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ADTRAN, Inc. Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first question comes from Nikos Theodosopoulos – UBS.

Nikos Theodosopoulos – UBS

I had a couple questions. First of all, if you could give the 10% customer levels and then on the gross margin, I wanted to get a feel for how much of that was – was there any product mix related to that and how sustainable is it going forward?

James E. Matthews

I'll take those questions. In terms of the 10% customers AT&T came in at 29% for the quarter, Verizon at 11%, EMBARQ at 10% and Qwest at 18%.

Now in terms of our view on gross margin expectations as we go forward, we're still anticipating gross margins in the high 50s. The reason for that is that as we bring new projects on, new customer projects on from an initial revenue standpoint there will be start up costs. And again we anticipate that, you know, potentially those will bring margins back to the high 50s level for the longer term.

Nikos Theodosopoulos – UBS

So in this particular quarter then what got you way above your target? I mean, I know you mentioned lower transportation costs and so forth, but can that have such a material move? Was there more of a product mix or?

James E. Matthews

In terms of product mix, Nikos, the gross margins for each of our product areas are fairly consistent. What we saw again in the first quarter was a very linear quarter. You probably picked that up from the lower DSO's than we typically have in the first quarter. That enabled us to again avoid significant expediting costs and, you know, in terms of material expediting and shipment costs, air freight costs. You know, those costs again were very, very minimal in the first quarter. Okay? So again it's all back to efficiencies and a very linear quarter which enabled us to plan very effectively, production flows as it related to order.

Thomas R. Stanton

Nikos, if I could add one other point that I do – you know, we have had a heightened focus on efficiencies both from a transportation and from a manufacturing perspective. And you knew we manufacture some percentage of our goods here in Huntsville, Alabama. So I think the caution that we see in trying to raise that target at this point is fairly early into those efficiencies taking hold and trying to understand which ones will prove out over time and to what level is a little difficult. So I think we're just more comfortable in the high 50s until we have some quarters behind us.

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