

ADTRAN INC

FORM SC TO-I (Tender offer statement by Issuer)

Filed 1/28/2002

Address	901 EXPLORER BLVD HUNTSVILLE, Alabama 35806
Telephone	256-963-8000
CIK	0000926282
Industry	Communications Equipment
Sector	Technology
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE TO
(Rule 13e-4)

**TENDER OFFER STATEMENT UNDER SECTION 14(d)(1) OR 13(e)(1)
OF THE SECURITIES EXCHANGE ACT OF 1934**

ADTRAN, INC.

(Name of Subject Company (Issuer) and Filing Person (Offeror))

Certain Options Under the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as Amended, the ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as Amended, and the ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan, as Amended, to Purchase Common Stock, Par Value \$0.01 Per Share, That Have an Exercise Price of \$40.00 Per Share or Greater

(Title of Class of Securities)

00738A 10 6
(CUSIP Number of Class of Securities)

(Underlying Common Stock)

Mark C. Smith Chairman of the Board and Chief Executive Officer
ADTRAN, Inc.

901 Explorer Boulevard
Huntsville, Alabama 35806-2807
(256) 963-8000

(Name, Address and Telephone Number of Persons Authorized to Receive Notices and Communications on Behalf of Person(s) Filing Statement)

The Commission is requested to mail copies of all orders, notices and communications to:

James L. North, Esq.
James L. North & Associates
700 Title Building
300 21st/ Street North
Birmingham, Alabama 35203-3322
(205) 251-0252

Thomas Wardell, Esq.
Long Aldridge & Norman LLP
303 Peachtree Street, Suite 5300
Atlanta, Georgia 30308
(404) 527-4000

CALCULATION OF FILING FEE

Transaction Valuation*	Amount of Filing Fee
\$54,822,416	\$10,965

*Calculated solely for purposes of determining the filing fee. This amount assumes that options to purchase 1,490,400 shares of common stock of ADTRAN, Inc. having an aggregate value of \$54,822,416 as of January 23, 2002 will be exchanged pursuant to this offer. The aggregate value of such options was calculated based on the Black-Scholes option pricing model. The amount of the filing fee, calculated in accordance with Rule 0-11 of the Securities Exchange Act of 1934, as amended, equals 1/50th of one percent of the value of the transaction.

Check box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid:	Not applicable.
Form or Registration No.:	Not applicable.
Filing party:	Not applicable.
Date filed:	Not applicable.

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

- third party tender offer subject to Rule 14d-1.
- issuer tender offer subject to Rule 13e-4.
- going-private transaction subject to Rule 13e-3.
- amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer.

ITEM 1. Summary Term Sheet.

The information set forth under "Summary Term Sheet" in the Offer to Exchange dated January 28, 2002 (the "Offer to Exchange"), attached hereto as Exhibit (a)(1)(A), is incorporated herein by reference.

ITEM 2. Subject Company Information.

(a) Name and Address. The name of the issuer is ADTRAN, Inc., a Delaware corporation ("ADTRAN" or the "Company"). The Company's principal executives offices are located at 901 Explorer Boulevard, Huntsville, Alabama 35806-2807, and its telephone number is (256) 963-8000. The information set forth in the Offer to Exchange under "Information Concerning ADTRAN" is incorporated herein by reference.

(b) Securities. This Schedule TO relates to an offer by the Company to exchange all options outstanding under the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, the ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended, and the ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan, as amended (collectively, the "Stock Incentive Plans"), to purchase shares of the Company's common stock, par value \$.01 per share (the "Common Stock"), having an exercise price of at least \$40.00 and granted prior to September 30, 2000, and which are held by option holders who have not received options after July 23, 2001 (the "Eligible Options") for new options (the "New Options") to purchase shares of the Common Stock to be granted under the Stock Incentive Plans, upon the terms and subject to the conditions described in the Offer to Exchange and the related Election Form Concerning Exchange of Stock Options (the "Election Form"). The Election Form and the Offer to Exchange, as they may be amended from time to time, are together referred to as the "Offer." For each Eligible Option tendered and accepted for exchange, the tendering option holder will receive a New Option exercisable for a number of shares of Common Stock equal to three shares for every four shares that were subject to the tendered Eligible Option, plus the number of remaining shares, if any, to the extent that the number of shares subject to the tendered Eligible Option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events. The information set forth in the Offer to Exchange under "Summary Term Sheet," "Introduction," Section 1 ("Number of Options; Expiration Date"), Section 5 ("Acceptance of Options for Exchange and Issuance of New Options") and Section 8 ("Source and Amount of Consideration; Terms of New Options") is incorporated herein by reference.

(c) Trading Market and Price. The information set forth in the Offer to Exchange under Section 7 ("Price Range of Common Stock Underlying the Options") is incorporated herein by reference.

ITEM 3. Identity and Background of Filing Person.

(a) Name and Address. ADTRAN is the filing person. The information set forth under Item 2(a) above is incorporated herein by reference. The information set forth in Schedule A to the Offer of Exchange is incorporated herein by reference.

ITEM 4. Terms of the Transaction.

(a) Material Terms. The information set forth in the Offer to Exchange on the introductory pages and under "Summary Term Sheet," "Introduction," Section 1 ("Number of Options; Expiration Date"), Section 3 ("Procedures for Tendering Options"), Section 4 ("Withdrawal Rights"), Section 5 ("Acceptance of Options for Exchange and Issuance of New Options"), Section 6 ("Conditions

of the Offer"), Section 8 ("Source and Amount of Consideration; Terms of New Options"), Section 11 ("Status of Options Acquired by Us in the Offer; Accounting Consequences of the Offer"), Section 12 ("Legal Matters; Regulatory Approvals"), Section 13 ("Material U.S. Federal Income Tax Consequences"), and Section 14 ("Extension of Offer; Termination; Amendment") is incorporated herein by reference.

(b) Purchases. The information set forth in the Offer to Exchange under Section 2 ("Purpose of the Offer") and Section 10 ("Interests of Directors and Officers; Transactions and Arrangements Concerning the Options") is incorporated herein by reference.

ITEM 5. Past Contacts, Transactions, Negotiations and Agreements.

(a) Agreements Involving the Subject Company's Securities. The information set forth in the Offer to Exchange under Section 2 ("Purpose of the Offer") and Section 10 ("Interests of Directors and Officers; Transactions and Arrangements Concerning the Options") is incorporated herein by reference.

ITEM 6. Purposes of the Transaction and Plans or Proposals.

(a) Purposes. The information set forth in the Offer to Exchange under Section 2 ("Purpose of the Offer") is incorporated herein by reference.

(b) Use of Securities Acquired. The information set forth in the Offer to Exchange under Section 5 ("Acceptance of Options for Exchange and Issuance of New Options") and Section 11 ("Status of Options Acquired by Us in the Offer; Accounting Consequences of the Offer") is incorporated herein by reference.

(c) Plans. The information set forth in the Offer to Exchange under Section 2 ("Purpose of the Offer") is incorporated herein by reference.

ITEM 7. Source and Amount of Funds or Other Consideration.

(a) Source of Funds. The information set forth in the Offer to Exchange under Section 8 ("Source and Amount of Consideration; Terms of New Options") and Section 15 ("Fees and Expenses") is incorporated herein by reference.

(b) Conditions. The information set forth in the Offer to Exchange under Section 6 ("Conditions of the Offer") is incorporated herein by reference.

(d) Borrowed Funds. Not applicable.

ITEM 8. Interests in Securities of the Subject Company.

(a) Securities Ownership. The information set forth in the Offer to Exchange under Section 10 ("Interests of Directors and Officers; Transactions and Arrangements Concerning the Options") is incorporated herein by reference.

(b) Securities Transactions. The information set forth in the Offer to Exchange under Section 10 ("Interests of Directors and Officers; Transactions and Arrangements Concerning the Options") is incorporated herein by reference.

ITEM 9. Persons/Assets, Retained, Employed, Compensated or Used.

(a) Solicitations or Recommendations. Not applicable.

ITEM 10. Financial Statements.

(a) Financial Information. The information set forth in the Offer to Exchange under Section 9 ("Information Concerning ADTRAN") and Section 16 ("Additional Information"); pages 21 through 34 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000; and pages 3 through 10 of the Company's Quarterly Report on Form 10-Q for its fiscal quarter ended September 30, 2001 is incorporated herein by reference.

(b) Pro Forma Information. Not applicable.

ITEM 11. Additional Information.

(a) Agreements, Regulatory Requirements and Legal Proceedings. The information set forth in the Offer to Exchange under Section 10 ("Interests of Directors and Officers; Transactions and Arrangements Concerning the Options") and Section 12 ("Legal Matters; Regulatory Approvals") is incorporated herein by reference.

(b) Other Material Information. Not applicable.

ITEM 12. Exhibits.

(a)(1)(A) Offer to Exchange, dated January 28, 2002

(a)(1)(B) Form of Election Form Concerning Exchange of Stock Options

(a)(1)(C) Form of Letter to Eligible Option Holders

(a)(1)(D) Email Communication to Eligible Option Holders dated January 28, 2002

(a)(1)(E) Press Release dated January 28, 2002 Announcing the Offer

(a)(1)(F) Form of Email Confirmation of Receipt of Election Form

(a)(1)(G) Form of Notice of Withdrawal

(b) Not applicable

(d)(1) ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended

(d)(2) ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended

(d)(3) ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan, as amended

(g) Not applicable

(h) Not applicable

ITEM 13. Information Required by Schedule 13E-3.

Not applicable.

SIGNATURES

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Dated: January 28, 2002

ADTRAN, Inc.

By: /s/ Mark C. Smith

*Mark C. Smith
Chairman of the Board and
Chief Executive Officer*

EXHIBIT INDEX

ITEM 14. Exhibits.

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- (a)(1)(D) Email Communication to Eligible Option Holders dated January 28, 2002
- (a)(1)(E) Press Release dated January 28, 2002 Announcing the Offer
- (a)(1)(F) Form of Email Confirmation of Receipt of Election Form
- (a)(1)(G) Form of Notice of Withdrawal
- (d)(1) ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended
- (d)(2) ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended
- (d)(3) ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan, as amended

EXHIBIT (a)(1)(A)

OFFER OF EXCHANGE, DATED JANUARY 28, 2002

ADTRAN, INC.

**OFFER TO EXCHANGE ALL OUTSTANDING OPTIONS TO PURCHASE
COMMON STOCK THAT HAVE AN EXERCISE PRICE OF AT LEAST \$40.00 PER SHARE
AND WERE GRANTED PRIOR TO SEPTEMBER 30, 2000 AND WHICH
ARE HELD BY OPTION HOLDERS WHO HAVE NOT
RECEIVED OPTIONS AFTER JULY 23, 2001 FOR NEW OPTIONS**

**THE OFFER AND WITHDRAWAL RIGHTS EXPIRE
AT 9:00 P.M., CENTRAL STANDARD TIME,
ON FEBRUARY 26, 2002
UNLESS THE OFFER IS EXTENDED.**

ADTRAN, Inc. is offering to exchange all outstanding options to purchase shares of our common stock granted under the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, the ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended, and the ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan, as amended (collectively, the "stock incentive plans"), that have an exercise price of at least \$40.00 per share (the "eligible options") and were granted prior to September 30, 2000 and are held by option holders who have not received options after July 23, 2001 for new options we will grant under the stock incentive plans. We are making the offer upon the terms and subject to the conditions set forth in this offer to exchange and in the related Election Form Concerning Exchange of Stock Options (the "election form") (which together, as they may be amended from time to time, constitute the "offer"). For each eligible option that you tender and that we accept for exchange, you will receive a new option exercisable for a number of shares of common stock equal to three shares for every four shares that were subject to the tendered option, plus the number of remaining shares, if any, if the number of shares subject to the tendered option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events. For the purposes of this offer, "option" means a particular option grant, represented by an option agreement, to purchase a certain number of shares of our common stock. To the extent that you have partially exercised an option prior to the expiration of the offer, "option" shall also mean the remaining unexercised portion of that option grant. You may only tender eligible options for all or none of the shares of common stock subject to each of your eligible options. All tendered eligible options that we accept pursuant to the offer will be canceled.

The offer is not conditioned upon a minimum number of eligible options being tendered. The offer is subject to conditions that we describe in Section 6 of this offer to exchange.

If you tender eligible options for exchange as described in the offer, and we accept your tendered options, then, subject to the terms of the offer, we will grant you new options under the stock incentive plans, depending on which plan the eligible options tendered were granted under and subject to applicable laws and regulations. We will also enter into a new option agreement with you for your new options. The exercise price per share of the new options will be equal to the last reported sale price of our common stock on the Nasdaq National Market on the day of the grant of the new options. Each new option will be vested in the same proportion as the tendered eligible option, as if the tendered eligible option were still

held on the date of the grant of the new option, and will continue to vest on the same schedule and in the same proportion as the tendered option.

ALTHOUGH OUR BOARD OF DIRECTORS HAS APPROVED THE OFFER, NEITHER WE NOR OUR BOARD OF DIRECTORS MAKES ANY RECOMMENDATION AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING SOME OR ALL OF YOUR ELIGIBLE OPTIONS FOR EXCHANGE. YOU MUST MAKE YOUR OWN DECISION WHETHER OR NOT TO TENDER YOUR ELIGIBLE OPTIONS.

Shares of our common stock are quoted on the Nasdaq National Market under the symbol "ADTN." On January 22, 2002, the last reported sale price during regular trading hours of our common stock on the Nasdaq National Market was \$26.93 per share. We will grant the new options within the 30-day period beginning on the first business day which is at least six months and two days after the date we cancel the eligible options accepted for exchange. The exercise price per share of the new options will be equal to the last sale price of our common stock as reported on the Nasdaq National Market on the date of grant.

The exercise price of your new options may be higher or lower than the current price of our common stock, and it may be higher or lower than the exercise price per share of your eligible options. The market price of our common stock has been subject to high volatility. Our common stock may trade at prices below the exercise price per share of the new options. In that case, depending on the exercise price of your tendered options and other factors, the new options may be less valuable than the options you are tendering for exchange and cancellation. We recommend that you obtain current market quotations for our common stock before deciding whether to tender your options. At the same time, you should consider that the current market price of our common stock may provide little or no basis for predicting what the market price of our common stock will be on the grant date of the new options or at any time in the future. You should carefully consider these uncertainties before deciding whether to accept the offer.

THIS OFFER TO EXCHANGE HAS NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THE INFORMATION CONTAINED IN THIS OFFER TO EXCHANGE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

You should direct questions about the offer or requests for assistance or for additional copies of this offer to exchange or the election form to James Matthews, Senior Vice President/Finance and Chief Financial Officer, ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807.

IMPORTANT

If you wish to tender any of your eligible options for exchange, you must complete and sign the election form in accordance with its instructions, and mail or otherwise deliver it and any other required documents to us at ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807, Attn: James Matthews.

We are not making the offer to, nor will we accept any tender of options from or on behalf of, option holders in any jurisdiction in which the offer or the acceptance of any tender of options would not be in compliance with the laws of such jurisdiction. However, we may, at our discretion, take any actions necessary for us to make the offer to option holders in any such jurisdiction.

The threshold exercise price we have set to determine which options you may tender in response to the offer does not, and is not meant to, reflect our view of what the trading price of our common stock will be in the short, medium or long term.

WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING YOUR ELIGIBLE OPTIONS PURSUANT TO THE OFFER. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR IN ANY DOCUMENT TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DOCUMENT OR ANY DOCUMENT TO WHICH WE HAVE REFERRED YOU OR IN THE RELATED ELECTION FORM. IF ANYONE MAKES ANY RECOMMENDATION OR REPRESENTATION TO YOU OR GIVES YOU ANY INFORMATION, YOU MUST NOT RELY UPON THAT RECOMMENDATION, REPRESENTATION OR INFORMATION AS HAVING BEEN AUTHORIZED BY US.

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SCHEDULE A Information Concerning the Directors and Executive Officers of ADTRAN, Inc.

SUMMARY TERM SHEET

The following are answers to some of the questions that you may have about the offer. We urge you to read carefully the remainder of this offer to exchange and the accompanying election form because the information in this summary is not complete, and additional important information is contained in the remainder of this offer to exchange and the election form. We have included page references to the remainder of this offer to exchange where you can find a more complete description of the topics in this summary.

What securities are we offering to exchange?

We are offering to exchange all stock options having an exercise price of at least \$40.00 per share, that are outstanding under our Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, our Amended and Restated 1995 Directors Stock Option Plan, as amended, and our 1986 Employee Incentive Stock Option Plan, as amended, or collectively, our stock incentive plans, and were granted prior to September 30, 2000 and which are held by option holders who have not received options after July 23, 2001, for new options under our stock incentive plans. We refer to these options in this offer to exchange as the "eligible options." For the purposes of this offer, "option" means a particular option grant, represented by an option agreement, to purchase a certain number of shares of our common stock. To the extent you have partially exercised an option prior to the expiration of the offer, "option" also means the unexercised portion of that option grant. (Page 11)

Why are we making the offer?

One of the keys to our continued growth and success is the retention of our most valuable assets, our employees and directors. The offer provides an opportunity for us to offer these employees and directors a valuable incentive to stay with our company. Some of our outstanding options, whether or not they are currently exercisable, have exercise prices that are significantly higher than the current market price of our common stock. We believe these options are unlikely to be exercised in the foreseeable future. By making this offer to exchange outstanding eligible options for new options that will have an exercise price equal to the fair market value of our common stock on the grant date, we intend to provide our employees and directors with the benefit of owning options that over time may have a greater potential to increase in value, create better performance incentives for employees and directors and thereby maximize stockholder value. (Page 12)

What are the conditions to the offer?

This offer is subject to a number of conditions, which we describe in Section 6. The offer is not conditioned upon a minimum number of eligible options being tendered. (Page 17)

Who is eligible to participate in the offer?

The offer is available to option holders who hold options that have an exercise price of at least \$40.00 per share and were granted prior to September 30, 2000 and who have not received options after July 23, 2001. Our directors and executive officers are eligible to participate in the offer if they hold eligible options. As of January 25, 2002, options to purchase 1,490,400 shares of our common stock had been granted prior to September 30, 2000 under our stock incentive plans with an exercise price of at least \$40.00 per share and were held by employees and directors who had not received options after July 23, 2001. (Pages 10, 11)

If I choose to tender an option which is eligible for exchange, do I have to tender for all of the shares underlying that option?

Yes. We are not accepting partial tenders of eligible options. Accordingly, you may tender one or more of your eligible option grants, but you may only tender for all of the shares subject to that eligible option or none of those shares. If you have partially exercised an eligible option prior to the expiration of the offer, you may also tender the remaining unexercised portion of that eligible option, but if you do so, you must tender the entire remaining unexercised portion.

For example, if you hold an option to purchase 500 shares of our common stock at an exercise price of \$60.00 per share and an option to purchase 200 shares of our common stock at \$55.00 per share, you may (1) tender neither of these eligible options, (2) tender with respect to all 500 shares under the first option grant, (3) tender with respect to all 200 shares under the second option grant or (4) tender with respect to 700 shares under both option grants. You may not tender with respect to, for example, 300 shares (or any other partial amount) under the first option grant. Similarly, if you hold an option to purchase 600 shares of our common stock at \$50.00 per share, and exercised the option as to 200 shares, you may tender with respect to all 400 of the remaining shares of common stock under the option grant, or not tender the option at all. You may not tender with respect to 100 shares, or any other partial amount, under that option grant. (Pages 11, 16)

If I received a grant of both an incentive stock option and a non-qualified stock option on the same grant date, is that considered a single option, or two separate options?

Our general practice in making any option grant has been to award an incentive stock option for the maximum number of shares possible, and then grant a non-qualified stock option exercisable for the remaining number of shares underlying the overall grant. Consequently, you may have received a grant of both an incentive stock option and a non-qualified stock option on the same date, each of which is represented by a separate option agreement. For the purposes of the offer, these grants are considered to be two separate options. If these two options are eligible options, then you may tender the incentive stock option, the non-qualified stock option, or both of them. In each case, you must tender for all of the shares subject to the eligible option. (Page 11)

What happens if after I tender my options and, before the offer expires, I leave ADTRAN or I am terminated as an employee or director?

If your employment or service as a director with us terminates for any reason prior to the expiration of the offer, your tendered options will automatically be withdrawn, and you may exercise those options in accordance with their terms to the extent they are vested. If your tendered options are automatically withdrawn, you will not receive any new options in exchange for the withdrawn options. (Pages 11, 16)

Must I remain an employee or director of ADTRAN after the expiration of the offer to get new options?

Yes. In general, to receive a grant of new options under the offer and under the terms of our stock incentive plans, you must be an employee or director of ADTRAN on the date we grant the new options. As discussed below, subject to the terms of this offer, we will grant the new options during the 30-day period beginning on the first business day which is at least six months and two days after the date we cancel the eligible options that we accept for exchange. If we do not extend the offer, we expect to cancel the tendered options on February 26, 2002.

If your employment or service terminates after the date of grant of the new options, you will only be able to exercise the new options to the extent they are vested at the time of your termination, and you will only have the limited time period specified in the option agreement following your termination in which to exercise the vested portion of your new options. Once your tendered options have been accepted and canceled, you will have no rights with respect to those options, and they will not be reissued or returned to you for any reason.

Your eligible options may currently be fully or partially vested. If you do not accept the offer, when your employment or service as a director with us ends, you generally will be able to exercise your eligible options during the limited period specified in your option documents, to the extent those options are vested on the day your employment or service ends.

