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ADTRAN, Inc. Q3 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Vivek Arya – Merrill Lynch.

Vivek Arya – Merrill Lynch

In the last few years, along with some sequential decline in sales in the fourth quarter there has also been a corresponding decline in gross margins. I think in the last two years it was 150 basis points or so. Jim, is it possible that we see more gross margin declines in the fourth quarter than that seasonal trend?

James E. Matthews

Well we do expect gross margins for that to remain somewhere in the high 50s. Whether or not they decline that much I don't know. But again we think the high 50s would be a good range.

Vivek Arya – Merrill Lynch

And then Tom a question for you. If you look at demand drivers for the company, its essentially residential DSL, its enterprise services at the small, medium size business and wireless backhaul, can you give us a sense for what the proportional exposure is and which of these areas are under more pressure versus others?

Thomas R. Stanton

Depending on the product area it's tough to give you that specific mix because we of course ship these products to the carriers and the carriers disperse them for those different applications. My sense would be where we saw some pressure at the end of third quarter and kind of border activity would be more in the traditional [declimb] area where we saw a decrease in our 3000 ATM DSLAM. Now some of that is may be due to pressure in the environment, but that residential phase, I think some of that is also that we're seeing more shipments toward IP centric type DSLAM so I think there's a little bit of a combination there.

Vivek Arya – Merrill Lynch

There's a lot of concern that some of your larger carrier customers, AT&T, Verizon, Qwest are not spending or at least have curtailed spending in the fourth quarter. Tom can you give us a sense as to what is the nature of the spending cutback? Is it across the board or is it more in one [vital] project

versus another? If you could just give us some color as to how widespread this is and what the nature of these cutbacks are.

Thomas R. Stanton

Sure. First of all, it's hard to say when something is doing well; I think I pointed out in my notes that some of our product lines, optical access, the 5000 series and the internetworking products didn't see really any slowdown as far as a decrease in order activity. But what you don't know is what they could have been if there wasn't some sluggishness in the environment. So it's hard to speak to that.

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