to our active officers, and to the spouse of a former deceased officer for up to 30 years. At December 31, 2015 and 2014, this liability totaled $0.2 million.

11 Segment Information and Major Customers

We operate in two reportable segments: (1) the Carrier Networks Division and (2) the Enterprise Networks Division. The accounting policies of the segments are the same as those described in the "Nature of Business and Summary of Significant Accounting Policies" (see Note 1) to the extent that such policies affect the reported segment information. We evaluate the performance of our segments based on gross profit; therefore, selling, general and administrative expense, research and development expenses, interest income and dividend income, interest expense, net realized investment gain/loss, other income/expense and provision for taxes are reported on an entity-wide basis only. There are no inter-segment revenues.

The following table presents information about the reported sales and gross profit of our reportable segments for each of the years ended December 31, 2015, 2014 and 2013. Asset information by reportable segment is not reported, since we do not produce such information internally.

(In thousands)	2015		2014		2013	
Sales and Gross Profit by Market Segment	Sales	Gross Profit	Sales	Gross Profit	Sales	Gross Profit
Carrier Networks	$499,402	$209,284	$510,373	$243,211	$500,733	$233,206
Enterprise Networks	100,662	57,613	119,634	68,116	141,011	75,680
Total	**$600,064**	**$266,897**	**$630,007**	**$311,327**	**$641,744**	**$308,886**

Sales by Product

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

Carrier Systems products are used by communications SPs to provide data, voice, and video services to consumers and enterprises. This category includes the following product areas and related services:

Broadband Access

- Total Access® 5000 Series of Multi-Service Access Nodes (MSANs)
- hiX 5600 Series of MSANs
- Total Access 1100/1200 Series of Fiber to the Node (FTTN) products
- hiX 1100 Series of FTTN products
- VDSL2 Vectoring based Digital Subscriber Line Access Multiplexer (DSLAM) products
- ADTRAN 500 Series of FTTdp G.fast Distribution Point Units (DPU)

Optical

- Optical Networking Edge (ONE)
- NetVanta® 8000 Series of Fiber Ethernet Access Devices (EAD)
- NetVanta 8400 Series of 10 Gig Multi-service Edge Switches
- OPTI-6100 and Total Access 3000 optical Multi-Service Provisioning Platforms (MSPP)
- Pluggable Optical Products, including Small Form Factor Pluggable (SFP), 10-Gigabit Fiber Small Form Factor Pluggable (XFP), and SFP+

Time Division Multiplexed (TDM) systems

Business Networking products provide access to communication services and facilitate the delivery of cloud connectivity and enterprise communications to the small and mid-sized enterprise (SME) market. This category includes the following product areas and related services:

Internetworking Products

- Total Access IP Business Gateways
- Optical Network Terminals (ONTs)
- Bluesocket® virtual Wireless LAN (vWLAN®)
- NetVanta
  - Access Routers
  - Enterprise Session Border Controllers (eSBC)
  - Managed Ethernet Switches
  - IP Business Gateways
  - Unified Communications (UC) solutions
  - Carrier Ethernet Network Terminating Equipment (NTE)
  - Carrier Ethernet Routers and Gateways
- Network Management Solutions

Loop Access products are used by carrier and enterprise customers for access to copper-based communications networks. This category includes the following product areas and related services:

- High bit-rate Digital Subscriber Line (HDSL) products
- Digital Data Service (DDS)
- Integrated Services Digital Network (ISDN) products

The table below presents sales information by product category for the years ended December 31, 2015, 2014 and 2013:

(In thousands)	2015	2014	2013
Carrier Systems	$433,373	$442,664	$427,850
Business Networking	139,693	156,980	168,871
Loop Access	26,998	30,363	45,023
Total	**$600,064**	**$630,007**	**$641,744**

In addition, we identify subcategories of product revenues, which we divide into core products and legacy products. Our core products consist of Broadband Access and Optical products (included in Carrier Systems), and Internetworking products (included in Business Networking). Our legacy products include HDSL products (included in Loop Access) and other products not included in the aforementioned core products.