But if you accept the offer, your tendered options will be canceled, and if, for any reason, you do not remain an employee or director of ADTRAN through the date we grant the new options, you will not receive any new options or other consideration in exchange for your tendered options that we have accepted for exchange. This rule applies regardless of the reason your employment or service as a director is terminated and whether termination is the result of voluntary resignation, involuntary termination, death or disability.

If you are an employee, the offer does not change the "at-will" nature of your employment with ADTRAN, and your employment may be terminated by us or by you at any time, including prior to the grant date or vesting of the new options, for any reason, with or without cause. (Pages 11, 16)

What happens if I am on an authorized leave of absence, either prior to the expiration of the offer or at the time the new options are granted?

As long as you retain your status as an employee or director of ADTRAN, you are eligible to participate in the offer. Consequently, even if you are on authorized leave of absence, including authorized disability leave, as long as you are still considered an employee or director of ADTRAN both at the time you tender your options and at the date of the grant of the new options, you will be eligible to tender your eligible options and, if your eligible options are properly tendered and accepted for exchange, to receive new options. (Page 11)

May I tender either vested or unvested options?

Yes. You may tender any or all of your eligible options, whether or not they are vested, subject to the requirement described above that you must tender all or none of any eligible option grant. (Page 11)

May I tender options that I have already exercised?

If you have exercised an eligible option in its entirety, that option is no longer outstanding and is therefore not subject to the offer. If you have exercised an eligible option in part, the remaining unexercised portion of that option is outstanding and may be tendered for exchange pursuant to the offer. Options for which you have properly submitted an exercise notice prior to the date the offer expires will be considered exercised to that extent, whether or not you have received confirmation of exercise for the shares purchased upon exercise. (Page 11)

What happens to eligible options that I choose not to tender or that are not accepted for exchange?

Nothing. Eligible options that you choose not to tender for exchange or that we do not accept for exchange remain outstanding and retain their current exercise price and current vesting schedule. Subject to our rights to extend, terminate or amend the offer, we intend to accept all properly and timely tendered eligible options that are not validly withdrawn promptly after the expiration of the offer. (Page 11)

How many new options will I receive in exchange for my tendered options?

Provided you meet the eligibility requirements and subject to the terms of this offer, we will grant you a new option exercisable for a number of shares of our common stock equal to three shares for every four shares of common stock subject to the eligible option you tender, plus the number of remaining shares, if any, if the number of shares subject to the tendered eligible option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events. For example, the following table shows what you would receive if you tendered an eligible option exercisable for the number of shares of common stock indicated in the left-hand column below:

Number of Shares Subject to Tendered Eligible Option	Number of Shares Subject to New Option
461	346
462	347
463	348
464	348

Eligible options granted under our Amended and Restated 1996 Employees Incentive Stock Option Plan and 1986 Employee Incentive Stock Option Plan and exchanged for new options will be replaced with options granted under the 1996 plan, unless prevented by law or applicable regulations. Eligible options granted under our Amended and Restated 1995 Directors Stock Option Plan and exchanged for new options will be replaced with options granted under the 1995 plan, unless prevented by law or applicable regulations. All new options will be subject to a new option agreement between you and us, which will be in substantially the same form as the option agreement or agreements for your current eligible options except for the exercise price, as explained more fully below. You must execute the new option agreement prior to receiving your new options. (Pages 11, 18)

When will I receive my new options?

We will not grant the new options until sometime during the 30-day period from and after the first business day that is at least six months and two days after the date we cancel the eligible options that we accept for exchange. Our board of directors will select the actual grant date for the new options. If we cancel tendered options on February 26, 2002, which is the scheduled expiration date of the offer, the new options will not be granted until sometime during the 30-day period from and after August 28, 2002. (Page 11)

Why won't I receive my new options immediately after the expiration date of the offer?

If we were to grant the new options on any date which is earlier than six months and one day after the date we cancel the eligible options accepted for exchange, we may be required for financial reporting purposes to record a compensation expense against our earnings. By deferring the grant of the new

options for at least six months and two days, we believe we will not have to record a compensation expense. (Page 33)

If I tender options in the offer, will I be eligible to receive other option grants before I receive my new options?

No. If we accept eligible options you tender in the offer, we will defer until at least the grant date for your new options any grant to you of other options. (Pages 16, 33)

Will I be required to give up all my rights to the canceled options?

Yes. Once we have accepted eligible options tendered by you, your eligible options will be canceled and you will no longer have any rights under those options. (Pages 16, 33)

What will the exercise price of the new options be?

The exercise price of the new options will be equal to the last reported sale price during regular trading hours of our common stock on the Nasdaq National Market on the day we grant the new options. Accordingly, we cannot predict the exercise price of the new options. The exercise price of any option you tender is at least \$40.00 per share. This exercise price is significantly higher than the current market price of our common stock, which was \$26.93 per share on January 22, 2002. However, because we will not grant new options until at least six months and two days after the date we cancel the eligible options accepted for exchange, the new options may have a higher exercise price than some or all of your eligible options. We recommend that you obtain current market quotations for our common stock before deciding whether or not to tender your eligible options. At the same time, you should consider that the current market price of our common stock may provide little or no basis for predicting what the market price of our common stock will be on the grant date of the new options or at any time in the future. (Pages 11, 18)

When will the new options vest?

The new options will vest in exactly the same manner as the options you tender for exchange. To the extent the eligible options you tender for exchange would have been vested on the date of grant of the new options, your new options will also be vested in the same proportion. To the extent the eligible options you tender would have been unvested on the date of grant of the new options, your new options will also be unvested and will vest according to the same schedule and in the same proportion as the options you tendered. Your new options will also expire on the same date as your tendered eligible options would have expired. However, because the new options will not be granted until at least six months and two days after we cancel the tendered options, you will not be able to purchase our common stock upon exercise of any of the new options until at least six months and two days, plus any remaining vesting period, after the cancellation date. (Pages 11, 21, 24)

What if we enter into a merger or other similar transaction?

It is possible that, prior to the grant of new options, we might effect or enter into an agreement such as a merger or other similar transaction. These types of transactions could have substantial effects on our stock price, including potentially substantial appreciation in the price of our common stock. Depending on the structure of such a transaction, tendering option holders might be deprived of any further price appreciation in the common stock associated with the new options. For example, if our stock was acquired in a cash merger, the fair market value of our stock, and hence the price at which we grant the new options, would likely be a price at or near the cash price being paid for the common stock in the transaction, yielding limited or no financial benefit to a recipient of the new options for that

transaction. In addition, in the event of an acquisition of our company for stock, tendering option holders might receive options to purchase shares of a different issuer. We are also reserving the right, in the event of a merger or similar transaction, to take any actions we deem necessary or appropriate to complete a transaction that our board of directors believes is in the best interest of our company and our shareholders. (Page 13)

Are there other circumstances where I would not be granted new options?

Yes. Even if we accept your tendered options, we will not issue new options to you if we are prohibited by applicable law or regulations from doing so. We are currently unaware of any such prohibition. We will use reasonable efforts to avoid such prohibition, but if such a prohibition is applicable throughout the 30-day period from and after the first business day that is at least six months and two days after we cancel the eligible options accepted for exchange, you will not be granted a new option. (Page 34)

Will I have to pay taxes if I exchange my eligible options in the offer?

If you exchange your current eligible options for new options, you will not be required under current U.S. law to recognize income for U.S. federal income tax purposes at the time that you tender your options and we accept them for exchange. We believe that the exchange will be treated as a non-taxable exchange. Further, at the grant date of the new options, you will not be required under current U.S. law to recognize income for U.S. federal income tax purposes. We recommend that you consult with your own tax advisor to determine the tax consequences of tendering options pursuant to the offer. (Page 34)

Will my new options be incentive stock options or non-qualified stock options?

Your new options will be granted as incentive stock options to the maximum extent they qualify as incentive stock options under the U.S. tax laws on the date of the grant of the new options. For options to qualify as incentive stock options under the current U.S. tax laws, the value of shares subject to options that first become exercisable by the option holder in any calendar year cannot exceed \$100,000, as determined by multiplying the number of shares by the option exercise price. The excess value is deemed to be a non-qualified stock option, which is an option that is not qualified to be an incentive stock option under the current U.S. tax laws. Current U.S. tax laws generally provide that when you exercise an incentive stock option, you do not realize any taxable income at the time of exercise of the option. When you sell the shares of common stock received on exercise, your income is taxed at capital gains rates if the sale occurs after the expiration of the requisite holding periods. When you exercise a non-qualified stock option, current U.S. tax laws generally provide that at the time of the exercise of the option you must pay a tax at ordinary income rates on the difference between the exercise price and the market price at the time of exercise. When you sell the shares of common stock received on exercise, any additional gain is generally treated as a capital gain.

Even though you may not have exceeded this \$100,000 limit in the years your eligible options were granted, you may exceed the limit upon the grant of the new options. This result may be caused by your tender of several eligible option grants of incentive stock options, which were originally granted in separate years, but which are exchanged for new options all granted in the same year. The limit may also be exceeded if the exercise price of the new options exceeds that of the eligible options tendered or if the vesting of the new options overlaps with other grants of incentive stock options. To the extent the exercise price of the new options is less than the exercise price of the tendered eligible options, you are less likely to exceed the \$100,000 limit. In addition, the fact that your new options will be exercisable for fewer shares of common stock than your tendered eligible options will also help you to avoid exceeding

the limit. To the extent you do exceed the limit for incentive stock options, a portion of your new options will have to be granted as non-qualified stock options.

In addition, any new option you receive that is granted as an incentive stock option will be subject to restrictions on incentive stock options under the Internal Revenue Code as a newly granted option. Most notably, this means that any holding periods applicable to incentive stock options will begin anew when the new option is granted, regardless of how long you held the tendered option prior to cancellation. (Page 34)

If I tender more than one eligible option and my new options exceed the limit for incentive stock options, which of my new options will be incentive stock options?

If you tender more than one eligible option and your new options exceed the limit for incentive stock options, we will issue new incentive stock options to replace your tendered eligible options by starting with the tendered options with the earliest grant dates, until we reach the available limit for incentive stock options. We will start with the earliest granted tendered options regardless of whether they were granted as incentive stock options or non-qualified stock options. The remainder of your new options will be granted as non-qualified stock options. (Page 36)

When does the offer expire? Can the offer be extended, and if so, how will I be notified if it is extended?

The offer expires on February 26, 2002, at 9:00 p.m., Central Standard Time, unless we extend it. We may, in our discretion, extend the offer at any time, but we cannot assure you that we will extend the offer or, if we do extend, for how long it will be extended. If we extend the offer, we will make a public announcement of the extension no later than 6:00 a.m., Central Standard Time, on the next business day following the previously scheduled expiration of the offer period. (Pages 11, 37)

How and when do I tender my eligible options?

If you decide to tender your eligible options, you must deliver, before 9:00 p.m., Central Standard Time, on February 26, 2002, a properly completed and duly executed election form and any other documents required by the election form to ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807, Attn: James Matthews. You will be required on the election form to indicate the particular options you are tendering. Please read the instructions and carefully fill out the election form. We will not accept incorrectly completed forms. If we extend the offer, you must deliver all required documents before the extended expiration of the offer. We will not accept delivery of any election form after the expiration of the offer. If we do not receive a properly completed and duly executed election form from you prior to the expiration of the offer, we will not accept any of your options for exchange and cancellation, and you will not be granted any new options.

This is a one-time offer, and we will strictly enforce the tender offer period. We reserve the right to reject any or all tenders of options that we determine are not in appropriate form or that we determine are unlawful to accept. Otherwise, we intend to accept all properly and timely tendered eligible options that are not validly withdrawn. Subject to our rights to extend, terminate and amend the offer, we intend to accept and cancel all properly tendered options promptly after the expiration of the offer. (Page 14)

How do you know that I received my offer to exchange and other documents, and how do I know that you have received my election form if I decide to tender any eligible options?

The offer to exchange and related documents are being sent to eligible employees by email, with return receipt requested. When you open the email message containing these materials, a reply message is automatically sent to us stating the time and date that you opened the email.

When we receive an election form from you, we will promptly send you an email message confirming our receipt. (Page 14)

During what period of time may I withdraw previously tendered options?

You may withdraw your tendered options at any time before the offer expires at 9:00 p.m., Central Standard Time, on February 26, 2002. If we extend the offer beyond that time, you may withdraw your tendered options at any time until the extended expiration of the offer. In addition, although we currently intend to accept validly tendered eligible options promptly after the expiration of this offer, if we have not accepted your tendered options by March 25, 2002, you may withdraw your tendered options at any time after March 25, 2002. To withdraw tendered options, you must deliver to us at 901 Explorer Boulevard, Huntsville, Alabama 35806-2807 (Facsimile: (256) 963-8004), Attn: James Matthews, a written notice of withdrawal, or a facsimile of that notice, with all information required by the notice, while you still have the right to withdraw the tendered options. You must withdraw all options that you had previously tendered. Once you have withdrawn your options, you may re-tender eligible options only by again following the original delivery procedures described above. A form of the notice of withdrawal has been included in the materials accompanying this offer to exchange. (Page 14)

If I send in my election form tendering eligible options and decide that I no longer want to tender some of those eligible options, what do I do?

If you send in your election form tendering eligible options and decide before the expiration of the offer that you no longer want to tender some of those eligible options, you must deliver your notice of withdrawal to us withdrawing all of your tendered options and at the same time or thereafter deliver a new election form tendering the eligible options that you still wish to tender, in each case following the delivery instructions described above. You must deliver your notice of withdrawal and your new election form prior to 9:00 p.m., Central Standard Time, on February 26, 2002, the expiration of the offer. If we extend the offer, you must deliver the notice of withdrawal and new election form prior to the extended expiration of the offer. Once the offer has expired, you may no longer withdraw any tendered options or submit a new election form. (Page 15)

Am I required to do anything if I decide not to tender any of my eligible options?

No. If you do not wish to tender any of your eligible options, you do not need to do anything.

What do we and the board of directors recommend?

Although our board of directors has approved the offer, neither we nor our board of directors makes any recommendation as to whether you should tender or refrain from tendering your eligible options. You must make your own decision whether or not to tender eligible options.

Whom can I talk to if I have questions about the offer?

For additional information or assistance regarding the offer, you should contact:

James Matthews
Senior Vice President/Finance and Chief Financial Officer
ADTRAN, Inc.

901 Explorer Boulevard
Huntsville, Alabama 35806-2807

Telephone: (256) 963-8000 Facsimile: (256)963-8004 email: jim.matthews@adtran.com

WE HAVE NOT AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DOCUMENT OR IN THE RELATED ELECTION FORM. IF ANYONE MAKES ANY REPRESENTATION OR GIVES YOU ANY INFORMATION DIFFERENT FROM THE REPRESENTATIONS AND INFORMATION CONTAINED HEREIN, YOU MUST NOT RELY UPON THAT REPRESENTATION OR INFORMATION AS HAVING BEEN AUTHORIZED BY US. WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING YOUR OPTIONS PURSUANT TO THE OFFER. IF ANYONE MAKES ANY RECOMMENDATION TO YOU, YOU MUST NOT RELY UPON THAT RECOMMENDATION AS HAVING BEEN AUTHORIZED BY US. YOU SHOULD RELY ONLY ON THE REPRESENTATIONS AND INFORMATION CONTAINED IN THIS DOCUMENT OR ANY DOCUMENT TO WHICH WE HAVE REFERRED YOU.

INTRODUCTION

ADTRAN, Inc. is offering to exchange all outstanding options to purchase shares of our common stock granted under the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, the ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended, and the ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan, as amended, or collectively, our stock incentive plans, that have an exercise price of at least \$40.00 per share and were granted prior to September 30, 2000 (the "eligible options") and are held by current employees or directors who have not received options after July 23, 2001, for new options we will grant under our stock incentive plans. We are making the offer upon the terms and subject to the conditions set forth in this offer to exchange and in the related election form (which together, as they may be amended from time to time, constitute the "offer"). For each eligible option that you tender and we accept for exchange, you will receive a new option exercisable for a number of shares of common stock equal to three shares for every four shares subject to the tendered eligible option, plus the number of remaining shares, if any, if the number of shares subject to the tendered option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events. We will not grant the new options until the 30-day period beginning on the first business day that is at least six months and two days after the date we cancel the eligible options accepted for exchange. Our board of directors will select the actual grant date for the new options.

We are not accepting partial tenders of eligible options. Accordingly, you may only tender eligible options for all or none of the shares of common stock subject to each of your eligible option grants. To the extent you have partially exercised an eligible option grant prior to the expiration of the offer, you may tender all or none of the remaining unexercised shares subject to that option grant.

The offer is not conditioned upon a minimum number of eligible options being tendered. The offer is subject to conditions which we describe in Section 6 of this offer to exchange. All eligible options accepted by us pursuant to the offer will be canceled.

If you tender eligible options granted under our Amended and Restated 1996 Employees Incentive Stock Option Plan or our 1986 Employee Incentive Stock Option Plan for exchange, subject to the terms of this offer, you will be granted new options under our 1996 plan, unless prevented by law or applicable regulations. If you tender eligible options granted under our Amended and Restated 1995 Directors Stock Option Plan, subject to the terms of this offer we will grant you new options under the 1995 plan, unless prevented by law or applicable regulations. We will enter into a new option agreement with you with respect to the new options. The exercise price of the new options will be equal to the last sale price during regular trading hours of our common stock on the Nasdaq National Market on the day of the grant of the new options. The new options will be vested to the same extent and in the same proportion as the eligible options tendered for exchange and, to the extent any new options are not vested, they will vest in the same manner and in the same proportion as the tendered eligible options. The new options will expire on the same date as the tendered eligible options would have expired.

As of January 25, 2002, options to purchase 5,046,092 shares of our common stock were issued and outstanding under our 1996 plan, options to purchase 83,000 shares of our common stock were issued and outstanding under our 1995 plan and options to purchase 31,020 shares of our common stock were issued and outstanding under our 1986 plan. Of these options, options to purchase 1,490,400 shares of our common stock had an exercise price of at least \$40.00 per share and were granted prior to September 30, 2000 and were held by employees or directors who had not received options after July 23, 2001. The shares of common stock issuable upon exercise of eligible options we are offering to exchange represent approximately 28.9% of the total shares of common stock issuable upon exercise of all options outstanding under our stock incentive plans as of January 25, 2002.

THE OFFER

1. Number of Options; Expiration Date.

Upon the terms and subject to the conditions of the offer, we will exchange for new options to purchase common stock under our stock incentive plans all eligible options outstanding under those stock incentive plans that are properly tendered and not validly withdrawn in accordance with Section 4 before the "expiration date," as defined below. Eligible options are all outstanding options granted prior to September 30, 2000 that have an exercise price of at least \$40.00 per share and are held by current employees or directors who have not received options after July 23, 2001. We will not accept partial tenders of your eligible options. Therefore, you may tender eligible options for all or none of the shares of common stock subject to each of your eligible option agreements. If you have partially exercised an eligible option prior to the expiration of the offer, you may tender that option for all or none of the remaining unexercised shares of common stock subject to that option grant.

If you properly tender your eligible options and we accept them for exchange, we will cancel the tendered options and, subject to the terms of this offer, you will be entitled to receive one or more new options to purchase a number of shares of our common stock that is equal to three shares for every four shares subject to the eligible options that you tendered, subject to adjustments for any stock splits, reverse stock splits, stock dividends and similar events. If the number of shares subject to a tendered eligible option is not divisible by four, your new option will also be exercisable for the remaining one, two or three shares, as applicable. For example, the following table shows what you would receive if you tendered an eligible option exercisable for the number of shares of common stock indicated in the left-hand column below:

Number of Shares Subject to Tendered Eligible Option	Number of Shares Subject to New Option
461	346
462	347
463	348
464	348

All new options will be subject to the terms of our 1996 plan or our 1995 plan, depending on which plan the eligible options were granted under, and subject to applicable laws and regulations. Each new option will also be subject to a new option agreement between us and you.

The new options will be granted within the 30-day period beginning on the first business day that is at least six months and two days after the date we cancel the eligible options accepted for exchange. The new options will have an exercise price equal to the last reported sale price of our common stock on the Nasdaq National Market on the date of grant. Each new option will vest in the same manner and in the same proportion as the eligible option tendered for exchange. Thus, the new option will be vested to the same extent and in the same proportion as the tendered eligible option would have been vested if you still held that option on the date of grant of the new option. Any remaining unvested portion of the new option will vest in accordance with the same schedule and in the proportion as the tendered eligible option. The new option will expire on the same date as the tendered eligible option would have expired.

If, for any reason, you do not remain an employee or director of ADTRAN through the date we grant the new options, you will not receive any new options or other consideration in exchange

for your tendered options that have been accepted for exchange. This means that if you quit, with or without a good reason, or die, or your employment or service as a director terminates due to disability, or we terminate your employment or service, with or without cause, prior to the date we grant the new options, you will not receive anything for the options that you tendered and we canceled.

The term "expiration date" means 9:00 p.m., Central Standard Time, on February 26, 2002, unless and until we, in our discretion, have extended the period of time during which the offer will remain open, in which event the term "expiration date" refers to the latest time and date at which the offer, as so extended, expires. See Section 14 for a description of our rights to extend, delay, terminate and amend the offer.

If we decide to take any of the following actions, we will publish notice or otherwise inform you in writing of the action:

- (a) we increase or decrease the amount of consideration offered for the eligible options;
- (b) we decrease the number of options eligible to be tendered in the offer; or
- (c) we increase the number of options eligible to be tendered in the offer by an amount that exceeds 2% of the shares of common stock issuable upon exercise of the options that are subject to the offer immediately prior to the increase.

If the offer is scheduled to expire at any time earlier than the tenth business day from, and including, the date that notice of such increase or decrease is first published, sent or given in the manner specified in Section 14, we will extend the offer so that the offer is open at least 10 business days following the publication, sending or giving of notice.

We will also notify you of any other material change in the information contained in this offer to exchange.

For purposes of the offer, a "business day" means any day other than a Saturday, Sunday or federal holiday and consists of the time period from 12:01 a.m. through 12:00 midnight, Eastern Time, and a "trading day" means any business day on which a last sale price of our common stock is reported on the Nasdaq National Market.

2. Purpose of the Offer.

We issued the options outstanding under our stock incentive plans to:

- . provide our employees and directors an opportunity to acquire or increase a proprietary interest in us, thereby creating a stronger incentive to expend maximum effort for our growth and success; and
- . encourage our employees to continue their employment with us and our directors to continue their service on our board.

One of the keys to our continued growth and success is the retention of our most valuable assets, our employees and directors. The offer provides an opportunity for us to offer these employees and directors a valuable incentive to stay with our company. Some of our outstanding options, whether or not they are currently exercisable, have exercise prices that are significantly higher than the current market

price of our common stock. We believe these options are unlikely to be exercised in the foreseeable future.

By making this offer to exchange outstanding eligible options for new options that will have an exercise price equal to the market value of our common stock on the grant date, we intend to provide our employees and directors with the benefit of owning options that over time may have a greater potential to increase in value, create better performance incentives for employees and directors and thereby maximize stockholder value. Because we will not grant new options until at least six months and two days after the date we cancel the eligible options accepted for exchange, the new options may have a different exercise price (either higher or lower) than some or all of the eligible options.

From time to time, we grant options in the ordinary course of business and in accordance with the terms of our stock incentive plans to our current and new employees, including our executive officers, and to our directors. From time to time our employees, including executive officers, and our directors acquire or dispose of our securities. Our directors and executive officers are eligible to participate in the offer if they hold eligible options. We also evaluate on an annual basis the adequacy of the number of directors on our board of directors. We are currently in the process of reviewing our board composition and may determine to increase the number of directors.

Subject to the foregoing, and except as otherwise disclosed in this offer to exchange or in our filings with the Securities and Exchange Commission, or SEC, we presently have no plans or proposals that relate to or would result in:

- (a) any extraordinary corporate transaction, such as a merger, reorganization or liquidation, involving our company;
- (b) any purchase, sale or transfer of a material amount of our assets;
- (c) any material change in our present dividend policy, or our indebtedness or capitalization;
- (d) any change in our present board of directors or management, including a change in the number or term of directors or to change any executive officer's material terms of employment;
- (e) any other material change in our corporate structure or business;
- (f) our common stock not being authorized for quotation in an automated quotation system operated by a national securities association;
- (g) our common stock becoming eligible for termination of registration pursuant to Section 12(g)(4) of the Securities Exchange Act;
- (h) the suspension of our obligation to file reports pursuant to Section 15(d) of the Securities Exchange Act;
- (i) the acquisition by any person of an amount of our securities or the disposition of an amount of any of our securities; or
- (j) any change in our certificate of incorporation or bylaws, or any actions which may impede the acquisition of control of us by any person.

NEITHER WE NOR OUR BOARD OF DIRECTORS MAKES ANY RECOMMENDATION AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING YOUR ELIGIBLE OPTIONS, NOR HAVE WE AUTHORIZED ANY PERSON TO MAKE ANY SUCH RECOMMENDATION. YOU ARE URGED TO EVALUATE CAREFULLY ALL OF THE INFORMATION IN THIS OFFER TO EXCHANGE AND TO CONSULT YOUR OWN INVESTMENT AND TAX ADVISORS. YOU MUST MAKE YOUR OWN DECISION WHETHER OR NOT TO TENDER YOUR ELIGIBLE OPTIONS FOR EXCHANGE.

3. Procedures for Tendering Options.

Proper Tender of Options. To validly tender your eligible options pursuant to the offer, you must, in accordance with the terms of the election form, properly complete, duly execute and deliver to us the election form, or a facsimile of the form, along with any other required documents. We will notify you by email of the receipt of your election form. We must receive all of the required documents at ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807, Attn: James Matthews, before the expiration date. We will not accept delivery of the election form or any other required documents by email. The offer expires on February 26, 2002 at 9:00 p.m., Central Standard Time, unless we extend the offer. If we extend the offer beyond that time, we must receive these documents before the extended expiration date. We will not accept delivery of any election form after the expiration of the offer.

The method of delivery of all documents, including election forms and any other required documents, is at your election and risk. In all cases, you should allow sufficient time to ensure timely delivery.

Determination of Validity; Rejection of Options; Waiver of Defects; No Obligation to Give Notice of Defects. We will determine, in our discretion, all questions as to the form of documents and the validity, form, eligibility, including time of receipt, and acceptance of any tender of options. Our determination of these matters will be final and binding on all parties. We reserve the right to reject any or all tenders of options that we determine are not in appropriate form or that we determine are unlawful to accept. Otherwise, we intend to accept properly and timely tendered eligible options that are not validly withdrawn. We also reserve the right to waive any of the conditions of the offer or any defect or irregularity in any tender with respect to any particular options or any particular option holder. No tender of options will be deemed to have been properly made until all defects or irregularities have been cured by the tendering option holder or waived by us. Neither we nor any other person is obligated to give notice of any defects or irregularities in tenders, nor will anyone incur any liability for failure to give any such notice. This is a one-time offer, and we will strictly enforce the offer period.

Our Acceptance Constitutes an Agreement. Your tender of eligible options pursuant to the procedures described above constitutes your acceptance of the terms and conditions of the offer. Our acceptance for exchange of the eligible options tendered by you pursuant to the offer will constitute a binding agreement between us and you upon the terms and subject to the conditions of the offer.

Subject to our rights to extend, terminate and amend the offer, we intend to accept promptly after the expiration of the offer all properly tendered eligible options that have not been validly withdrawn.

4. Withdrawal Rights.

You may only withdraw your tendered options in accordance with the provisions of this Section 4. If your employment with us or service as a director terminates prior to the expiration of the offer, your tendered options will automatically be withdrawn. If automatically withdrawn, you may

exercise those options to the extent they are vested at the time of your termination in accordance with the terms of your original option agreement.

You may withdraw your tendered options at any time before 9:00 p.m., Central Standard Time, on February 26, 2002. If we extend the offer beyond that time, you may withdraw your tendered options at any time until the extended expiration of the offer. In addition, unless we accept your tendered options for exchange before 12:00 midnight, Eastern Time, on March 25, 2002, you may withdraw your tendered options at any time after March 25, 2002 until they are accepted and canceled.

You must withdraw all of the options previously tendered. You may not withdraw only a portion of the options previously tendered. Upon withdrawal of previously tendered options, such options will remain outstanding pursuant to their original terms and conditions, including their exercise price and vesting schedule.

To validly withdraw tendered options, you must deliver to us at the address set forth in Section 3 above a notice of withdrawal, or a facsimile of that notice, with the required information set forth in the notice and the instructions to that notice. A copy of the form of notice of withdrawal is included in the materials accompanying this offer to exchange. We will not accept delivery of a notice of withdrawal by email. You must deliver the notice of withdrawal while you still have the right to withdraw the tendered options.

Except as described in the following sentence, the notice of withdrawal must be executed by the option holder who tendered the options to be withdrawn exactly as such option holder's name appears on the option agreement or agreements evidencing those options. If the signature is by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or another person acting in a fiduciary or representative capacity, the signer's full title and proper evidence of the authority of such person to act in that capacity must be indicated on the notice of withdrawal.

You may not rescind any withdrawal. The options you withdraw will thereafter be deemed not properly tendered for purposes of the offer, unless you properly re-tender those options before the expiration date by following the procedures described in Section 3.

If you wish to withdraw only a portion of your tendered eligible options, you must deliver your notice of withdrawal to us withdrawing all of your tendered options and at the same time or thereafter deliver a new election form tendering the eligible options that you still wish to tender, in each case following the delivery instructions described above. You must deliver your notice of withdrawal and your new election form prior to 9:00 p.m., Central Standard Time, on February 26, 2002, the expiration of the offer. If we extend the offer, you must deliver the notice of withdrawal and new election form prior to the extended expiration of the offer. Once the offer has expired, you may no longer withdraw any tendered options or submit a new election form.

Neither we nor any other person is obligated to give notice of any defects or irregularities in any notice of withdrawal, nor will anyone incur any liability for failure to give any such notice. We will determine, in our discretion, all questions as to the form and validity, including time of receipt, of notices of withdrawal. Our determination of these matters will be final and binding.

5. Acceptance of Options for Exchange and Issuance of New Options.

Upon the terms and subject to the conditions of the offer and as promptly as practicable following the expiration date, we intend to accept for exchange and cancel eligible options properly tendered and not validly withdrawn before the expiration date. Subject to the terms and conditions of this offer, if your

options are properly tendered and accepted for exchange, we will cancel these options as of the date of our acceptance and we will grant you new options at some time within the 30-day period from and after the first business day that is at least six months and two days after the date we cancel the options accepted for exchange. Thus, subject to the terms and conditions of this offer, if your eligible options are properly tendered and we accept them for exchange on February 26, 2002, the scheduled expiration date of the offer, we will grant you new options at some time during the 30-day period from and after August 28, 2002. If we accept and cancel options properly tendered for exchange after February 26, 2002, the 30-day period in which the new options will be granted will be similarly delayed.

If we accept options you tender in the offer, we will defer until the 30-day period following the first business day that is at least six months and two days after we cancel the eligible options accepted for exchange any grant to you of other options, such as annual or bonus options, for which you may be eligible before the new option grant date. We will defer the grant to you of these other options to avoid incurring potential compensation expense against our earnings because of accounting rules that would apply to these interim option grants as a result of the offer. Any such grant of these other options is in the discretion of the board of directors and subject to compliance with law and market prices prevailing at the time of the grants. Any actual grants of these other options will therefore be made when, as and if declared by the board of directors.

Your new options will entitle you to purchase a number of shares of our common stock which is equal to three shares for every four shares subject to the eligible options you tender, plus any remaining shares if the number of shares subject to a tendered option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events.

If, for any reason, you are not an employee or director of ADTRAN through the date we grant the new options, you will not receive any new options or other consideration in exchange for your tendered options that have been accepted for exchange. With respect to employees, the offer does not change the "at-will" nature of your employment with us, and your employment may be terminated by us or by you at any time, including prior to the grant date or vesting of the new options, for any reason, with or without cause.

No Partial Tenders. You are not required to accept the offer. If you choose to tender any eligible options for exchange, however, we will not accept partial tenders of your eligible option grants. Accordingly, you may only tender eligible options for all or none of the shares of common stock subject to each of your eligible option agreements. If you partially exercised an eligible option prior to the expiration of the offer, you may tender that option for all or none of the remaining unexercised shares subject to that option.

Acceptance of Tendered Options. For purposes of the offer, we will be deemed to have accepted for exchange eligible options that are validly tendered and not properly withdrawn as, if and when we give oral or written notice to the option holders of our acceptance for exchange and cancellation of such options, which notice may be made by email, press release or other means. Subject to our rights to extend, terminate and amend the offer, we intend to accept promptly after the expiration of the offer all properly tendered options that are not validly withdrawn. When we accept your tendered options for exchange and cancel those options, you will have no further rights with respect to those options or under their corresponding option agreements. By tendering your options, you agree that the applicable option agreements will terminate upon cancellation of your tendered options. Promptly after we accept tendered options for exchange, we will send each tendering option holder a notice indicating the number of shares subject to the options that we have accepted for exchange and canceled, and, subject to the terms and conditions of this offer, the corresponding number of shares that will be subject to the new options and the 30-day period during which we expect to grant the new options.

6. Conditions of the Offer.

Notwithstanding any other provision of the offer, we will not be required to accept any eligible options tendered for exchange, and we may terminate or amend the offer, or postpone our acceptance and cancellation of any options tendered for exchange, in each case subject to the requirements of applicable laws and regulations, if at any time on or after January 28, 2002 and prior to the expiration date any of the following events has occurred, or has been determined by us to have occurred, and, in our reasonable judgment in any such case and regardless of the circumstances giving rise to such events, including any action or omission to act by us, the occurrence of such event or events makes it inadvisable for us to proceed with the offer or with such acceptance and cancellation of options tendered for exchange:

(a) there shall have been threatened or instituted or be pending any action or proceeding by any governmental, regulatory or administrative agency or authority or any other person that directly or indirectly challenges the making of the offer, the acquisition of some or all of the tendered options pursuant to the offer, or the issuance of new options, or otherwise relates in any manner to the offer, or that, in our reasonable judgment, could materially and adversely affect our business, condition, income, operations or prospects or materially impair the contemplated benefits of the offer to us;

(b) there shall have been any action threatened, pending or taken, or approval withheld, or any statute, rule, regulation, judgment, order or injunction threatened, proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be eligible to the offer or us, by any court or any authority, agency or tribunal that, in our reasonable judgment, would or might directly or indirectly:

(1) make the acceptance for exchange of, or issuance of new options for, some or all of the tendered options illegal or otherwise restrict or prohibit consummation of the offer or that otherwise relates in any manner to the offer; or

(2) delay or restrict our ability, or render us unable, to accept for exchange or issue new options for, some or all of the tendered options.

The conditions to the offer are for our benefit. We may assert them in our discretion regardless of the circumstances giving rise to them prior to the expiration date. We may waive them, in whole or in part, at any time and from time to time prior to the expiration date, in our discretion, whether or not we waive any other condition to the offer. Our failure at any time to exercise any of these rights will not be deemed a waiver of any of these rights. The waiver of any of these rights with respect to particular facts and circumstances will not be deemed a waiver with respect to any other facts and circumstances. Any determination we make concerning the events described in this Section 6 will be final and binding upon all persons.

7. Price Range of Common Stock Underlying the Options.

There is no established trading market for options granted under our stock incentive plans, and there will be no established trading market for any new options that we may grant.

Our common stock is quoted on the Nasdaq National Market under the symbol "ADTN." The following table shows, for the periods indicated, the high and low sales prices per share of our common stock as reported by the Nasdaq National Market.

Quarter Ended:	High ----	Low ---
March 31, 2002 (through January 22, 2002)	\$ 29.750	\$ 24.600
December 31, 2001	\$ 29.050	\$ 18.000
September 30, 2001	\$ 25.900	\$ 17.850
June 30, 2001	\$ 30.650	\$ 18.000
March 31, 2001	\$ 29.500	\$ 19.875
December 31, 2000	\$ 48.188	\$ 16.563
September 30, 2000	\$ 73.250	\$ 41.125
June 30, 2000	\$ 73.000	\$ 44.000
March 31, 2000	\$ 80.500	\$ 49.063

Our common stock first became available for trading on the Nasdaq National Market in August 1994. As of January 22, 2002, the last reported sale price during regular trading hours of our common stock, as reported by the Nasdaq National Market, was \$26.93 per share.

Our stock price has been, and in the future may be, highly volatile and could decline. Our stock price could also rise prior to the grant of the new options and thereafter fall. The trading price of our common stock has fluctuated widely in the past and is expected to continue to do so in the future as a result of a number of factors, many of which are beyond our control. In addition, the stock market has experienced extreme price and volume fluctuations that have affected the market prices of many companies, and that have often been unrelated or disproportionate to the operating performance of these companies. The new options will not be granted until a trading date that is at least six months and two days after the date that we accept your tendered options for exchange and cancel them. The exercise price of the new options will be the last reported sale price of our common stock on the Nasdaq National Market on the grant date. The exercise price of the new options may be higher than the exercise price of your tendered options. In addition, our common stock may thereafter trade at prices below the exercise price of the new options. In that event, depending on the exercise price of your tendered options and other factors, your new options may be less valuable than your tendered options. We recommend that you obtain current market quotations for our common stock before deciding whether or not to tender your options. At the same time, you should consider that the current market price of our common stock may provide little or no basis for predicting what the market price of our common stock will be on the grant date of the new options or at any time in the future.

8. Source and Amount of Consideration; Terms of New Options.

Consideration. If you tender eligible options that were granted under the 1996 plan or the 1986 plan, we will issue new options to purchase common stock under our 1996 plan, subject to applicable laws and regulations, in exchange for the eligible options that you properly tender and we accept for exchange. If you tender eligible options granted under the 1995 plan, we will issue new options under the 1995 plan, subject to applicable laws and regulations, in exchange for the eligible options you properly tender and we accept for exchange. All options that we accept for exchange will be canceled. For each eligible option you tender and we accept, you will receive a new option exercisable for a number of shares of common stock equal to three shares for every four shares subject to the tendered eligible option, plus the remaining shares, if any, if the number of shares subject to the tendered option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events.

If we receive and accept tenders of all outstanding eligible options as of January 28, 2002, subject to the terms and conditions of this offer, we will grant new options to purchase a total of 1,117,891 shares of our common stock. The common stock issuable upon exercise of these new options would equal approximately 21.7% of the total shares of our common stock outstanding as of January 28, 2002. The shares of common stock subject to tendered options granted under the 1996 plan that we accept for exchange and cancel will, after such cancellation, be available for regrant and issuance under the 1996 plan and may provide some or all of the shares needed for the option grants that we will make under the 1996 plan in carrying out the exchange that is the subject of the offer. The shares of common stock subject to tendered options granted under the 1995 plan that we accept for exchange and cancel will, after such cancellation, be available for regrant and issuance under the 1995 plan and may provide some or all of the shares needed for the option grants that we will make under the 1995 plan in carrying out the exchange that is the subject of the offer. Because options can no longer be granted under the 1986 plan, the shares of common stock subject to tendered options granted under the 1986 plan that we accept for exchange and cancel will not be available for regrant or issuance.

Terms of New Options. The new options will be granted under our Amended and Restated 1996 Employees Incentive Stock Option Plan or our Amended and Restated 1995 Directors Stock Option Plan, depending on which plan the tendered options were granted under and subject to applicable laws and regulations. We will enter into a new option agreement with each option holder who has tendered options in the offer for every new option granted. Each new option will be exercisable for a number of shares of our common stock equal to three shares for every four shares of common stock subject to the options tendered for exchange, plus the remaining shares, if any, if the number of shares subject to the tendered option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events. Except with respect to the exercise price and as otherwise specified in the offer, the terms and conditions of the new options will be substantially the same as the terms and conditions of the options tendered for exchange that were granted under the 1996 plan and the 1995 plan. However, if your previous options were incentive stock options, you may not be eligible to receive incentive stock options for all or part of your new options, in which case you will receive nonqualified stock options instead. See Section 13 for further discussion of incentive stock options and the tax consequences of participating in the offer.

If your previous options were granted under the 1986 plan, your new options will be granted under the 1996 plan and some of the options' terms will be different due to differences in the plans. For instance, the 1986 plan gave optionees the right to create a "stock option account" with ADTRAN, and to instruct ADTRAN to deduct amounts from the optionee's pay to accumulate funds to pay the exercise price before exercising an option. Under the 1996 plan, optionees do not have that right, but they may pay the exercise price of an option by directing ADTRAN to retain shares upon option exercise that have a fair market value equal to the exercise price, which was not explicitly permitted under the 1986 plan. Under the 1986 plan, an option would become void if any attempt was made to transfer, assign, attach or otherwise convey the option; although transfer of options is not permitted under the 1996 plan, the 1996 plan does not automatically void options for attempting transfer. The 1996 plan allows the plan committee to take certain actions as a result of corporate transactions that are not provided under the 1986 plan and that may affect an optionee's rights, specifically, if ADTRAN is a party to any reorganization involving merger, consolidation, acquisition of the stock or acquisition of the assets of ADTRAN which does not constitute a Change of Control (as defined under "Change of Control" below in the description of the 1996 plan), the committee may declare that outstanding options apply to the securities of a resulting corporation, or become fully vested and exercisable and terminate after no less than 30 days' notice to optionees. Under the 1986 plan, unlike the 1996 plan, the plan committee has the discretion to cancel all options on 90 days' notice in the event that 50% or more of ADTRAN's assets, based on fair market value, are purchased.

There are also some important differences between how options terminate following termination of employment under the 1986 plan versus the 1996 plan. Under both plans, vested options generally terminate if not exercised within 3 months following termination of employment other than due to death or disability, or expire sooner according to their terms. However, under the 1996 plan, if an optionee terminates employment for cause, all vested options terminate immediately, which is not provided under the 1986 plan. Under the 1986 plan, if an optionee dies during employment or within 3 months after retiring under one of ADTRAN's retirement plans, the options are exercisable for one year following the optionee's death. However, under the 1996 plan, options are exercisable for one year following an optionee's death if the optionee dies during employment, within 3 months after termination of employment other than for cause or due to disability, or within one year after termination of employment due to disability. In addition, under the 1996 plan, if an optionee's employment terminates for any reason other than death or disability at any time after a "Change of Control" (as defined under "Change of Control" in the description of the 1996 plan below), the term of all options of the optionee will be extended through the three month period immediately following such termination of employment.

Because we will not grant new options until at least six months and two days after the date we cancel the eligible options accepted for exchange, the new options may have a higher exercise price than some or all of the eligible options.