The table below presents subcategory revenues for the years ended December 31, 2015, 2014 and 2013:

(In thousands)	2015	2014	2013
Core Products			
Broadband Access (included in Carrier Systems)	$364,537	$368,464	$340,560
Optical (included in Carrier Systems)	56,615	55,374	55,615
Internetworking (NetVanta and Multi-service Access Gateways) (included in Business Networking)	135,720	152,223	164,422
Subtotal	**$556,872**	**$576,061**	**$560,597**
Legacy Products			
HDSL (does not include T1) (included in Loop Access)	25,349	27,829	41,666
Other products (excluding HDSL)	17,843	26,117	39,481
Subtotal	**$43,192**	**$53,946**	**$81,147**
Total	**$600,064**	**$630,007**	**$641,744**

The following table presents sales information by geographic area for the years ended December 31, 2015, 2014 and 2013. International sales correlate to shipments with a non-U.S. destination.

(In thousands)	2015	2014	2013
United States	$419,366	$381,382	$455,996
Germany	111,666	150,987	97,151
Other International	69,032	97,638	88,597
Total	**$600,064**	**$630,007**	**$641,744**

Customers comprising more than 10% of revenue can change from year to year. Single customers comprising more than 10% of our revenue in 2015 included three customers at 20%, 17% and 14%. Single customers comprising more than 10% of our revenue in 2014 included two customers at 21% and 14%. Single customers comprising more than 10% of our revenue in 2013 included two customers at 17% and 14%. No other customer accounted for 10% or more of our sales in 2015, 2014 or 2013. Our five largest customers, other than those with more than 10 percent of revenues disclosed above, can change from year to year. These customers represented 14%, 22%, and 22% of total revenue in 2015, 2014 and 2013, respectively. Revenues in this disclosure do not include distributor agents, who predominately provide fulfillment services to end users. In such cases where known, that revenue is associated with the end user.

As of December 31, 2015, long-lived assets, net totaled $73.2 million, which includes $68.8 million held in the United States and $4.4 million held outside the United States. As of December 31, 2014, long-lived assets, net totaled $74.8 million, which includes $70.0 million held in the United States and $4.8 million held outside the United States.

12 Commitments and Contingencies

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

We lease office space and equipment under operating leases which expire at various dates through 2025. As of December 31, 2015, future minimum rental payments under non-cancelable operating leases with original maturities of greater than 12 months are as follows:

(In thousands)	
2016	$3,827
2017	3,155
2018	1,773
2019	869
Thereafter	4,121
Total	**$13,745**

Rental expense was $4.9 million, $4.7 million and $4.8 million for the years ended December 31, 2015, 2014 and 2013, respectively.

13 Earnings per Share

A summary of the calculation of basic and diluted earnings per share (EPS) for the years ended December 31, 2015, 2014 and 2013 is as follows:

(In thousands, except for per share amounts)	2015	2014	2013
Numerator			
Net Income	$18,646	$44,620	$45,794
Denominator			
Weighted average number of shares—basic	51,145	55,120	59,001
Effect of dilutive securities:			
Stock options	81	304	390
Restricted stock and restricted stock units	41	58	33
Weighted average number of shares—diluted	**51,267**	**55,482**	**59,424**
Net income per share—basic	$0.36	$0.81	$0.78
Net income per share—diluted	$0.36	$0.80	$0.77

For each of the years ended December 31, 2015, 2014 and 2013, 6.1 million, 4.4 million and 3.2 million stock options were outstanding but were not included in the computation of that year's diluted EPS because the options' exercise prices were greater than the average market price of the common shares, therefore making them anti-dilutive under the treasury stock method.

14 Summarized Quarterly Financial Data (Unaudited)

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

Unaudited Quarterly Operating Results

(In thousands, except for per share amounts)

Three Months Ended	March 31, 2015	June 30, 2015	September 30, 2015	December 31, 2015
Net sales	$142,835	$160,138	$158,078	$139,013
Gross profit	$65,563	$68,246	$70,649	62,439
Operating income	$1,963	$644	$8,072	$2,800
Net income	$3,317	$2,544	$7,067	$5,718
Earnings per common share	$0.06	$0.05	$0.14	$0.12
Earnings per common share assuming dilution (1)	$0.06	$0.05	$0.14	$0.12
Three Months Ended	**March 31, 2014**	**June 30, 2014**	**September 30, 2014**	**December 31, 2014**
Net sales	$147,004	$176,129	$162,892	$143,982
Gross profit	$77,790	$86,797	$78,257	$68,483
Operating income	$11,298	$19,339	$12,495	$3,979
Net income	$9,607	$14,395	$11,326	$9,292
Earnings per common share	$0.17	$0.26	$0.21	$0.17
Earnings per common share assuming dilution (1)	$0.17	$0.26	$0.21	$0.17

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

15 Related Party Transactions

We employed the law firm of our director emeritus for legal services. All bills for services rendered by this firm were reviewed and approved by our Chief Financial Officer. We believe that the fees for such services are comparable to those charged by other firms for services rendered to us. The services of our director emeritus ended with his death on September 7, 2014. For the years ended 2014 and 2013, we incurred fees of $0.1 million for these legal services.