The following description summarizes the material terms of our stock incentive plans and the options granted under them.

Amended and Restated 1996 Employees Incentive Stock Option Plan, As Amended

General. ADTRAN's Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, or the 1996 plan, currently permits us to grant to our key employees (including officers and directors who are also employees) incentive stock options and non-qualified stock options to purchase up to an aggregate of 8,488,100 shares of common stock of the Company, subject to adjustment in the event of a recapitalization, merger, stock split or any other change in our corporate structure or our shares of stock. The following description of the 1996 plan is qualified in its entirety by reference to the applicable provisions of the 1996 plan and agreements related to the 1996 plan.

Administration. The 1996 plan is administered by the stock option plan committee of our board of directors. The stock option plan committee consists of two or more individuals appointed by the board of directors from among its members. The members of the committee cannot participate in the 1996 plan and must be "outside directors" within the meaning of Section 162(m)(4)(C)(i) of the Internal Revenue Code of 1986, as amended. The board from time to time may remove members from, or add members to, the committee, and must fill all vacancies on the committee. The committee currently consists of directors William L. Marks and Roy J. Nichols.

Among other powers and duties, the committee has authority (i) to determine the individuals to whom options will be granted from among those individuals who are eligible, as well as the terms of options and the number of shares of common stock subject to such options, (ii) to determine whether an option will constitute an incentive stock option intended to qualify under Section 422 of the Internal Revenue Code or a non-qualified stock option not intended to qualify under Internal Revenue Code Section 422 and (iii) to interpret the provisions of, and prescribe, amend and rescind any rules and regulations relating to, the 1996 plan.

Eligibility and Grants of Options. Under the terms of the 1996 plan, all employees of ADTRAN (and any parent or subsidiary corporations), including employees who are also members of the board (or

of the board of directors of a parent or subsidiary corporation) are eligible for consideration for the granting of options by the committee.

Stock Subject to the 1996 Plan. The stock subject to the options and other provisions of the 1996 plan is the authorized but unissued or reacquired shares of our common stock. Subject to adjustment in accordance with the terms of the 1996 plan, up to 8,488,100 shares of common stock, in the aggregate, may be granted or purchased under the 1996 plan, and the unexercised portion of shares of common stock allocable to expired or terminated options may again become subject to options under the 1996 plan.

As of January 25, 2002, 317,949 shares of common stock had been issued upon the exercise of options granted under the 1996 plan, options to purchase 5,046,092 shares of common stock were outstanding and 3,124,059 shares were available for future grant. Options to purchase 668,314 shares were previously canceled pursuant to the terms of the 1996 plan. If options granted under the 1996 plan expire or otherwise terminate without being exercised, the common stock not purchased pursuant to those options again becomes available for issuance under the 1996 plan.

Terms of Options Granted Under the 1996 Plan

The following is a description of the permissible terms of options under the 1996 plan. Individual option grants may be more restrictive as to any or all of the permissible terms described below.

Exercise Price. The purchase price of the common stock underlying each option granted under the 1996 plan is the fair market value of the common stock on the date the option is granted, unless otherwise determined by the committee. However, the exercise price for incentive stock options may not be less than 100% (110% for options granted to an optionee who owns more than 10% of the total combined voting power of all classes of stock of either ADTRAN or any parent or subsidiary corporation of ADTRAN) of the fair market value of the common stock on the date the incentive stock option is granted.

Vesting. The 1996 plan provides that options granted under the 1996 plan become exercisable (i.e., vested) as of the first anniversary of the grant date, unless otherwise provided by the committee pursuant to a schedule established at the time the options are granted. Many of the options outstanding under the 1996 plan have a different vesting schedule determined by the committee at the time of grant. If the optionee ceases to be an employee of ADTRAN, the optionee's rights with regard to all non-vested options cease immediately. Notwithstanding the vesting schedule established by the committee, all non-vested options previously granted to an optionee immediately vest upon the optionee's becoming "Disabled" (as defined in the 1996 plan), upon his or her death or upon a "Change of Control" of ADTRAN. "Change of Control" is discussed in more detail below.

The new options granted under the 1996 plan pursuant to the offer will vest in the same manner and in the same proportion as the eligible options tendered. At the time of grant, each new option will be vested in the same proportion as the respective tendered eligible option would have been vested if the option holder still held the tendered option on the date of grant. To the extent a new option remains unvested at the time of grant, it will vest according to the same schedule and in the same proportion as the corresponding tendered option would have vested.

Term of Options. The stock option committee determines the term of any option in accordance with the 1996 plan, but the term may not exceed 10 years from the date of grant (or 5 years in the case of incentive stock options granted to optionees who own more than 10% of the total combined voting power of all classes of stock of either ADTRAN or any parent or subsidiary corporation). No option may be granted under the 1996 plan after February 14, 2006.

The term of each new option will be the same as the remaining term of the tendered eligible option to which it corresponds.

Termination of Employment. Vested options must be exercised within the earlier of: (i) three months after an employee optionee ceases to be in the employ of ADTRAN or any parent or subsidiary for any reason other than death, disability or for "cause" (as defined in the 1996 plan), unless the employee dies within this three month period; (ii) the expiration date of the option; (iii) immediately upon the removal of the employee for "cause"; (iv) one year after termination of employment with us or any parent or subsidiary because of disability, unless the optionee dies within this one year period; or (v) one year after the death of an optionee who dies (a) while in the employ of ADTRAN or any parent or subsidiary, (b) within three months after termination of employment with us or any parent or subsidiary for a reason other than disability or for "cause," or (c) within one year after employment with us or any parent or subsidiary is terminated due to disability. Notwithstanding the immediately preceding sentence, if an optionee's employment terminates for any reason other than death or disability at any time after a "Change of Control" (as defined under "Change of Control" below), the term of all options of the optionee will be extended through the three month period immediately following such termination of employment. However, the committee may waive the above expiration periods with respect to any non-qualified stock options granted under the 1996 plan and provide different expiration dates in a non-qualified stock option agreement.

Exercise of Options. An option granted under the 1996 plan may be exercised for less than the full number of shares of common stock subject to such option, provided that no option may be exercised for less than (i) 100 shares or (ii) the total remaining shares subject to the option, if less than 100 shares. Upon exercise of an option, an optionee must pay for the common stock subject to the exercise. Payment may be made in cash, in shares of our common stock (including the retention by us of shares of common stock subject to the option with a fair market value equal to the exercise price), or by a combination of the foregoing. Optionees are also responsible for paying, in cash or in shares of our common stock, the amount of any withholding required under U.S. federal income tax or other applicable laws.

Transfers. The 1996 plan does not permit an optionee to sell, assign or otherwise transfer options except by transfer to a "Beneficiary" at the death of the optionee, and any other purported transfer is null and void. Options are exercisable during the optionee's life only by the optionee (unless the optionee is incapacitated and unable to exercise options). Upon the death of the optionee, options are exercisable by the optionee's "Beneficiary."

Amendment and Termination. Our board of directors may amend or terminate the 1996 plan at any time, provided that (i) no amendment may adversely affect in any way the rights of optionees without the consent of such optionees, and (ii) no amendment may be effected without the prior approval of our stockholders if (A) the amendment would cause the applicable portions of the 1996 plan to fail to qualify as an "incentive stock option plan" pursuant to Section 422 of the Internal Revenue Code, (B) the amendment would materially increase the benefits accruing to participants under the 1996 plan, (C) the amendment would materially increase the number of securities which may be issued under the 1996 plan, (D) the amendment would materially modify the requirements as to eligibility for participation in the 1996 plan, or (E) the amendment would modify the material terms of the 1996 plan within the meaning of regulations under Section 162(m) of the Internal Revenue Code.

The 1996 plan will terminate on the later of (i) the complete exercise or lapse of the last outstanding option granted under the 1996 plan or (ii) the last date upon which options may be granted under the 1996 plan, February 14, 2006, subject to its earlier termination by the board of directors at any time.

Change of Control. For purposes of the 1996 plan, the term "Change of Control" is defined to mean any one of the following events:

- (i) the acquisition by an individual or entity (including "affiliates" and "associates" of that individual or entity, but excluding ADTRAN, any "parent" or "subsidiary" of ADTRAN, or any employee benefit plan of ADTRAN or of any "parent" or "subsidiary" of ADTRAN) of a sufficient number of shares of the common stock, or securities convertible into the common stock, and whether through direct acquisition of shares or by merger, consolidation, share exchange, reclassification of securities or recapitalization of or involving ADTRAN or any "parent" or "subsidiary" of ADTRAN, to constitute that individual or entity the actual or beneficial owner of greater than 50% of our common stock; or
- (ii) any sale, lease, transfer, exchange, mortgage, pledge or other disposition, in one transaction or a series of transactions, of all or substantially all of the assets of ADTRAN or of any "subsidiary" of ADTRAN to an individual or entity described in subsection (i) above.

For purposes of this definition, the terms "affiliate," "associate," "parent" and "subsidiary" are defined as in Rule 12b-2 under the Securities Exchange Act.

Adjustments. In the event of changes in the number or kind of outstanding shares of the common stock by reason of a recapitalization, reclassification, stock split, combination of shares or dividend payable in shares of common stock, an appropriate and equitable adjustment will be made by the committee to the number and kind of shares subject to options granted under the 1996 plan, and to the number and kind of shares remaining available for the granting of options.

Additionally, in the event that we are involved in a reorganization involving a merger, consolidation, acquisition of the stock or acquisition of our assets that does not constitute a Change of Control, the committee, in its discretion, may declare that (i) outstanding options apply to the securities of the resulting corporation; (ii) outstanding options are nonforfeitable and fully exercisable or vested; and/or (iii) outstanding options are nonforfeitable and fully exercisable or vested and are to be terminated after giving at least 30 days notice to all optionees. If the board of directors adopts a plan of dissolution and liquidation that is approved by our stockholders, all of the rights of all optionees will become immediately nonforfeitable and exercisable through the date of dissolution.

Amended and Restated 1995 Directors Stock Option Plan, As Amended

General. Our Amended and Restated 1995 Directors Stock Option Plan, as amended, or the 1995 plan, currently permits us to grant non-qualified stock options to purchase up to an aggregate of 200,000 shares of our common stock, subject to adjustment in the event of a recapitalization, merger, stock split or any other change in the corporate structure or shares of our stock, to non-employee directors of ADTRAN or any parent or subsidiary corporation of ADTRAN. The following description of the 1995 plan is qualified in its entirety by reference to the applicable provisions of the 1995 plan and agreements related to the 1995 plan.

Administration. The 1995 plan is administered by the board of directors or by the stock option plan committee. Presently, the board of directors administers the 1995 plan.

The board of directors or the committee, as the case may be, has authority to interpret the provisions of, and prescribe, amend and rescind any rules and regulations relating to, the 1995 plan.

Eligibility. Under the terms of the 1995 plan, all directors who are not employees of ADTRAN or any parent or subsidiary corporation of ADTRAN receive a grant of options as set forth in the 1995

plan. As of January 28, 2002, there were four non-employee directors of ADTRAN. Presently, under the 1995 plan, upon initially becoming a non-employee director, an individual will receive a grant of an option to purchase 10,000 shares of our common stock. In addition, as of December 31 of each calendar year following the calendar year in which the non-employee director begins his or her service as a director of ADTRAN, the director will receive an additional grant of an option to purchase 5,000 shares of our common stock, provided that such director is still serving as a director on such date. However, the 1995 plan, as amended, suspended this automatic annual grant for the calendar year ended December 31, 2001.

The 1995 plan, as amended, provides for the grant of new options to non-employee directors who tender eligible options that we accept for exchange pursuant to the offer. In addition, each non-employee director who participates in the offer will be eligible to receive an option exercisable for 5,000 shares of common stock to be granted on the same date as the new options are granted. If a non-employee director does not participate in the offer, he will be eligible to receive an option exercisable for 5,000 shares of common stock to be granted after the expiration of the offer.

Stock Subject to the 1995 Plan. The stock subject to the options and other provisions of the 1995 plan is the authorized but unissued or reacquired shares of our common stock. Subject to adjustment in accordance with the terms of the 1995 plan, up to 200,000 shares of common stock, in the aggregate, may be granted or purchased under the 1995 plan, and the unexercised portion of shares of common stock allocable to expired or terminated options may again become subject to options under the 1995 plan. As of January 25, 2002, there were 117,000 shares of common stock available for grant under the 1995 plan, no shares of common stock had been issued upon the exercise of options granted under the 1995 plan, and options to purchase 83,000 shares of common stock were outstanding. Options to purchase 9,000 shares were previously canceled pursuant to the terms of the 1995 plan. If options granted under the 1995 plan expire or otherwise terminate without being exercised, the common stock not purchased pursuant to those options again becomes available for issuance under the 1995 plan.

Terms of Options Granted Under the 1995 Plan

The following is a description of the permissible terms of options under the 1995 plan. Individual option grants may be more restrictive as to any or all of the permissible terms described below.

Exercise Price. The purchase price of the common stock underlying each option granted under the 1995 plan is the fair market value of the common stock on the date the option is granted.

Vesting. Options granted under the 1995 plan become exercisable (i.e., vested) as of the first anniversary of the grant date. If the optionee ceases to be a director of ADTRAN, the optionee's rights with regard to all non-vested options cease immediately. Notwithstanding the foregoing, all non-vested options previously granted to an optionee immediately vest upon the optionee becoming "Disabled" (as defined in the 1995 plan), or upon his or her death or upon a "Change of Control" of ADTRAN. "Change of Control" is discussed in more detail below.

The new options granted pursuant to the offer will vest in the same manner and in the same proportion as the tendered eligible options. Because all eligible options granted under the 1995 plan have been held for at least one year, all new options granted under the 1995 plan pursuant to the offer will be fully vested.

Term and Exercise of Options. The term of any option commences on the date of grant and expires ten years from the date the option is granted. An option granted under the 1995 plan may be exercised for less than the full number of shares of common stock subject to such option, provided that no

option may be exercised for less than (i) 100 shares or (ii) the total remaining shares subject to the option, if less than 100 shares. Upon exercise of an option, an optionee must pay for the common stock subject to the exercise. Payment may be made in cash, in shares of common stock (including the retention by ADTRAN of optioned shares of common stock with a fair market value equal to the exercise price), or by a combination of the foregoing.

The term of each new option granted under the 1995 plan will be the same as the remaining term of the corresponding tendered eligible option.

Transfers. The 1995 plan does not permit an optionee to sell, assign or otherwise transfer options except by transfer to a "Beneficiary" at the death of the optionee, and any other purported transfer is null and void. Options are exercisable during the optionee's life only by the optionee (unless the optionee is incapacitated and unable to exercise options). Upon the death of the optionee, options are exercisable by the optionee's "Beneficiary."

Termination of Service as a Director. Vested options must be exercised within the earlier of: (i) three months after an optionee ceases to be a director ADTRAN or any parent or subsidiary for any reason other than death or disability or for "cause" (as defined in the 1995 plan) (unless the director dies within this three month period); (ii) the expiration date of the option; (iii) immediately upon the removal of the director for "cause"; (iv) one year after termination of service as a director of ADTRAN or a parent or subsidiary because of disability unless the optionee dies within this one year period; or (v) one year after the death of an optionee who dies (a) while serving as a director of ADTRAN or a parent or subsidiary, (b) within three months after service as a director is terminated by ADTRAN or a parent or subsidiary, or (c) within one year after service as a director of ADTRAN or a parent or subsidiary is terminated due to disability.

Admendment and Termination. The board of directors may amend or terminate the 1995 plan at any time, provided that (i) no amendment may be effected without the consent of the optionees if such amendment would adversely affect in any way the rights of such optionees under the 1995 plan, and (ii) no amendment may be effected without the prior approval of our stockholder if (A) the amendment would materially increase the benefits accruing to participants under the 1995 plan, (B) the amendment would materially increase the number of securities which may be issued under the 1995 plan or (C) the amendment would materially modify the requirements as to eligibility for participation in the 1995 plan.

The 1995 plan will terminate on the later of (i) the complete exercise or lapse of the last outstanding option granted under the 1995 plan or (ii) the last date upon which options may be granted under the 1995 plan, subject to its earlier termination by the Board at any time.

Change of Control. For purposes of the 1995 plan, the term "Change of Control" is defined to mean any one of the following events:

(i) the acquisition by an individual or entity (including "affiliates" and "associates" of such individual or entity, but excluding ADTRAN, any "parent" or "subsidiary" of ADTRAN, or any employee benefit plan of ADTRAN or of any "parent" or "subsidiary" of ADTRAN) of a sufficient number of shares of the common stock, or securities convertible into the common stock, and whether through direct acquisition of shares or by merger, consolidation, share exchange, reclassification of securities or recapitalization of or involving ADTRAN or any "parent" or "subsidiary" of ADTRAN, to constitute the individual or entity the actual or beneficial owner of greater than 50% of our common stock;

(ii) any sale, lease, transfer, exchange, mortgage, pledge or other disposition, in one transaction or a series of transactions, of all or substantially all of the assets of ADTRAN or of any "parent" or "subsidiary" of ADTRAN to an individual or entity described in subsection (i) above.

For purposes of this definition, the terms "affiliate," "associate," "parent" and "subsidiary" are defined as in Rule 12b-2 under the Securities Exchange Act.

Adjustments. In the event of changes in the number of outstanding shares of the common stock by reason of a recapitalization, reclassification, stock split, combination of shares or dividend payable in shares of common stock, an appropriate and equitable adjustment will be made by the committee or the board of directors, as the case may be, to the number and kind of shares subject to options granted under the 1995 plan, and to the number and kind of shares remaining available for the granting of options.

Additionally, in the event that we are involved in a reorganization involving a merger, consolidation, acquisition of the stock or acquisition of our assets that does not constitute a Change of Control, the board of directors or the committee, as the case may be, in its discretion, may declare that (i) outstanding options apply to the securities of the resulting corporation; (ii) outstanding options are non-forfeitable and fully exercisable or vested; and/or (iii) outstanding options are non-forfeitable and fully exercisable or vested and are to be terminated after giving at least 30 days notice to all optionees. If ADTRAN is dissolved, all of the rights of all optionees will become immediately non-forfeitable and exercisable through the date of dissolution.

1986 Employee Incentive Stock Option Plan, As Amended

Our 1986 Employee Incentive Stock Option Plan, as amended, or 1986 plan, was approved and adopted by the Board of Directors and the stockholders of the Company in February 1986 and expired in February 1996. The 1986 plan is still operative with respect to options issued prior to February 1996, but no further options may be issued under the plan. The 1986 plan permitted us to grant incentive stock options and non-qualified stock options to purchase up to an aggregate of 4,200,000 shares of our common stock, subject to certain adjustments, to directors, officers, executives, supervisory personnel and other key employees.

The following summary of the principal features and effects of the 1986 plan is qualified in its entirety by reference to the applicable provisions and agreements related to the 1986 plan.

Administration. The 1986 plan is administered by a committee consisting of two or more individuals appointed by the Board of Directors from among its members. The members of the committee could not participate in the 1986 plan and had to be "disinterested persons" within the meaning of Rule 16b-3 of the Securities Exchange Act.

The committee had the authority to (i) determine the individuals (from among those eligible) to whom options were granted under the 1986 plan, (ii) determine the time or times at which options were granted, (iii) determine the option price of the shares subject to each option, and (iv) determine the time or times when each option was exercisable and the duration of the exercise period. The committee still has the power to interpret the 1986 plan and prescribe, amend, and rescind rules and regulations relating to the 1986 plan.

Eligibility. Under the terms of the 1986 plan, directors, officers, executives, supervisory personnel, and other key employees of ADTRAN were eligible for consideration for the granting of options by the committee.

Stock Subject to the 1986 Plan. The stock underlying the options under the 1986 plan is our common stock. Up to an aggregate of 4,200,000 shares of common stock could be purchased under the 1986 plan. As of January 25, 2002, 3,673,680 shares of common stock had been issued upon the exercise of options granted under the 1986 plan and options to purchase 31,020 shares of common stock were outstanding. Options to purchase 16,100 shares of common stock were previously canceled pursuant to the terms of the 1986 plan. Because the 1986 plan has expired, no more options may be granted under the 1986 plan.

Exercise Price. The purchase price of the common stock underlying each option granted under the 1986 plan could not be less than the fair market value of the common stock on the date the option was granted. If the employee to whom the option was to be granted held more than 10% of the issued shares of common stock at the time of grant, the exercise price could not be less than 110% of the fair market value of the common stock on the date the option was granted.

Vesting of Options. Each option granted under the 1986 plan became exercisable with respect to all shares of common stock subject to the option as of the earlier of the first anniversary of the date of grant of the option if the individual had continuously been employed or rendered services to ADTRAN throughout such period, or upon the optionee's disability or death while employed, or upon the optionee's retirement.

Term and Exercise of Options. The committee determined the term of options granted under the 1986 plan, which could not exceed 10 years from the date of grant (five years from the date of grant if the optionee held more than 10% of our issued common stock at the time the option was granted). Optionees may pay the option exercise price in cash, with shares of our common stock, or with any combination of the foregoing. No options could be granted under the 1986 plan after February 14, 1996.

Notwithstanding the foregoing, the committee could in its sole discretion (i) prescribe longer periods or additional requirements with regard to the exercise of any option; or (ii) terminate in whole or in part any exercisable portion of any option if within the one year period after the option was granted, the optionee was not satisfactorily performing the duties to which he or she was assigned on the date the option was granted or duties of at least equal responsibility. The committee also has the discretion to reduce the duration of all outstanding options upon the purchase of 50% or more of the fair market value of ADTRAN's assets, so that all outstanding options will terminate within 90 days after the purchase of such assets.

Transfers of Options. The 1986 plan does not permit an optionee to sell, assign or otherwise transfer options except by bequest or inheritance at the death of the optionee, and any other purported transfer is null and void. Options are exercisable during the optionee's life only by the optionee. Upon the death of an optionee, an unexercised option granted to the deceased optionee may be exercised by the optionee's estate or by any person who acquired such option by bequest or inheritance from the optionee.

Termination of Service. Vested options must be exercised before the earlier of (i) three months after an optionee ceases to be in the service of ADTRAN (otherwise than by reason of death or disability of the optionee), (ii) the expiration date of the option, (iii) the date on which the optionee ends service with ADTRAN, during the one year period after issuance of an option to him or her, either for cause or by voluntary separation without the consent of ADTRAN, (iv) one year after termination of service with ADTRAN because of disability, or (v) one year after the death of the optionee while employed or within three months after retirement.

Amendment and Termination of the 1986 Plan. The board of directors had the authority to amend or terminate the 1986 plan at any time, provided that:

(i) no addition, amendment, modification, repeal,

suspension or termination can adversely affect, in any way, the rights of optionees who have outstanding options, without the consent of such optionees, and (ii) no modification or amendment of the 1986 plan may be made without the prior approval of the stockholders of ADTRAN if (a) such modification or amendment would cause the applicable portions of the 1986 plan to fail to qualify as an incentive stock option plan pursuant to (S)422 of the Internal Revenue Code, (b) such modification or amendment would materially increase the benefits accruing to participants under the 1986 plan, (c) such modification or amendment would materially increase the number of securities which may be issued under the 1986 plan, (d) such modification or amendment would materially modify the requirements as to eligibility for participation in the 1986 plan, (e) such modification or amendment would materially modify the requirements as to eligibility for participation in the 1986 plan, or (f) such modification or amendment would modify the material terms of the 1986 plan within the meaning of Proposed Treasury Regulation (S) 1.162-27(e)(4) or the corresponding provision of any future regulations.

Registration of Option Shares

8,488,100 shares of common stock issuable upon exercise of options under our 1996 plan, 200,000 shares of common stock issuable upon exercise of options under our 1995 plan and 4,189,500 shares of common stock issuable upon exercise of options under our 1986 plan have been registered under the Securities Act of 1933, as amended, on registration statements on Form S-8 filed with the SEC. All the shares of common stock issuable upon exercise of all new options to be granted pursuant to the offer will be registered under the Securities Act. Unless you are one of our affiliates, you will be able to sell your shares of common stock issued upon the exercise of options free of any transfer restrictions under applicable securities laws.

General Information About Our Stock Incentive Plans

Our statements in this offer to exchange concerning our stock incentive plans and the new options are merely summaries and do not purport to be complete. The statements are subject to, and are qualified in their entirety by reference to, all provisions of our stock incentive plans and the forms of option agreement under these stock incentive plans. Please contact us at ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807 (telephone: (256) 963-8000), to receive a copy of any of our stock incentive plans and the forms of option agreement under those plans. We will promptly furnish you copies of these documents at our expense.

See Section 13 for a description of the material U.S. federal income tax consequences of incentive stock options and non-qualified stock options.

9. Information Concerning ADTRAN.

ADTRAN, Inc. designs, develops, and manufactures high-speed digital transmission equipment for use in today's widespread telecommunications networks. The two primary consumers of our products are telecommunications services providers (served by our Carrier Networks division, or CN) and public and private enterprises (served by our Enterprise Networks division, or EN). These customers use our products to implement high-speed voice and data communications over copper and fiber network infrastructures.

Our service provider, or carrier, customer base includes all of the major domestic incumbent local exchange carriers, large independent carriers and a growing number of successful competitive service providers, as well as primary telecom service providers and competitive carriers in other regions of the world, including Canada, Asia, Europe, Latin America and Australia. Our enterprise customer base includes private and public enterprises worldwide in numerous vertical industries. We market our

products and services using a direct sales force complemented by an extensive network of technology distributors and resellers.

We offer more than 500 different products built around a set of core technologies, and developed to address high-speed digital communications over the last mile of the "Local Loop." The Local Loop is the large existing infrastructure of the telephone network that connects end users to a service provider's "Central Office," the facility that provides the local switching and distribution functions. Our technologies support over two million Local Loops worldwide.

Our products address two market segments: (i) CN products for use in the service provider's Local Loop, including Central Office, remote terminal and customer premises, and (ii) EN products for use at enterprise headquarters, remote offices and telecommuting locations.

Our expertise lies in the development of advanced transmission technologies for copper and fiber loops. We apply these technologies in various products designed to improve network performance by optimizing the capacity of the infrastructure, increasing transmission speeds, and extending transmission distances. Our current research and product development activities include development of systems-based architectures that support new, higher speed technologies in comprehensive packaged solutions.

In developing our product families, we employ a strategy of increasing unit volume and market share through the introduction of succeeding generations of products having lower selling prices and increased functionality as compared both to the prior generation of a product and to the products of competitors. An important part of our strategy is to engineer the reduction of the product cost of each succeeding product generation and then to lower the product's price based on the cost savings achieved. As a part of this strategy, we seek in most instances to be a low-cost, high-quality 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 re-design, allowing both increased functionality and reduced manufacturing costs in each succeeding product generation. This strategy enables us to sell succeeding generations of products to existing customers while increasing our market share by selling these enhanced products to new customers.

We were incorporated in Delaware in November 1985 and commenced operations in January 1986. Our principal executive offices are located at 901 Explorer Boulevard, Huntsville, Alabama 35806-2807, and our telephone number at that address is (256) 963-8000.

SUMMARY FINANCIAL INFORMATION

The following tables set forth our selected financial and operating data. The selected historical statement of operations data for the years ended December 31, 2000 and 1999 and the selected historical balance sheet data as of December 31, 2000 and 1999 have been derived from the financial statements included in our annual report on Form 10-K for the year ended December 31, 2000. The selected historical statement of operations data for the nine months ended September 30, 2001 and September 30, 2000 and the selected historical balance sheet data as of September 30, 2001, which are included in our quarterly report on Form 10-Q for the quarter ended September 30, 2001, are unaudited, but include, in the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of such data. The information presented below should be read together with our financial statements and related notes. We have presented the following data in thousands, except per share amounts. See "Additional Information" beginning on page 38 for instructions on how you can obtain copies of our SEC filings, including filings that contain our financial statements. We computed ratio of earnings to fixed charges and book value per share data using information contained in the above-mentioned financial statements.

(in thousands, except per share amounts)

	Year Ended December 31,		Nine Months Ended September 30,	
	2000	1999	2001	2000
Total revenues.....	\$462,949	\$367,208	\$297,987	\$341,194
Cost of sales.....	233,430	178,630	164,595	159,166
Gross profit.....	229,519	188,578	133,392	182,028
Operating expenses:				
Research and development.....	50,628	42,018	44,954	37,022
Selling, general and administrative...	87,116	71,735	73,023	63,068
Operating income.....	91,775	74,825	15,415	81,938
Interest income.....	9,025	5,350	5,623	6,162
Interest expense.....	(1,802)	(2,312)	(1,444)	(1,742)
Other income (expense).....	(4)	(673)	(176)	(229)
Net realized investment gains.....	84,040	0	0	84,040
Net income before taxes.....	183,034	77,190	19,418	170,169
Provision for income taxes.....	(62,231)	(26,244)	(5,873)	(57,858)
Net income.....	\$120,803	\$ 50,946	\$ 13,545	\$112,311
	=====	=====	=====	=====
Weighted average shares outstanding.....	38,647	38,335	38,656	38,634
Weighted average shares outstanding assuming dilution (1).....	39,704	38,831	38,764	39,828
Earnings per common share - basic.....	\$ 3.13	\$ 1.33	\$ 0.35	\$ 2.91
Earnings per common share - assuming dilution (1).....	\$ 3.04	\$ 1.31	\$ 0.35	\$ 2.82

(in thousands, except per share amounts)

	Year Ended December 31,		Nine Months Ended September 30,
	2000	1999	2001
Current assets:			
Cash and cash equivalents.....	\$ 27,971	\$ 37,522	\$107,145
Short term investments.....	60,286	41,081	12,162
Accounts receivable, net.....	82,134	60,037	65,192
Other current assets.....	133,653	68,486	87,672
	-----	-----	-----
Total current assets.....	304,044	207,126	272,171
Property, plant and equipment, net.....	123,713	104,588	122,639
Other assets.....	118,579	244,582	121,398
	-----	-----	-----
Total assets.....	\$546,336	\$556,296	\$516,208
	=====	=====	=====
Liabilities and Stockholders' Equity			
Current liabilities:			
Accounts payable.....	\$ 34,114	\$ 12,774	\$ 15,773
Accrued expenses.....	8,560	7,108	9,897
Income taxes payable.....	3,734	6,096	0
	-----	-----	-
Total current liabilities.....	46,408	25,978	25,670
Other long-term liabilities.....	65,342	130,265	57,922
Minority interest in subsidiary.....	160	0	0
Stockholders' equity.....	449,878	422,062	450,439
Less treasury stock at cost.....	(15,452)	(22,009)	(17,823)
	-----	-----	-----
Total stockholders' equity.....	434,426	400,053	432,616
	-----	-----	-----
Total liabilities and stockholders' equity...	\$546,336	\$556,296	\$516,208
	=====	=====	=====

The book value per share of our common stock at September 30, 2001 was \$11.16. This amount was calculated by dividing our unaudited total consolidated stockholders' equity at September 30, 2001 of \$432.6 million by the 38,764,304 shares (assuming dilution) of our common stock that were outstanding at September 30, 2001.

Our ratios of earnings to fixed charges were as follows for the periods indicated:

	Year Ended December 31, 1999	Year Ended December 31, 2000	Nine Months Ended September 20, 2001
Ratio of earnings to fixed charges.....	34.39	102.56	14.45
Interest expense.....	\$ 2,311,667	\$ 1,802,158	\$ 1,443,654
Pretax income.....	77,190,231	183,033,748	19,418,247
Total calculated earnings.....	\$79,501,898	\$184,835,906	\$20,861,901

10. Interests of Directors and Officers; Transactions and Arrangements Concerning the Options.

A list of our directors and executive officers is attached to this offer to exchange as Schedule A. As of January 25, 2002, our executive officers and non-employee directors as a group beneficially owned options outstanding under our 1996 plan, our 1995 plan and our 1986 plan to purchase a total of 1,660,826 shares of our common stock, which represented approximately 32.2% of the shares subject to all options outstanding under those plans as of that date. Our directors and executive officers can participate in the offer if they hold eligible options.

The following table sets forth the beneficial ownership of options to purchase common stock by each of our executive officers and directors as of January 25, 2002:

Name	Number of Options Beneficially Owned	Percent of Outstanding Options	Number of Shares Subject to Eligible Options (1)	Number of Shares For Which Options May Be Exercised Within 60 Days (2)
	Mark C. Smith.....		0	*
Howard A. Thrailkill.....	375,000	7.3%	75,000	153,750
James E. Matthews.....	25,000	*	0	0
Peter C. Voetsch.....	90,000	1.7	0	0
Danny J. Windham.....	241,200	4.7	60,000	79,200
Thomas R. Stanton.....	246,000	4.8	65,000	83,172
P. Steven Locke.....	40,000	*	20,000	5,000
Robert A. Fredrickson.....	184,626	3.6	40,000	63,374
Steven L. Harvey.....	197,500	3.8	45,000	77,500
Everette R. Ramage.....	89,000	1.7	29,000	28,250
Kevin W. Schneider.....	89,500	1.7	27,500	28,750
W. Frank Blount.....	20,000	*	5,000	20,000
Lonnie S. McMillian.....	0	*	0	0
William L. Marks.....	21,000	*	12,000	21,000
Roy J. Nichols.....	21,000	*	12,000	21,000
James L. North.....	21,000	*	12,000	21,000
All directors and executive officers as a group.....	1,660,826	32.2%	390,500	601,966

* Less than one percent.

(1) Each figure shows the number of shares of common stock subject to eligible options held by the indicated person.

(2) Each figure shows the shares of common stock which would be issuable within 60 days of January 25, 2002 if vested stock options held by the indicated person were exercised.

In the 60 days prior to and including January 28, 2002, our executive officers and directors had the following transaction in options to purchase our common stock:

. On January 10, 2002, we granted James E. Matthews, our senior vice president of finance and chief financial officer, an option under our 1996 plan exercisable for up to 25,000 shares of our common stock with an exercise price of \$28.71 per share.

. On January 17, 2002, William L. Marks, a director, acquired 3,000 shares of our common stock upon exercise of a stock option granted under our 1986 plan at an exercise price of \$3.33 per share.

Except as otherwise described above, there have been no transactions in options to purchase our common stock which were effected during the 60 days prior to January 28, 2002 by us or, to our knowledge, by any executive officer, director or affiliate of our company. For more detailed information on the beneficial ownership of our common stock, you can consult the beneficial ownership table on pages 3-4 of our definitive proxy statement for our 2001 annual meeting of stockholders.

11. Status of Options Acquired by Us in the Offer; Accounting Consequences of the Offer.

We will cancel all eligible options we acquire pursuant to the offer. In the case of the 1996 plan and the 1995 plan, the shares of common stock subject to eligible options granted under those plans will be returned to the pool of shares available for grants of new options under those plans, subject to applicable laws and regulations. To the extent such shares are not fully reserved for issuance upon exercise of the new options to be granted in connection with the offer, the shares will be available for future awards to employees and other eligible plan participants without further stockholder action, except as required by applicable law or the rules of the Nasdaq National Market or any other securities quotation system or any stock exchange on which our common stock is then quoted or listed. In the case of the 1986 plan, the options that we accept for exchange will simply be canceled and the shares will no longer be available for option grants.

We believe that we will not incur any compensation expense solely as a result of the transactions contemplated by the offer because:

. we will not grant any new options until a business day that is at least six months and two days after the date that we accept and cancel eligible options tendered for exchange;

. the exercise price of all new options will equal the fair market value of the common stock on the date we grant the new options;

. we have not made any oral or written agreement or implied promise to compensate the employees or directors who accept this offer for any increase in the market price of our common stock occurring after the cancellation of tendered options but prior to the granting of new options; and

. we have specified the number of shares that will be subject to the new options, and this number is not linked in any way to the market price of our common stock at the time of the grant of the new options.

We may incur compensation expense, however, if we grant any options to a tendering option holder with an exercise price lower than the exercise price of any of that option holder's tendered options before the first business day that is at least six months and two days after the date we cancel the eligible options accepted for exchange. Our grant of those options to the tendering option holder would be treated for financial reporting purposes as a variable award to the extent that the number of shares subject to the newly granted options is equal to or less than the number of the option holder's tendered option shares. In this event, we would be required to record as compensation expense the amount by which the market value of the shares subject to the newly granted options exceeds the exercise price of those shares. This compensation expense would accrue as a charge to our earnings over the vesting period of the newly granted options. We would adjust this compensation expense periodically during the vesting period based on increases or decreases in the market value of the shares subject to the newly granted options.

12. Legal Matters; Regulatory Approvals.

We are not aware of any license or regulatory permit that appears to be material to our business that might be adversely affected by our exchange of options and issuance of new options as contemplated by the offer, or of any approval or other action by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, that would be required for the acquisition or ownership of our options as contemplated herein. Should any such approval or other action be required, we presently contemplate that we will seek such approval or take such other action. We cannot assure you that any such approval or other action, if needed, would be obtained or would be obtained without substantial conditions or that the failure to obtain any such approval or other action might not result in adverse consequences to our business. Our obligation under the offer to accept tendered options for exchange and to issue new options for tendered options is subject to the conditions described in Section 6.

13. Material U.S. Federal Income Tax Consequences.

The following is a general summary of the material U.S. federal income tax consequences of incentive stock options and non-qualified stock options and of the exchange of eligible options pursuant to the offer. This discussion is based on the Internal Revenue Code, its legislative history, Treasury Regulations under the Internal Revenue Code and administrative and judicial interpretations thereof as of the date of the offer, all of which are subject to change, possibly on a retroactive basis. This summary does not discuss all of the tax consequences that may be relevant to you in light of your particular circumstances, nor is it intended to be applicable in all respects to all categories of option holders.

U.S. Federal Income Tax Consequences of Incentive Stock Options

Under current U.S. tax law, an option holder will not realize taxable income upon issuance or, generally, upon exercise of an incentive stock option under our stock incentive plans. An option holder will recognize income when that option holder sells or exchanges the shares acquired upon exercise of an incentive stock option. This income will be taxed at the applicable capital gains rate if the sale or exchange occurs after the expiration of the requisite holding periods. Generally, the requisite holding periods expire two years after the date of grant of the incentive stock option and one year after the date of acquisition of the common stock pursuant to the exercise of the option.

If an option holder disposes of the common stock acquired pursuant to exercise of an incentive stock option before the expiration of the requisite holding periods, the option holder will recognize

compensation income in an amount equal to the difference between the option price and the lesser of (i) the fair market value of the shares on the date of exercise and (ii) the price at which the shares are sold. This amount will be taxed at ordinary income rates. If the sale price of the shares is greater than the fair market value on the date of exercise, the difference will be recognized as gain by the option holder and taxed at the applicable capital gains rate. If the sale price of the shares is less than the option price, the option holder will recognize a capital loss equal to the excess of the option price over the sale price.

For these purposes, the use of shares acquired upon exercise of an incentive stock option to pay the option price of another option (whether or not it is an incentive stock option) will be considered a disposition of the shares. If this disposition occurs before the expiration of the requisite holding periods, the option holder will have the same tax consequences as are described above in the preceding paragraph. If the option holder transfers any such shares after holding them for the requisite holding periods, that option holder generally will not recognize any income due to the transfer. When an option holder uses shares of our common stock to pay the exercise price for another option, whether or not the transferred shares were acquired pursuant to an incentive stock option and regardless of how long the option holder has held those shares, the basis of the new shares received pursuant to the exercise will be computed in two steps. In the first step, a number of new shares equal to the number of older shares tendered (in payment of the option's exercise) is considered exchanged under Internal Revenue Code ss.1036 and the rulings thereunder; and these new shares receive the same holding period and the same basis the option holder had in the old tendered shares, if any, plus the amount included in income from the deemed sale of the old shares and the amount of cash or other nonstock consideration paid for the new shares, if any. In the second step, the number of new shares received by the option holder in excess of the old tendered shares receives a basis of zero, and the option holder's holding period with respect to those shares commences upon exercise.

An option holder may have tax consequences upon exercise of an incentive stock option if the aggregate fair market value of shares of the common stock subject to incentive stock options which first become exercisable by an option holder in any one calendar year exceeds \$100,000. If this occurs, the excess shares will be treated as though they are subject to a nonqualified stock option instead of an incentive stock option. In addition, except in the case of an option holder's death or disability, if an option is exercised more than three months after the option holder's termination of employment, the option ceases to be treated as an incentive stock option and is subject to taxation under the rules eligible to nonqualified stock options. Upon exercise of an option with respect to these shares, the option holder will have the tax consequences described below with respect to the exercise of nonqualified stock options.

Finally, except to the extent that an option holder has recognized income with respect to the exercise of an incentive stock option (as described in the preceding paragraphs), the amount by which the fair market value of a share of the common stock at the time of exercise of the incentive stock option exceeds the option price will be included in determining an option holder's alternative minimum taxable income, and may cause the option holder to incur an alternative minimum tax liability in the year of exercise.

There will be no tax consequences to ADTRAN upon issuance or, generally, upon exercise of an incentive stock option. This means we will generally not be entitled to a deduction with respect to an incentive stock option. However, to the extent that an option holder recognizes ordinary income upon exercise, as described above, we generally will have a deduction in the same amount.

U.S. Federal Income Tax Consequences of Non-Qualified Stock Options.

Neither ADTRAN nor the option holder has U.S. federal income tax consequences from the issuance of nonqualified (i.e., non-incentive) stock options. Generally, in the tax year when an option

holder exercises nonqualified stock options, the option holder recognizes ordinary income in the amount by which the fair market value of the shares at the time of exercise exceeds the option price for such shares, and that amount will be subject to FICA and FUTA taxes. We generally will have a deduction in the same amount as the ordinary income recognized by the option holder in our tax year in which or with which the option holder's tax year (of exercise) ends.

If an option holder pays the option price of another option (regardless of whether it is an incentive stock option or nonqualified stock option) with stock acquired on the open market or stock acquired through exercise of a nonqualified stock option, that option holder generally will not recognize any income due to the transfer. The basis of the new shares received pursuant to the exercise will be computed in two steps. In the first step, a number of new shares equal to the number of older shares tendered (in payment of the option's exercise) is considered exchanged under Internal Revenue Code ss.1036 and the rulings thereunder; and these new shares receive the same holding period and the same basis the option holder had in the old tendered shares, if any, plus the amount included in income from the deemed sale of the old shares and the amount of cash or other nonstock consideration paid for the new shares, if any. In the second step, the number of new shares received by the option holder in excess of the old tendered shares receives a basis of zero, and the option holder's holding period with respect to those shares commences upon exercise.

U.S. Federal Income Tax Consequences of the Exchange of Eligible Options.