16 Subsequent Events

On January 19, 2016, the Board declared a quarterly cash dividend of $0.09 per common share to be paid to shareholders of record at the close of business on February 4, 2016. The quarterly dividend payment was $4.4 million and was paid on February 18, 2016. 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.

On February 8, 2016, the Board appointed Anthony Melone as a director filling a previously existing vacancy until the 2016 Annual Meeting of Stockholders.

During the first quarter and as of February 24, 2016, we have repurchased 0.6 million shares of our common stock through open market purchases at an average cost of $18.38 per share. We currently have the authority to purchase an additional 5.2 million shares of our common stock under the current plan approved by the Board of Directors.

We are currently evaluating the way the Company's chief operating decision maker reviews and measures performance of the business. The conclusions of this evaluation may have an impact on our future presentation of our reportable segments.

Directors and Executive Officers

Thomas R. Stanton
Chairman and Chief Executive Officer

H. Fenwick Huss
Director of the Company
Willem Kooyker Dean of the Zicklin School
of Business at Baruch College

William L. Marks
Director of the Company
Former Chairman of the Board and Chief Executive
Officer of Whitney Holding Corp. (holding company
for Whitney National Bank of New Orleans)

Anthony J. Melone
Director of the Company
Former Executive Vice President and Chief Technology
Officer for Verizon Communications

Balan Nair
Director of the Company
Executive Vice President and Chief Technology Officer
of Liberty Global, Inc.

Roy J. Nichols
Director of the Company
Founder and former President of
Nichols Research Corporation

Kathryn A. Walker
Director of the Company
Managing Director for OpenAir Equity Partners

Michael K. Foliano
Senior Vice President
Global Operations

Kevin P. Heering
Senior Vice President
Quality and Administration

Roger D. Shannon
Senior Vice President of Finance, Chief Financial Officer,
Corporate Secretary and Treasurer

Raymond R. Schansman
Senior Vice President
Global Services and Support

Eduard Scheiterer
Senior Vice President
Engineering and Development

James D. Wilson, Jr.
Senior Vice President
Technology and Strategy

Kevin W. Schneider
Vice President
Chief Technology Officer

Transfer Agent
American Stock Transfer and Trust Company
New York, NY

Independent Registered Public Accounting Firm
PricewaterhouseCoopers LLP
Birmingham, Alabama

Special Counsel
Dentons US LLP
Atlanta, Georgia

Form 10-K
ADTRAN's 2015 Annual Report on Form 10-K (without exhibits) as filed with the Securities and Exchange Commission is available to stockholders without charge upon written request to:

Investor Relations
ADTRAN, Inc.
901 Explorer Blvd.
P.O. Box 140000
Huntsville, Alabama 35814-4000
256 963-8220 or 256 963-7600
investorrelations@adtran.com (email)

Annual Meeting
The 2016 Annual Meeting of Stockholders will be held at ADTRAN corporate headquarters, 901 Explorer Boulevard, Huntsville, Alabama, on Wednesday, May 11, 2016, at 10:30 a.m. Central time.

Corporate Headquarters

ADTRAN, Inc.
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Mexico, D.F., Mexico

ADTRAN Networks & Services S. de R.L. de C.V.
Mexico, D.F., Mexico

ADTRAN International, Inc.
Hong Kong

ADTRAN Peru S.R.L.
Lima, Peru

ADTRAN GmbH
Berlin, Bruchsal, Greifswald, Leipzig, and Munich, Germany

ADTRAN Oy
Helsinki, Finland

ADTRAN M.E.P.E.
Athens, Greece

ADTRAN Networks India Private Limited
Hyderabad, India

ADTRAN Holdings Ltd.
Tel Aviv, Israel

ADTRAN S.R.L.
Milan, Italy

ADTRAN Sp. z.o.o.
Warsaw, Poland

ADTRAN s.r.o.
Bratislava, Slovakia

ADTRAN Switzerland GmbH
Zurich, Switzerland

Saudi Arabian Branch of ADTRAN International, Inc.
Riyadh, Saudi Arabia

ADTRAN GmbH Permanent Establishment
Tunis, Tunisia