The option holders who exchange outstanding eligible options for new options will not be required to recognize income for U.S. federal income tax purposes at the time of the exchange. We believe that the exchange will be treated as a non-taxable exchange.

At the grant date of the new options, the option holders who receive new options will not be required to recognize additional income for U.S. federal income tax purposes. The grant of options is not recognized as taxable income.

Your new options will be granted as incentive stock options to the maximum extent they qualify as such. For options to qualify as incentive stock options, the value of shares subject to options that first become exercisable by an option holder in any calendar year cannot exceed \$100,000, as determined using the option exercise price. The excess value is deemed to be a non-qualified stock option. Even though you may not have exceeded this \$100,000 limit in the years your eligible options were granted, you may exceed the limit upon the grant of the new options. This result may be caused by your tender of several eligible option grants of incentive stock options, which were originally granted in separate years, but which are exchanged for new options all granted in the same year. The limit may also be exceeded if the exercise price of the new options exceeds that of the eligible options tendered or if the vesting of the new options overlaps with other grants of incentive stock options. To the extent the exercise price of the new options is less than the exercise price of the tendered eligible options, you are less likely to exceed the \$100,000 limit. In addition, the fact that your new options will be exercisable for fewer shares of common stock than your tendered eligible options will also help you to avoid exceeding the limit.

To the extent you do exceed the limit for incentive stock options, a portion of your new options will have to be granted as non-qualified stock options. We will grant new incentive stock options to replace your tendered options, starting with tendered options with the earliest grant dates, until the limit is reached. We will then grant new non-qualified stock options to replace the remaining tendered eligible options.

Any new option granted as an incentive stock option will be considered to be the grant of an entirely new option. This means that the holding periods discussed above for incentive stock options will run from the date of grant of the new options, regardless of how long you held any options you tendered.

We recommend that you consult your own tax advisor with respect to the U.S. federal, state and local tax consequences of participating in the offer, and any foreign tax laws that may apply to you.

14. Extension of the Offer; Termination; Amendment.

We expressly reserve the right, in our discretion, at any time and from time to time, and regardless of whether or not any event set forth in Section 6 has occurred or is deemed by us to have occurred, to extend the period of time during which the offer is open and thereby delay the acceptance for exchange of any options by giving written notice of such extension to the option holders or making a public announcement of the extension.

We also expressly reserve the right, in our reasonable judgment, prior to the expiration date to terminate or amend the offer and to postpone our acceptance and cancellation of any options tendered for exchange upon the occurrence of any of the conditions specified in Section 6, by giving written notice of such termination or postponement to the option holders or making a public announcement of the termination or postponement. Our reservation of the right to delay our acceptance and cancellation of options tendered for exchange is limited by Rule 13e-4(f)(5) under the Securities Exchange Act, which requires that we must pay the consideration offered or return the options tendered promptly after termination or withdrawal of a tender offer.

Subject to compliance with applicable law, we further reserve the right, in our discretion, and regardless of whether any event set forth in Section 6 has occurred or is deemed by us to have occurred, to amend the offer in any respect, including, without limitation, by decreasing or increasing the consideration offered in the offer to option holders or by decreasing or increasing the number of options being sought in the offer.

Amendments to the offer may be made at any time and from time to time by public announcement of the amendment. In the case of an extension, the amendment must be issued no later than 6:00 a.m., Central Standard Time, on the next business day after the last previously scheduled or announced expiration date. Any public announcement made pursuant to the offer will be disseminated promptly to option holders in a manner reasonably designated to inform option holders of the change.

If we materially change the terms of the offer or the information concerning the offer, or if we waive a material condition of the offer, we will extend the offer to the extent required by Rules 13e-4(d)(2) and 13e-4(e)(3) under the Securities Exchange Act. These rules require that the minimum period during which an offer must remain open following material changes in the terms of the offer or information concerning the offer, other than a change in price or a change in percentage of securities sought, will depend on the facts and circumstances, including the relative materiality of such terms or information.

If we decide to take any of the following actions, we will publish notice or otherwise inform you in writing of such action:

- (a) we increase or decrease the amount of consideration offered for the eligible options;
- (b) we decrease the number of options eligible to be tendered in the offer; or

(c) we increase the number of options eligible to be tendered in the offer by an amount that exceeds 2% of the shares of common stock issuable upon exercise of the options that are subject to the offer immediately prior to the increase.

If the offer is scheduled to expire at any time earlier than the tenth business day from, and including, the date that notice of such increase or decrease is first published, sent or given in the manner specified in this Section 14, we will extend the offer so that the offer is open at least 10 business days following the publication, sending or giving of notice.

15. Fees and Expenses.

We will not pay any fees or commissions to any broker, dealer or other person for soliciting tenders of eligible options pursuant to this offer to exchange.

16. Additional Information.

We have filed with the SEC a Tender Offer Statement on Schedule TO, of which this offer to exchange is a part, with respect to the offer. This offer to exchange does not contain all of the information contained in the Schedule TO or the exhibits to the Schedule TO. We recommend that you review the Schedule TO, including its exhibits, and the following materials which we have filed with the SEC before making a decision on whether to tender your options:

- . Our annual report on Form 10-K for our fiscal year ended December 31, 2000, filed with the SEC on March 30, 2001;
- . Our quarterly report on Form 10-Q for our fiscal quarter ended March 31, 2001, filed with the SEC on May 14, 2000;
- . Our quarterly report on Form 10-Q for our fiscal quarter ended June 30, 2001, filed with the SEC on August 14, 2000;
- . Our quarterly report on Form 10-Q for our fiscal quarter ended September 30, 2001, filed with the SEC on November 14, 2001;
- . Our proxy statement relating to our 2001 Annual Meeting of Stockholders filed with the SEC on March 6, 2001; and
- . The description of our common stock included in our registration statement on Form 8-A, which was filed with the SEC on August 8, 1994, together with all amendments or reports updating this description.

The SEC file number for these filings is 0-24612. These filings, our other annual, quarterly and current reports, our proxy statements and our other SEC filings may be examined, and copies may be obtained, at the following SEC public reference rooms:

450 Fifth Street, N.W.
Room 1024
Washington, D.C. 20549

500 West Madison Street
Suite 1400
Chicago, Illinois 60661

You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public on the SEC's Internet site at <http://www.sec.gov>.

Our common stock is quoted on the Nasdaq National Market under the symbol "ADTN," and our SEC filings can be read at the following Nasdaq address:

Nasdaq Operations 1735 K Street, N.W.

Washington, D.C. 20006

We will also provide without charge to each person to whom a copy of this offer to exchange is delivered, upon the written or oral request of any such person, a copy of any or all of the documents to which we have referred you, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference into such documents). Requests should be directed to:

ADTRAN, Inc.
Attention: James Matthews
901 Explorer Boulevard
Huntsville, Alabama 35806-2807

or by telephoning us at (256) 963-8000 between the hours of 9:00 a.m. and 5:00 p.m., Central Standard Time.

As you read the documents listed in this Section 16, you may find some inconsistencies in information from one document to another. If you find inconsistencies between the documents, or between a document and this offer to exchange, you should rely on the statements made in the most recent document.

The information contained in this offer to exchange about ADTRAN should be read together with the information contained in the documents to which we have referred you.

17. Miscellaneous.

This offer to exchange and our SEC reports referred to in Section 16 above include "forward-looking statements" that reflect our current expectation and projections about our future results, performance, prospects and opportunities. When used in this offer to exchange, the words "may," "will," "anticipate," "believe," "estimate," "expect," "intend," "plan," "could," "should," "would," and other similar expressions as they relate to our company or our management are intended to identify these forward-looking statements. All statements by us regarding our expected future financial position and operating results, our business strategy, our financing plans and expected capital requirements, forecasted trends relating to our services or the markets in which we operate and similar matters are forward-looking statements. These forward-looking statements are based on current information, which we have assessed but which by its nature is dynamic and subject to rapid and even abrupt changes. Our actual results could differ materially from those stated or implied by such forward-looking statements due to risks and uncertainties associated with our business. Factors that could cause such a difference for us in connection with the stock option exchange include, but are not limited to: the accounting treatment of the stock option exchange; changes in the trading price of our common stock during the stock option exchange and in the period between the cancellation of tendered options and the issuance of new options under the stock option exchange; corporate developments affecting us between the cancellation of tendered options and the issuance of new options under the stock option exchange; changes in the economic conditions of the various markets we serve which could adversely affect the market for our products; the effect of competition; the acceptance of our product offering by our target customers; our ability to retain customers; our ability to maintain our cost, market penetration and pricing structure in the face of competition; technological challenges in developing our products and customer acceptance of

such products if developed; the impacts on the global and domestic economies and the financial markets of recent terrorist activities, the ensuing declaration of war on terrorism and the continued threat of terrorist activity and other acts of war or hostility; and other factors detailed in the documents we filed with the SEC, including our annual report on Form 10-K filed on March 30, 2001. The forward-looking statements should be considered in the context of these risk factors. Investors and prospective investors are cautioned not to place undue reliance on such forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

We are not aware of any jurisdiction where the making of the offer is not in compliance with applicable law. If we become aware of any jurisdiction where the making of the offer is not in compliance with any valid applicable law, we will make a good faith effort to comply with such law. If, after such good faith effort, we cannot comply with such law, the offer will not be made to, nor will tenders be accepted from or on behalf of, the option holders residing in such jurisdiction.

WE HAVE NOT AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING YOUR ELIGIBLE OPTIONS PURSUANT TO THE OFFER. YOU SHOULD RELY ONLY ON THE INFORMATION CONTAINED IN THIS DOCUMENT OR ANY DOCUMENT TO WHICH WE HAVE REFERRED YOU. WE HAVE NOT AUTHORIZED ANYONE TO GIVE YOU ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFER OTHER THAN THE INFORMATION AND REPRESENTATIONS CONTAINED IN THIS DOCUMENT OR IN THE RELATED ELECTION FORM. IF ANYONE MAKES ANY RECOMMENDATION OR REPRESENTATION TO YOU OR GIVES YOU ANY INFORMATION, YOU MUST NOT RELY UPON THAT RECOMMENDATION, REPRESENTATION OR INFORMATION AS HAVING BEEN AUTHORIZED BY US.

ADTRAN, Inc.
January 28, 2002

SCHEDULE A

INFORMATION CONCERNING THE DIRECTORS AND EXECUTIVE OFFICERS OF ADTRAN, INC.

The directors and executive officers of ADTRAN, Inc. and their positions and offices as of January 28, 2002, are set forth in the following table:

Name -----	Position Held -----
Mark C. Smith	Chairman of the Board and Chief Executive Officer
Howard A. Thrailkill	President, Chief Operating Officer and Director
James E. Matthews	Senior Vice President/Finance and Chief Financial Officer
Peter C. Voetsch	Senior Vice President - Operations
Danny J. Windham	Senior Vice President and General Manager - Enterprise Networks Division
Thomas R. Stanton	Senior Vice President and General Manager - Carrier Networks Division
P. Steven Locke	Vice President - Carrier Networks Marketing
Robert A. Fredrickson	Vice President - Carrier Networks Sales
Steven L. Harvey	Vice President - Competitive Service Provider and Enterprise Networks Sales
Everette R. Ramage	Vice President - Enterprise Networks Engineering
Kevin W. Schneider	Vice President - Technology
W. Frank Blount	Director
William L. Marks	Director
Lonnie S. McMillian	Director and Secretary
Roy J. Nichols	Director
James L. North	Director

The address of each director and executive officer is: c/o ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807.

EXHIBIT (a)(1)(B)

FORM OF ELECTION FORM CONCERNING EXCHANGE OF OPTIONS

ELECTION FORM

Concerning Exchange of Options to Purchase Shares of Common Stock That Have an Exercise Price of at Least \$40.00 Per Share and Were Granted Prior to September 30, 2000 and Are Held By Option Holders Who Have Not Received Options After July 23, 2001 Granted Under:

The ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan,

The ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan

and

The ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan

For New Options Pursuant To The Offer To Exchange Dated January 28, 2002

**THE OFFER AND WITHDRAWAL RIGHTS EXPIRE AT
9:00 P.M., CENTRAL STANDARD TIME,
ON MONDAY, FEBRUARY 26, 2002, UNLESS THE OFFER IS EXTENDED.**

To: James Matthews
Senior Vice President/Finance and Chief Financial Officer
ADTRAN, Inc.
901 Explorer Boulevard
Huntsville, Alabama 35806-2807
Telephone: (256) 963-8000
Facsimile: (256) 963-8004

**DELIVERY OF THIS ELECTION FORM TO AN ADDRESS OTHER THAN AS
SET FORTH ABOVE OR TRANSMISSION VIA FACSIMILE TO A NUMBER
OTHER THAN AS SET FORTH ABOVE WILL NOT CONSTITUTE
A VALID DELIVERY.**

Pursuant to the terms and subject to the conditions of the Offer to Exchange dated January 28, 2002 and this Election Form, I hereby tender the following options to purchase shares of common stock, par value \$.01 per share, outstanding under the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, the ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended, and/or the ADTRAN, Inc. 1986 Employee Incentive Stock Option Plan, as amended, which were granted prior to September 30, 2000 and have an exercise price of at least \$40.00 per share (the "Eligible Option Shares") (to validly tender such options you must complete the following table according to instructions 2 and 3 on page 5 of this Election Form):

Option Grant Date (1)	Exercise Price of Option (Per Option Share)	Total Number of Eligible Option Shares Subject to Option (2)	Name of Stock Incentive Plan Under Which Option Was Granted (3)
	\$		
	\$		
	\$		
	\$		
	\$		
	\$		

(1) List each option on a separate line even if more than one option was issued on the same grant date. Each option grant for which you have a separate stock option agreement is considered a separate option for this purpose.

(2) Provide the total number of option shares for which the option remains outstanding (i.e., for which the option has not been exercised) in this column. All such eligible option shares for each grant you specify in this table must be tendered.

(3) Identify the plan under which the option was granted (i.e., the 1996 plan, the 1995 plan or the 1986 plan).

To ADTRAN, Inc.:

Upon the terms and subject to the conditions set forth in the Offer to Exchange dated January 28, 2002 (the "Offer to Exchange"), my receipt of which I hereby acknowledge, and set forth in this Election Form (which, together with the Offer to Exchange, as they may be amended from time to time, constitutes the "Offer"), I, the undersigned, hereby tender to ADTRAN, Inc., a Delaware corporation (the "Company"), the options to purchase shares ("Eligible Option Shares") of common stock, par value \$.01 per share, of the Company (the "Common Stock") having an exercise price of at least \$40.00 per share and granted prior to September 30, 2000 specified in the table on page 2 of this Election Form (the "Eligible Options") in exchange for "New Options," which are new options to purchase shares of Common Stock. I understand that for each Eligible Option I tender and the Company accepts for exchange, I will receive a New Option exercisable for a number of shares of Common Stock equal to three shares for every four Eligible Option Shares subject to the Eligible Option that I tender hereby, plus the remaining shares, if any, if the number of Eligible Option Shares subject to my tendered Eligible Option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events. Each New Option will be vested to the same extent and in the same proportion as the corresponding tendered Eligible Option would have been vested on the date the Company grants the New Option and will continue to vest on the same schedule and in the same proportion as the tendered Eligible Option. The exercise price of the New Options will be equal to the last reported sale price during regular trading hours of the Company's common stock on the Nasdaq National Market on the day of the grant of the New Options. In addition, all New Options will be subject to the terms of the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, or the ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended, depending on which plan the New Options are granted under and applicable laws and regulations, and will be subject to a new option agreement between the Company and me.

Subject to, and effective upon, the Company's acceptance for exchange of the Eligible Options tendered with this Election Form in accordance with the terms and subject to the conditions of the Offer (including, if the Offer is extended or amended, the terms and conditions of any such extension or amendment), I hereby sell, assign and transfer to, or upon the order of, the Company all right, title and interest in and to all of the Eligible Options that I am tendering hereby. I acknowledge that the Company has advised me to consult with my own advisors as to the consequences of participating or not participating in the Offer. I agree that this Election Form is an amendment to the option agreement or agreements to which the Eligible Options I am tendering are subject. I hereby represent and warrant that I have full power and authority to tender the Eligible Options tendered hereby and that, when and to the extent such Eligible Options are accepted for exchange by the Company, such Eligible Options will be free and clear of all security interests, liens, restrictions, charges, encumbrances, conditional sales agreements or other obligations relating to the sale or transfer of such Eligible Options, other than pursuant to the applicable option agreement, and such Eligible Options will not be subject to any adverse claims. Upon request, I will execute and deliver any additional documents deemed by the Company to be necessary or desirable to complete the exchange of the Eligible Options I am tendering hereby.

All authority herein conferred or agreed to be conferred shall not be affected by, and shall survive, my death or incapacity, and all of my obligations hereunder shall be binding upon my heirs, personal representatives, successors and assigns. Except as stated in the Offer, this tender is irrevocable.

By execution of this Election Form, I understand that tenders of Eligible Options pursuant to the procedure described in Section 3 of the Offer to Exchange and in the instructions to this Election Form will constitute my acceptance of the terms and conditions of the Offer. The Company's acceptance for exchange of Eligible Options tendered pursuant to the Offer will constitute a binding agreement between the Company and me upon the terms and subject to the conditions of the Offer.

I acknowledge that upon the Company's acceptance of Eligible Options tendered by me pursuant to the Offer, such Eligible Options shall be canceled and I shall have no right to purchase stock under the terms and conditions of such canceled options after the date of the Company's acceptance.

I acknowledge that the New Options I will receive (1) will not be granted until the 30-day period from and after the first business day that is at least six months and two days after the date the Eligible Options tendered hereby are accepted for exchange and canceled and (2) will be subject to the terms and conditions set forth in a new option agreement between the Company and me that will be forwarded to me after the grant of the New Options. I also acknowledge that I must be an employee or director of the Company on the date the New Options are granted and must otherwise be eligible under the Company's stock incentive plans on the date the New Options are granted in order to receive New Options. I further acknowledge that, if I am not an employee or director of the Company on the date the New Options are granted, I will not receive any New Options or any other consideration for the Eligible Options that I tender and that are accepted for exchange pursuant to the Offer.

The name and social security number of the registered holder of the Eligible Options tendered hereby appear below exactly as they appear on the option agreement or agreements representing such Eligible Options. The Eligible Options that I am tendering represent all of the Eligible Option Shares subject to each such Eligible Option. In the appropriate boxes of the table on page 2, I have listed the grant date, the exercise price, the total number of Eligible Option Shares subject to the Eligible Option and the plan under which the Eligible Option was granted for each Eligible Option I am tendering. I understand that I may tender any or all of my option grants outstanding under the plans that have an exercise price of at least \$40.00 per share and were granted prior to September 30, 2000 and that I am not required to tender any of such options in the Offer. I also understand that all of such Eligible Options properly tendered prior to the "Expiration Date" (as defined in the following sentence) and accepted and

not properly withdrawn will be exchanged for New Options, upon the terms and subject to the conditions of the Offer, including the conditions described in Sections 1 and 6 of the Offer to Exchange. The term "Expiration Date" means 9:00 p.m., Central Standard Time, on February 26, 2002, unless and until the Company, in its discretion, has extended the period of time during which the Offer will remain open, in which event the term "Expiration Date" refers to the latest time and date at which the Offer, as so extended, expires. I have not received any options from the Company after July 23, 2001.

I recognize that, under certain circumstances set forth in the Offer to Exchange, the Company may terminate or amend the Offer and postpone its acceptance and cancellation of any Eligible Options tendered for exchange. In any such event, I understand that the Eligible Options delivered herewith but not accepted for exchange will be returned to me at the address indicated below.

THE OFFER IS NOT BEING MADE TO (NOR WILL TENDERS OF OPTIONS BE ACCEPTED FROM OR ON BEHALF OF) HOLDERS IN ANY JURISDICTION IN WHICH THE MAKING OR ACCEPTANCE OF THE OFFER WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF SUCH JURISDICTION.

All capitalized terms used in this Election Form but not defined shall have the meaning ascribed to them in the Offer to Exchange.

I have read, understand and agree to all of the terms and conditions of the Offer.

HOLDER PLEASE SIGN HERE
(See Instructions 1 and 4)

You must complete and sign the following exactly as your name appears on the option agreement or agreements evidencing the Eligible Options you are tendering. If you are not signing in your individual capacity, please indicate on the line below your name whether you are signing as a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or another person acting in a fiduciary or representative capacity, along with the signer's full title, and include with this Election Form proper evidence of the authority of such person to act in such capacity.

SIGNATURE OF OWNER

X

(Signature of Holder or Authorized Signatory)

Date: _____, 2002

Name:

(Please Print)

(Please print title if signing in a representative capacity)

Address:

(Please include ZIP code)

Telephone No. (with area code):

Tax ID/ Social Security No.:

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. Delivery of Election Form. A properly completed and duly executed original of this Election Form (or a facsimile of this form), and any other documents required by this Election Form, must be received by the Company at its address set forth on the front cover of this Election Form on or before the Expiration Date.

THE METHOD BY WHICH YOU DELIVER ANY REQUIRED DOCUMENTS IS AT YOUR OPTION AND RISK, AND THE DELIVERY WILL BE DEEMED MADE ONLY WHEN ACTUALLY RECEIVED BY THE COMPANY. IN ALL CASES, YOU SHOULD ALLOW SUFFICIENT TIME TO ENSURE TIMELY DELIVERY.

Tenders of Eligible Options made pursuant to the Offer may be withdrawn at any time prior to the Expiration Date. If the Offer is extended by the Company beyond that time, you may withdraw your tendered options at any time until the extended expiration of the Offer. In addition, although the Company currently intends to accept your validly tendered Eligible Options promptly after the expiration of the Offer, unless the Company accepts your tendered Eligible Options before 12:00 midnight, Eastern Time, on Monday, March 25, 2002, you may withdraw your tendered Eligible Options at any time after March 25, 2002. To withdraw tendered Eligible Options you must deliver a notice of withdrawal, or a facsimile of the notice, with the required information to the Company while you still have the right to withdraw the tendered Eligible Options. You must withdraw all previously tendered Eligible Options. Withdrawals may not be rescinded and all Eligible Options withdrawn will thereafter be deemed not properly tendered for purposes of the Offer unless such withdrawn Eligible Options are properly re-tendered prior to the Expiration Date by following the procedures described above.

The Company will not accept any alternative, conditional or contingent tenders. All tendering Option Holders, by execution of this Election Form (or a facsimile of it), waive any right to receive any notice of the acceptance of their tender, except as provided for in the Offer to Exchange.

2. Inadequate Space. If the space provided in this Election Form is inadequate, the information requested by the table on page 2 of this Election Form regarding the Eligible Options being tendered should be provided on a separate schedule attached to this form.

3. Tenders. If you intend to tender options pursuant the Offer, you must complete the table on page 2 of this Election Form by providing the following information for each Eligible Option that you intend to tender: grant date, exercise price, total number of Eligible Option Shares subject to the Eligible Option and the plan under which the Eligible Options were granted. The Company will not accept partial tenders of Eligible Options. Accordingly, you may tender all or none of the Eligible Options Shares subject to the Eligible Options you decide to tender.

4. Signatures on this Election Form. If this Election Form is signed by the holder of the Eligible Options, the signature must correspond with the name as written on the face of the option agreement or agreements to which the Eligible Options are subject, without alteration, enlargement or any change whatsoever.

If this Election Form is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and proper evidence satisfactory to the Company of the authority of such person so to act must be submitted with this Election Form.

5. Requests for Assistance or Additional Copies. Any questions or requests for assistance, as well as requests for additional copies of the Offer to Exchange or this Election Form may be directed to James Matthews, Senior Vice President/Finance and Chief Financial Officer, at the address and telephone number given on the front cover of this Election Form. Copies will be furnished promptly at the Company's expense.

6. Irregularities. All questions as to the number of Eligible Option Shares subject to Eligible Options to be accepted for exchange, and the validity, form, eligibility (including time of receipt) and acceptance for exchange of any tender of Eligible Options will be determined by the Company in its discretion, which determinations shall be final and binding on all parties. The Company reserves the right to reject any or all tenders of Eligible Options the Company determines not to be in proper form or the acceptance of which, in the opinion of the Company's counsel, may be unlawful. The Company also reserves the right to waive any of the conditions of the Offer and any defect or irregularity in the tender of any particular Eligible Options, and the Company's interpretation of the terms of the Offer (including these instructions) will be final and binding on all parties. No tender of Eligible Options will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with tenders must be cured within such time as the Company shall determine. Neither the Company nor any other person is or will be obligated to give notice of any defects or irregularities in tenders, and no person will incur any liability for failure to give any such notice.

IMPORTANT: THIS ELECTION FORM (OR A FACSIMILE COPY OF THIS ELECTION FORM) TOGETHER WITH ALL OTHER REQUIRED DOCUMENTS MUST BE RECEIVED BY THE COMPANY, ON OR PRIOR TO THE EXPIRATION DATE.

7. Important Tax Information. You should refer to Section 13 of the Offer to Exchange, which contains important U.S. federal income tax information.

FORM OF LETTER TO ELIGIBLE OPTION HOLDERS

[ADTRAN LETTERHEAD]

January 28, 2002

Dear ADTRAN option holder:

Due to recent stock market volatility, you hold stock options with an exercise price that greatly exceeds the current market price of our common stock. Because our board of directors recognizes that these out-of-the-money stock options may not currently be providing performance incentives for our valued employees and directors, the board has considered a number of ways to provide you with the benefit of options that over time may have a greater potential to increase in value.

As a result, I am happy to announce that we will offer to exchange your outstanding options under our Amended and Restated 1996 Employees Incentive Stock Option Plan, our Amended and Restated 1995 Directors Stock Option Plan and 1986 Employees Incentive Stock Option Plan that have an exercise price of at least \$40.00 per share and were granted prior to September 30, 2000 (the "eligible options") for new options we will grant under the 1996 plan and the 1995 plan. We will not accept partial tenders of option grants. Accordingly, you may only tender eligible options for all or none of the shares of common stock subject to each of your eligible option agreements. You also have the right to choose not to tender any of your eligible options. We are limiting the offer to option holders who have not received options after July 23, 2001.

For each eligible option that you tender and we accept for exchange, you will receive a new option exercisable for a number of shares of common stock equal to three shares for every four shares subject to the tendered eligible options, plus the remaining shares, if any, to the extent the number of shares subject to the tendered option is not divisible by four, in each case as adjusted for any stock splits, reverse stock splits, stock dividends and similar events. Subject to the terms and conditions of the offer to exchange, we will grant the new options during the 30-day period commencing at least six months and two days after the date we accept and cancel the tendered options. The per share exercise price of all new options will equal the last reported sale price during regular trading hours of our common stock on the Nasdaq National Market on the date we grant the new options. The delay in issuing new options is a result of accounting regulations to which we are subject. If we accept and cancel the tendered options on February 26, 2002 as currently scheduled, we will grant the new options during the 30-day period from and after August 28, 2002. If you accept the offer, you will not be eligible for any additional option grants prior to August 28, 2002.

By tendering your eligible options, you acknowledge that upon our acceptance of those eligible options, such eligible options will be canceled and you will have no right to purchase stock under the terms and conditions of those canceled options after the date of our acceptance.

You must be an employee or director of ADTRAN on the date we grant the new options in order to receive new options. If you are not an employee or director on the date we grant the new options, you will not receive any new options or any other consideration for the options tendered by you and canceled by us.

Each of your new options will be vested to the same extent and in the same proportion as your corresponding tendered eligible option would have been vested on the date of grant of the new options.

To the extent unvested, the new option will continue to vest on the same schedule and in the same proportion as the tendered eligible option. Each of your new options will expire on the same date as your corresponding tendered eligible option would have expired.

The board of directors makes no recommendation as to whether you should tender or refrain from tendering your eligible options in the offer. You must make your own decision whether to tender your eligible options. WE CANNOT GUARANTEE THAT THE NEW OPTIONS WILL HAVE A LOWER EXERCISE PRICE THAN YOUR CURRENT ELIGIBLE OPTIONS.

Our offer is being made under the terms and subject to the conditions of an offer to exchange and a related election form which are enclosed with this letter. You should carefully read the entire offer to exchange and election form before you decide whether or not to tender your eligible options. A tender of options involves risks that are discussed in the offer to exchange. To tender options, you will be required to properly complete and return to us the election form and any other documents specified in that form by the expiration date of our offer.

If you have any questions about the offer, please call James Matthews, Senior Vice President/Finance and Chief Financial Officer, at (256) 963-8000.

We thank you for your continued efforts on behalf of ADTRAN.

Sincerely,

/s/ Mark C. Smith

*Mark C. Smith
Chairman and Chief Executive Officer*

Enclosures

Exhibit (a)(1)(D)

**EMAIL COMMUNICATION TO ELIGIBLE OPTION HOLDERS
DATED JANUARY 28, 2002**

To: ADTRAN Eligible Option Holders
From: ADTRAN, Inc.
Date: January 28, 2002
Re: IMPORTANT: ADTRAN Stock Option Exchange Offer

We are pleased to announce that ADTRAN is launching an important stock option exchange program for certain eligible options granted under our stock incentive plans. Attached to this email message is important information about the stock option exchange offer. The attachments consist of the following documents:

1. Letter to ADTRAN Eligible Option Holders
2. Offer to Exchange dated January 28, 2002
3. Election Form Concerning Exchange of Stock Options
4. Form of Notice of Withdrawal

We urge you to read each of these documents carefully. If you would like a paper copy of any of these documents to be delivered to you, please contact Pat Gill at (256) 963-8220, email: pat.gill@adtran.com.

**PRESS RELEASE DATED JANUARY 28, 2002
ANNOUNCING THE OFFER**

ADTRAN Inc. Announces Voluntary Stock Option Exchange Program

HUNTSVILLE, Ala.--(BUSINESS WIRE)--Jan. 28, 2002--ADTRAN, Inc. (Nasdaq:ADTN) today announced that its Board of Directors has approved a voluntary stock option exchange program for its employees, executive officers and directors.

"The retention of our valued employees and directors is the key to our continued growth and success," said Mark Smith, Chairman and Chief Executive Officer of ADTRAN. "Stock options provide a valuable incentive to our employees and directors, maximizing stockholder value".

Under the option exchange program, holders of options to purchase ADTRAN common stock who have not received options after July 23, 2001 will be given the opportunity to exchange unexercised stock options with exercise prices of at least \$40 per share. For every four shares of an eligible option, three shares will be made available under the new option grant. The exercise price of the new options will equal the last reported trading price of ADTRAN common stock on the new grant date. The new grant date will be no earlier than six months and two days after the expiration of the offer to exchange. Options to purchase approximately 1,490,400 shares of ADTRAN common stock are expected to be eligible for participation in the program. For the year ended December 31, 2001, weighted average shares outstanding assuming dilution were 38,676,187. ADTRAN does not expect that there will be any variable compensation charges as a result of this stock option exchange program.

ADTRAN is filing a Tender Offer Statement on Schedule TO with the Securities and Exchange Commission (SEC) that provides additional information concerning the stock option exchange program.

About ADTRAN

ADTRAN, Inc. is an established supplier of advanced transmission products that provide users access to today's expansive telecommunications networks. Widely deployed in carrier, enterprise and global networks worldwide, ADTRAN products support all major digital access technologies. ADTRAN equipment is widely deployed by major Incumbent Local Exchange Carriers, Interexchange Carriers, ISPs, Competitive Local Exchange Carriers, international service providers, public and private enterprises, and original equipment manufacturers.

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This press release contains forward-looking statements which reflect management's best judgment based on factors currently known. These forward-looking statements can be identified by words such as "believe," "may," "could," "will," "estimate," "anticipate," "intend," "plan," "expect," "should," "would" and similar expressions. These statements involve risks and uncertainties associated with our business, 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, 2000 and described in the Schedule TO that we are filing with the SEC. Such risks and uncertainties could cause actual results to differ materially from those in the forward-looking statements included in this press release.

Additional Information and Where to Find It

ADTRAN is filing a Tender Offer Statement on Schedule TO with the SEC and is providing ADTRAN option holders with an Offer to Exchange and Election Form Concerning Exchange of Options containing information about the stock option exchange program. Investors and option holders are urged to read the Schedule TO, the Offer to Exchange and the Election Form carefully when they become available. The Schedule TO, the Offer to Exchange and the Election Form will contain important information about ADTRAN, the option exchange and related matters. Investors and option holders will be able to obtain free copies of the Schedule TO and exhibits to the Schedule TO on the Internet through the website maintained by the SEC at www.sec.gov. Free copies of these documents also may be obtained from ADTRAN by request to ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807, attention: Investor Relations, telephone: (256) 963-8000.

CONTACT:

Jim Matthews
Senior Vice President/CFO
256-963-8775

INVESTOR SERVICES/ASSISTANCE:

Charlene Little
256-963-8611
or
Pat Gill
256-963-8220

Exhibit (a)(1)(F)

FORM OF EMAIL CONFIRMATION OF RECEIPT OF ELECTION FORM

To: [Name of Tendering Option Holder]
From: ADTRAN, Inc.
Date: _____, 2002
Re: Confirmation of Receipt of Election Form

This email confirms our receipt of your Election Form Concerning Exchange of Options, which sets forth your election to tender one or more of your eligible options for cancellation and corresponding grant of new options pursuant to the stock option exchange program. This email does not serve as formal acceptance by ADTRAN of the options designated on your Election Form for exchange, per the terms of the Offer to Exchange previously given to you and filed with the Securities and Exchange Commission. A formal notice of the acceptance or rejection of your tendered options will be sent to you promptly after the expiration of the Offer to Exchange, which is currently scheduled to occur at 9:00 p.m., Central Standard Time, on Tuesday, February 26, 2002. You may withdraw your election to exchange your options at any time prior to the expiration of the Offer to Exchange. If you wish to withdraw your tendered options, you must deliver your notice of withdrawal according to the procedures set forth in the Offer to Exchange. If you have any questions, please contact James Matthews, our Senior Vice President/Finance and Chief Financial Officer, at (256) 963-8000.

FORM OF NOTICE OF WITHDRAWAL

ADTRAN, INC.

**NOTICE OF WITHDRAWAL
OF
PREVIOUSLY TENDERED OPTIONS PURSUANT TO
THE OFFER TO EXCHANGE DATED JANUARY 28, 2002**

**THE WITHDRAWAL RIGHTS EXPIRE AT 9:00 P.M.,
CENTRAL STANDARD TIME, ON FEBRUARY 26, 2002,
UNLESS THE OFFER IS EXTENDED**

To: ADTRAN, Inc.

901 Explorer Boulevard
Huntsville, Alabama 35806-2807
Attention: James Matthews
Telephone: (256) 963-8000
Facsimile: (256) 963-8004

I previously received a copy of the Offer to Exchange dated January 28, 2002, the Election Form and other related documents. I signed and returned the Election Form, in which I accepted ADTRAN, Inc.'s offer to exchange my options granted under the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan, as amended, the ADTRAN, Inc. Amended and Restated 1995 Directors Stock Option Plan, as amended, and/or the ADTRAN, Inc. 1986 Employees Incentive Stock Option Plan, as amended, (collectively, the "Plans"), as applicable, granted prior to September 30, 2000 with an exercise price of at least \$40.00 per share, for new options to be granted under the Plans (the "Offer"). I now wish to change that election and instead withdraw all options tendered pursuant to the Offer. I understand that by signing this Notice of Withdrawal and delivering it to James Matthews prior to 9:00 p.m., Central Standard Time, on February 26, 2002, I will be able to withdraw my election to accept the Offer with regard to all of the options specified in my Election Form. I have read and understand all the terms and conditions of the Offer to Exchange. I have read and understand the instructions attached to this Notice of Withdrawal.

I understand that in order to withdraw my tendered options, I must sign, date, and deliver this Notice of Withdrawal via facsimile to James Matthews at ADTRAN (fax number: (256) 963-8004), or by mail or hand delivery, for receipt by James Matthews by 9:00 p.m., Central Standard Time, on February 26, 2002.

I understand that by withdrawing all of my tendered options pursuant to this Notice of Withdrawal, I will not receive any new options pursuant to the Offer and I will keep the old options that I have. These options will continue to be governed by the Plans under which they were granted, and by the existing option agreement or agreements between ADTRAN and me.

I understand that I must withdraw all of the options that I previously tendered and that I may not withdraw a portion of my previously tendered options. Upon withdrawal of the previously tendered options, I understand that all such options will remain outstanding pursuant to their original terms and

conditions, including their exercise prices and vesting schedule.

I understand that I may not rescind this Notice of Withdrawal, and to once again accept the Offer to exchange options as to any of my eligible options, I must submit a new Election Form to James Matthews via facsimile (fax number: (256) 963-8004), or by mail or hand delivery, for receipt prior to 9:00 p.m., Central Standard Time, on February 26, 2002.

I am the person who signed the Election Form. I have signed this Notice of Withdrawal and printed my name exactly as it appears on the Election Form.

I agree to all of the terms and conditions of the Offer and this Notice of Withdrawal.

SIGNATURE OF OPTION HOLDER

X

(Signature of Option Holder or Authorized Signatory)

Date and Time: _____, 2002; _____ a.m./p.m.

Name: _____
(Please Print)

(Please print title if signing in a representative capacity)

Address: _____
(Please include ZIP code)

Telephone No. (with area code):

THIS NOTICE OF WITHDRAWAL MUST BE COMPLETED AND SIGNED IN THE SAME NAME THAT APPEARS ON THE ELECTION FORM PREVIOUSLY SUBMITTED BY THE ELIGIBLE EMPLOYEE OR DIRECTOR WHO TENDERED THE PREVIOUSLY TENDERED OPTIONS. IF THE SIGNATURE IS BY A TRUSTEE, EXECUTOR, ADMINISTRATOR, GUARDIAN, ATTORNEY-IN-FACT, OR ANOTHER PERSON ACTING IN A FIDUCIARY OR REPRESENTATIVE CAPACITY, THE SIGNER'S FULL TITLE MUST BE SPECIFIED AND PROPER EVIDENCE OF THE AUTHORITY OF SUCH PERSON TO ACT IN SUCH CAPACITY MUST BE SUBMITTED WITH THIS NOTICE.

INSTRUCTIONS

FORMING PART OF THE TERMS AND CONDITIONS OF THE OFFER

1. Delivery of Notice of Withdrawal. A properly completed and executed original of this Notice of Withdrawal (or a facsimile of it) and any other documents required by this Notice of Withdrawal must be received by James Matthews either by mail, hand delivery or by facsimile at the number listed on the front cover of this Notice of Withdrawal (fax number: (256) 963-8004) on or before 9:00 p.m., Central Time, on February 26, 2002 (the "Expiration Date").

The method by which you deliver any required documents is at your option and risk, and the delivery will be deemed made only when actually received by ADTRAN. You may mail or deliver your Notice of Withdrawal to James Matthews at ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807, or you may fax it to James Matthews at (256) 963-8004. In all cases, you should allow sufficient time to ensure timely delivery. We will not accept delivery of any documents by email.

Although by submitting a Notice of Withdrawal you have withdrawn all of your tendered options from the Offer, you may change your mind and re-tender any eligible options pursuant to the Offer until the expiration of the Offer. Tenders of options made through the Offer may be made at any time before the Expiration Date. If the Offer is extended by ADTRAN beyond that time, you may tender your options at any time until the extended expiration of the Offer. To change your mind and elect to participate in the Offer as to any eligible options, you must deliver a new signed and dated Election Form, or a facsimile of the Election Form, with the required information to ADTRAN while you still have the right to participate in the Offer. The withdrawn options will not be properly tendered for purposes of the Offer unless you properly re-tender those options before the Expiration Date by delivery of the new Election Form following the procedures described in the Instructions to the Election Form.

If you wish to withdraw any of your tendered options from the Offer, you must withdraw all of the options you previously tendered.

By signing this Notice of Withdrawal (or a facsimile of it), you waive any right to receive any notice of the withdrawal of the tender of your options, except as provided for in the Offer to Exchange.

2. Signatures on this Notice of Withdrawal. The name and signature on this Notice of Withdrawal must correspond with the name and signature that appears on the Election Form pursuant to which the withdrawn options were previously tendered. If this Notice of Withdrawal is signed by a trustee, executor, administrator, guardian, attorney-in-fact, or other person acting in a fiduciary or representative capacity, that person should so indicate when signing, and proper evidence satisfactory to ADTRAN of the authority of that person so to act must be submitted with this Notice of Withdrawal.

3. Other Information on this Notice of Withdrawal. In addition to signing this Notice of Withdrawal, you must print your name and indicate the date and time at which you signed. You must also include a current telephone number.

4. Requests for Assistance or Additional Copies. Any questions or requests for assistance, as well as requests for additional copies of the Offer to Exchange or this Notice of Withdrawal, may be directed to James Matthews at ADTRAN, Inc., 901 Explorer Boulevard, Huntsville, Alabama 35806-2807. Mr. Matthews' telephone number is (256) 963-8000 and his fax number is (256) 963-8004. Copies will be furnished promptly at ADTRAN's expense.

5. Irregularities. All questions as to the validity, form, eligibility (including time of receipt), and acceptance of this Notice of Withdrawal will be determined by ADTRAN in its sole discretion. ADTRAN's determinations shall be final and binding on all parties. ADTRAN reserves the right to reject any or all Notices of Withdrawal that ADTRAN determines not to be in proper form or the acceptance of which may, in the opinion of ADTRAN's counsel, be unlawful. ADTRAN also reserves the right to waive any of the conditions of the Offer and any defect or irregularity in the Notice of Withdrawal, and ADTRAN's interpretation of the terms of the Offer (including these instructions) will be final and binding on all parties. No Notice of Withdrawal will be deemed to be properly made until all defects and irregularities have been cured or waived. Unless waived, any defects or irregularities in connection with Notices of Withdrawal must be cured within such time as ADTRAN shall determine. Neither ADTRAN nor any other person is or will be obligated to give notice of any defects or irregularities in Notices of Withdrawal, and no person will incur any liability for failure to give any such notice.

IMPORTANT: The Notice of Withdrawal (or a facsimile copy of it) together with all other required documents, must be received by ADTRAN on or before the Expiration Date if you wish to withdraw any tendered options.

6. Additional Documents to Read. You should be sure to read the Offer to Exchange, dated January 28, 2002, and all documents referenced in the Offer to Exchange, before deciding whether or not to participate in the Offer.

7. Important Tax Information. You should refer to Section 13 of the Offer to Exchange, which contain important U.S. federal income tax information.

ADTRAN, INC.

AMENDED AND RESTATED

1996 EMPLOYEES INCENTIVE STOCK OPTION PLAN

ARTICLE 1

Purpose

1.1 General Purpose. The purpose of this Plan is to further the growth and development of the Company by encouraging employees to obtain a proprietary interest in the Company by owning its stock. The Company intends that the Plan will provide such persons with an added incentive to continue in the employ of the Company and will stimulate their efforts in promoting the growth, efficiency and profitability of the Company. The Company also intends that the Plan will afford the Company a means of attracting to its service persons of outstanding quality.

1.2 Intended Tax Effects of Options. It is intended that part of the Plan qualify as an ISO (as hereinafter defined) plan and that any option granted in accordance with such portion of the Plan qualify as an ISO, all within the meaning of Code (S)422. The tax effects of any NQSO (as hereinafter defined) granted hereunder should be determined under Code (S)83.

ARTICLE 2

Definitions

The following words and phrases as used in this Plan shall have the meanings set forth in this Article unless a different meaning is clearly required by the context:

2.1 1933 Act shall mean the Securities Act of 1933, as amended.

2.2 1934 Act shall mean the Securities Exchange Act of 1934, as amended.

2.3 Beneficiary shall mean, with respect to an Optionee, the Person or Persons to whom the Optionee's Options shall be transferred upon the Optionee's death (i.e., the Optionee's Beneficiary).

(a) Designation of Beneficiary. An Optionee's Beneficiary shall be the Person who is last designated in writing by the Optionee as such Optionee's Beneficiary hereunder. An Optionee shall designate his or her original Beneficiary in writing on his or her Option Agreement. Any subsequent modification of the Optionee's Beneficiary shall be in a written executed and notarized letter addressed to the Company and shall be effective when it is received and accepted by the Committee, determined in the Committee's sole discretion.

(b) No Designated Beneficiary. If, at any time, no Beneficiary has been validly designated by an Optionee, or the Beneficiary designated by the Optionee is no longer living or in existence at the time of the Optionee's death, then the Optionee's Beneficiary shall be deemed to be the individual or individuals in the first of the following classes of individuals with one or more members of such class surviving or in existence as of the Optionee's death, and in the absence thereof, the Optionee's estate: (a) the Optionee's surviving spouse; or (b) the Optionee's then living lineal descendants, per stirpes.

(c) Designation of Multiple Beneficiaries. An Optionee may, consistent with subsection (a) above, designate more than one Person as a Beneficiary, if, for each such Beneficiary, the

Optionee also designates a percentage of the Optionee's Options to be transferred to such Beneficiary upon the Optionee's death. Unless otherwise specified by the Optionee, any designation by the Optionee of multiple Beneficiaries shall be interpreted as a designation by the Optionee that each such Beneficiary (to the extent such Beneficiary is alive or in existence as of the Optionee's date of death) should be entitled to an equal percentage of the Optionee's Options. Each Beneficiary shall have complete and non-joint rights with respect to the portion of an Optionee's Options to be transferred to such Beneficiary upon the Optionee's death.

(d) Contingent Beneficiaries. An Optionee may designate one or more contingent Beneficiaries to receive all or a portion of the Optionee's Option in the event that one or more of the Optionee's original Beneficiaries should predecease the Optionee; otherwise, in the event that one or more Beneficiaries predeceases the Optionee, then the individual or individuals specified in subsection (b) above shall take the place of each such deceased Optionee's Beneficiary.

2.4 Board shall mean the Board of Directors of the Company.

2.5 Cause shall mean an act or acts by an individual involving personal dishonesty, incompetence, willful misconduct, moral turpitude, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses), the use for profit or disclosure to unauthorized persons of confidential information or trade secrets of the Company, the breach of any contract with the Company, the unlawful trading in the securities of the Company or of another corporation based on information gained as a result of the performance of services for the Company, a felony conviction or the failure to contest prosecution for a felony, embezzlement, fraud, deceit or civil rights violations, any of which acts causing the Company or any subsidiary liability or loss, as determined by the Committee in its sole discretion.

2.6 Change of Control shall mean the occurrence of any one of the following events:

(a) Acquisition By Person of Substantial Percentage. The acquisition by a Person (including "affiliates" and "associates" of such Person, but excluding the Company, any "parent" or "subsidiary" of the Company, or any employee benefit plan of the Company or of any "parent" or "subsidiary" of the Company) of a sufficient number of shares of the Common Stock, or securities convertible into the Common Stock, and whether through direct acquisition of shares or by merger, consolidation, share exchange, reclassification of securities or recapitalization of or involving the Company or any "parent" or "subsidiary" of the Company, to constitute the Person the actual or beneficial owner of greater than 50% of the Common Stock; or

(b) Disposition of Assets. Any sale, lease, transfer, exchange, mortgage, pledge or other disposition, in one transaction or a series of transactions, of all or substantially all of the assets of the Company or of any "subsidiary" of the Company to a Person described in subsection (a) above.

For purposes of this Section, the terms "affiliate," "associate," "parent" and "subsidiary" shall have the respective meanings ascribed to such terms in Rule 12b-2 under Section 12 of the 1934 Act.

2.7 Code shall mean the Internal Revenue Code of 1986, as amended.

2.8 Committee shall mean the committee appointed by the Board to administer and interpret the Plan in accordance with Article 3 below.

2.9 Common Stock shall mean the common stock, par value \$0.01 per share, of the Company.

2.10 Company shall mean ADTRAN, Inc., and shall also mean any parent or subsidiary corporation of ADTRAN, Inc. unless the context clearly indicates otherwise.

2.11 Director shall mean individuals who are serving as a member of the Board (i.e., a director of the Company) or who are serving as a member of the board of directors of a parent or subsidiary corporation of the Company.

2.12 Disability shall mean, with respect to an individual, the total and permanent disability of such individual as determined by the Committee in its sole discretion.

2.13 Effective Date shall mean February 14, 1996, subject to shareholder approval. See Article 9 herein.

2.14 Fair Market Value of the Common Stock as of a date of determination shall mean the following:

(a) Stock Listed and Shares Traded. If the Common Stock is listed and traded on a national securities exchange (as such term is defined by the 1934 Act) or on The Nasdaq National Market on the date of determination, the Fair Market Value per share shall be the closing price of a share of the Common Stock on said national securities exchange or National Market System on the date of determination. If the Common Stock is traded in the over-the-counter market, the Fair Market Value per share shall be the average of the closing bid and asked prices on the date of determination.

(b) Stock Listed But No Shares Traded. If the Common Stock is listed on a national securities exchange or on the National Market System but no shares of the Common Stock are traded on the date of determination but there were shares traded on dates within a reasonable period before the date of determination, the Fair Market Value shall be the closing price of the Common Stock on the most recent date before the date of determination. If the Common Stock is regularly traded in the over-the-counter market but no shares of the Common Stock are traded on the date of determination (or if records of such trades are unavailable or burdensome to obtain) but there were shares traded on dates within a reasonable period before the date of determination, the Fair Market Value shall be the average of the closing bid and asked prices of the Common Stock on the most recent date before the date of determination.

(c) Stock Not Listed. If the Common Stock is not listed on a national securities exchange or on the National Market System and is not regularly traded in the over-the-counter market, then the Committee shall determine the Fair Market Value of the Common Stock from all relevant available facts, which may include the average of the closing bid and ask prices reflected in the over-the-counter market on a date within a reasonable period either before or after the date of determination or opinions of independent experts as to value and may take into account any recent sales and purchases of such Common Stock to the extent they are representative.

The Committee's determination of Fair Market Value, which shall be made pursuant to the foregoing provisions, shall be final and binding for all purposes of this Plan.

2.15 ISO shall mean an incentive stock option within the meaning of Code (S)422(b).

2.16 NQSO shall mean an option to which Code (S)421 (relating generally to certain ISO and other options) does not apply.

2.17 Option shall mean ISO's, or NQSO's granted to individuals pursuant to the terms and provisions of this Plan.

2.18 Option Agreement shall mean a written agreement, executed and dated by the Company and an Optionee, evidencing an Option granted under the terms and provisions of this Plan, setting forth the terms and conditions of such Option, and specifying the name of the Optionee and the number of shares of stock subject to such Option.

2.19 Option Price shall mean the purchase price of the shares of Common Stock underlying an Option.

2.20 Optionee shall mean an individual who is granted an Option pursuant to the terms and provisions of this Plan.

2.21 Person shall mean any individual, organization, corporation, partnership, trust or other entity.

2.22 Plan shall mean this ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan.

ARTICLE 3 Administration

3.1 General Administration. The Plan shall be administered and interpreted by the Committee. Subject to the express provisions of the Plan, the Committee shall have authority to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to determine the terms and provisions of the Option Agreements by which Options shall be evidenced (which shall not be inconsistent with the terms of the Plan), and to make all other determinations necessary or advisable for the administration of the Plan, all of which determinations shall be final, binding and conclusive.

3.2 Appointment. The Board shall appoint the Committee from among its members to serve at the pleasure of the Board. The Board from time to time may remove members from, or add members to, the Committee and shall fill all vacancies thereon. The Committee at all times shall be composed of two or more directors who shall meet the following requirements:

(a) Disinterested Administration Rule. During the period any director is serving on the Committee and during the 1-year period immediately preceding the commencement of such service, he shall not be or have been granted or awarded any Option or other equity securities of the Company under the Plan (or any other discretionary stock plan of the Company or any Company affiliate as defined by Rule 144(a)(1) of the 1933 Act). Notwithstanding the preceding sentence, a member of the Committee may participate during such period in (A) a formula plan (such as the ADTRAN, Inc. Amended and Restated 1996 Directors Stock Option Plan), (B) an ongoing securities acquisition program with broad-based employee participation, and/or (C) a program to elect to receive all or part of his annual retainer in equity securities of the Company, all as defined and limited by Rule 16b-3 promulgated under Section 16 of the 1934 Act. The requirements of this subsection are intended to comply with the "disinterested administration rule" of Rule 16b-3 under Section 16 of the 1934 Act or any successor rule or regulation, and shall be interpreted and construed in a manner which assures compliance with said Rule. To the extent said Rule 16b-3 is modified to reduce or increase the restrictions on who may serve on the Committee, the Plan shall be deemed modified in a similar manner.

(b) Outside Director Rule. No director serving on the Committee may be a current employee of the Company or a former employee of the Company (or any corporation affiliated with the Company under Code (S)1504) receiving compensation for prior services (other than benefits under a tax-qualified retirement plan) during each taxable year during which the director serves on the Committee. Furthermore, no director serving on the Committee shall be or have ever been an officer of the Company

(or any Code (S)1504 affiliated corporation), or shall be receiving remuneration (directly or indirectly) from such a corporation in any capacity other than as a director. The requirements of this subsection are intended to comply with the "outside director" requirements of Treas. Reg. (S) 1.162-27(e)(3) or any successor regulation, and shall be interpreted and construed in a manner which assures compliance with the "outside" director requirement of Code (S)162(m)(4)(C)(i) A director who meets the requirements of subsection (a) above shall be treated as meeting the requirements of this subsection (b) until the first meeting of shareholders at which directors are to be elected occurring on or after January 1, 1996.

3.3 Organization. The Committee may select one of its members as its chairman and shall hold its meetings at such times, in such manner and at such places as it shall deem advisable. A majority of the Committee shall constitute a quorum, and such majority shall determine its actions. The Committee shall keep minutes of its proceedings and shall report the same to the Board at the meeting next succeeding.

3.4 Indemnification. In addition to such other rights of indemnification as they have as directors or as members of the Committee, the members of the Committee, to the extent permitted by applicable law, shall be indemnified by the Company against reasonable expenses (including, without limitation, attorneys' fees) actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Options granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved to the extent required by and in the manner provided by the articles or certificate of incorporation or the bylaws of the Company relating to indemnification of directors) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee member or members did not act in good faith and in a manner he or they reasonably believed to be in or not opposed to the best interest of the Company.

ARTICLE 4

Stock

The stock subject to the Options and other provisions of the Plan shall be authorized but unissued or reacquired shares of Common Stock. Subject to readjustment in accordance with the provisions of Article 7, the total number of shares of Common Stock for which Options may be granted to persons participating in the Plan shall not exceed in the aggregate 2,488,100 shares of Common Stock. Notwithstanding the foregoing, shares of Common Stock allocable to the unexercised portion of any expired or terminated Option again may become subject to Options under the Plan.

ARTICLE 5

Eligibility to Receive and Grant of Options

5.1 Individuals Eligible for Grants of Options. The individuals eligible to receive Options hereunder shall be employees of the Company, including such employees who are also members of the Board or of the board of directors of any parent or subsidiary corporation of the Company; provided, no non-employee director shall be eligible to receive any Options pursuant to this Plan, and provided further, that only employees of the Company and its "parent" or "subsidiary" corporations within the meaning of subsections (e) and (f) of Code (S)424 shall be eligible to receive ISO's. Such eligible individuals may receive Options hereunder in accordance with the provisions of Section 5.2 below.

5.2 Grants of Options. Subject to the provisions of the Plan, the Committee shall have the authority and sole discretion to determine and designate, from time to time, those individuals (from among the individuals eligible for a grant of Options under the Plan pursuant to Section 5.1 above) to

whom Options will actually be granted, the Option Price of the shares covered by any Options granted, the manner in and conditions under which Options are exercisable (including, without limitation, any limitations or restrictions thereon), and the time or times at which Options shall be granted. In making such determinations, the Committee may take into account the nature of the services rendered by the respective employees to whom Options may be granted, their present and potential contributions to the Company's success and such other factors as the Committee, in its sole discretion, shall deem relevant. In its authorization of the granting of an Option hereunder, the Committee shall specify the name of the Optionee, the number of shares of stock subject to such Option and whether such Option is an ISO or a NQSO. The Committee may grant, at any time, new Options to an Optionee who previously has received Options, whether such Options include prior Options that still are outstanding, previously have been exercised in whole or in part, have expired or are canceled in connection with the issuance of new Options. No individual shall have any claim or right to be granted Options under the Plan.

5.3 Limitation on Exercisability of ISO's. Notwithstanding anything herein to the contrary, the aggregate Fair Market Value of ISO's which are granted to any employee under the Plan or under any other ISO stock option plan adopted by the Company that are first exercisable in any one calendar year shall not exceed \$100,000. The Committee shall interpret and administer the limitations set forth in this Section in accordance with Code (S) 422(d).

5.4 Restriction on Grant of Stock Options. No more than 100,000 shares of Common Stock may be made subject to Options granted during a calendar year to any one individual.

ARTICLE 6

Terms and Conditions of Options

Options granted hereunder and Option Agreements shall comply with and be subject to the following terms and conditions:

6.1 Requirement of Option Agreement. Upon the grant of an Option hereunder, the Committee shall prepare (or cause to be prepared) an Option Agreement. The Committee shall present such Option Agreement to the Optionee. Upon execution of such Option Agreement by the Optionee, such Option shall be deemed to have been granted effective as of the date of grant. The failure of the Optionee to execute the Option Agreement within 30 days after the date of the receipt of same shall render the Option Agreement and the underlying Option null and void ab initio.

6.2 Optionee and Number of Shares. Each Option Agreement shall state the name of the Optionee and the total number of shares of the Common Stock to which it pertains, the Option Price, the Beneficiary of the Optionee and the date as of which the Option was granted under this Plan.

6.3 Vesting. Each Option shall first become exercisable (i.e., vested) with respect to the shares subject to such Option as of the first anniversary of the date the Option is granted; provided, the Committee may, in its sole discretion, waive the application of this section and may provide a different vesting schedule in an Option Agreement. Prior to said date, the Option shall be unexercisable in its entirety. Notwithstanding the foregoing, all Options granted to an Optionee shall become immediately vested and exercisable for 100% of the number of shares subject to the Options upon the Optionee's becoming Disabled (within the meaning of Section 2.12 hereof) or upon his death or upon a Change in Control. Other than as provided in the preceding sentences, if an Optionee ceases to be an employee of the Company, his rights with regard to all non-vested Options shall cease immediately.

6.4 Option Price. The Option Price of the shares of Common Stock underlying each Option shall be the Fair Market Value of the Common Stock on the date the Option is granted, unless otherwise determined by the Committee; provided, in no event shall the Option Price of any ISO be less than 100%

(110% in the case of ISO's of Optionees who own more than ten percent of the voting power of all classes of stock of either the Company or any "parent" or "subsidiary" corporation of the Company (within the meaning of subsections (e) and (f) of Code ss.424)) of the Fair Market Value of the Common Stock on the date the Option is granted. Upon execution of an Option Agreement by both the Company and Optionee, the date as of which the Committee granted the Option as specified in the Option Agreement shall be considered the date on which such Option is granted.

6.5 Terms of Options. Terms of Options granted under the Plan shall commence on the date of grant and shall expire on such date as the Committee may determine for each Option; provided, in no event shall any Option be exercisable after ten years (five years in the case of ISO's granted to Optionees who own more than ten percent of the voting power of all classes of stock of either the Company or any parent or subsidiary) from the date the Option is granted. No Option shall be granted hereunder after ten years from the earlier of (a) the date the Plan is approved by the shareholders, or (b) the date the Plan is adopted by the Board.

6.6 Terms of Exercise. The exercise of an Option may be for less than the full number of shares of Common Stock subject to such Option, but such exercise shall not be made for less than (i) 100 shares or (ii) the total remaining shares subject to the Option, if such total is less than 100 shares. Subject to the other restrictions on exercise set forth herein, the unexercised portion of an Option may be exercised at a later date by the Optionee.

6.7 Method of Exercise. All Options granted hereunder shall be exercised by written notice directed to the Secretary of the Company at its principal place of business or to such other person as the Committee may direct. Each notice of exercise shall identify the Option which the Optionee is exercising (in whole or in part) and shall be accompanied by payment of the Option Price for the number of shares specified in such notice and by any documents required by Section 8.1. The Company shall make delivery of such shares within a reasonable period of time; provided, if any law or regulation requires the Company to take any action (including, but not limited to, the filing of a registration statement under the 1933 Act and causing such registration statement to become effective) with respect to the shares specified in such notice before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to take such action. For Options which are ISO's, written statements on Form 3921 shall be furnished to the Optionee in accordance with Code (S)6039 on or before January 31 of the year following the year in which the Option was exercised. See Treas. Reg. (S)(S)1.6039-1 and -2, and 301.6039.1.

6.8 Medium and Time of Payment.

(a) The Option Price shall be payable upon the exercise of the Option in an amount equal to the number of shares then being purchased times the per share Option Price. Payment, at the election of the Optionee (or his Beneficiary as provided in subsection (c) of Section 6.9), shall be (A) in cash; (B) by delivery to the Company of a certificate or certificates for shares of the Common Stock duly endorsed for transfer to the Company with signature guaranteed by a member firm of a national stock exchange or by a national or state bank or a federally chartered thrift institution (or guaranteed or notarized in such other manner as the Committee may require) or by instructing the Company to retain shares of Common Stock upon the exercise of the Option with a Fair Market Value equal to the exercise price as payment; or (C) by a combination of (A) and (B).

(b) If the Optionee delivers Common Stock with a value that is less than the total Option Price, then such Optionee shall pay the balance of the total Option Price in cash, other property or services, as provided in subsection (a) above.

(c) In addition to the payment of the purchase price of the shares then being purchased, an Optionee also shall pay in cash (or have withheld from his normal pay) an amount equal to, or by instructing the Company to retain Common Stock upon the exercise of the Option with a Fair Market Value equal to, the amount, if any, which the Company at the time of exercise is required to withhold under the income tax or Federal Insurance Contribution Act tax withholding provisions of the Code, of the income tax laws of the state of the Optionee's residence, and of any other applicable law.

6.9 Effect of Termination of Employment, Disability or Death. Except as provided in subsections (a), (b) and (c) below, no Option shall be exercisable unless the Optionee thereof shall have been an employee of the Company from the date of the granting of the Option until the date of exercise; provided, the Committee, in its sole discretion, may waive the application of this Section with respect to any NQSO's granted hereunder and, instead, may provide a different expiration date or dates in a NQSO Option Agreement.

(a) Termination of Employment. In the event an Optionee ceases to be an employee of the Company for any reason other than death or Disability, any Option or unexercised portion thereof granted to him shall terminate on and shall not be exercisable after the earliest to occur of (1) the expiration date of the Option, (2) three months after termination of employment or (3) the date on which the Company gives notice to such Optionee of termination of employment if employment is terminated by the Company for Cause (an Optionee's resignation in anticipation of termination of employment by the Company for Cause shall constitute a notice of termination by the Company); provided, the Committee may provide in the Option Agreement that such Option or any unexercised portion thereof shall terminate sooner. Notwithstanding the foregoing, in the event that an Optionee's employment terminates for a reason other than death or Disability at any time after a Change of Control, the term of all Options of that Optionee shall be extended through the end of the three-month period immediately following the date of such termination; provided, this extension shall apply to ISO's only to the extent it does not cause the term of such ISO's to exceed the maximum term permitted under Code (S)422 or does not cause such ISO's to lose their status as ISO's. Prior to the earlier of the dates specified in the preceding sentences of this subsection (a), the Option shall be exercisable only in accordance with its terms and only for the number of shares exercisable on the date of termination of employment. The question of whether an authorized leave of absence or absence for military or government service or for any other reason shall constitute a termination of employment for purposes of the Plan shall be determined by the Committee, which determination shall be final and conclusive.

(b) Disability. Upon the termination of an Optionee's employment due to Disability, any Option or unexercised portion thereof granted to him which is otherwise exercisable shall terminate on and shall not be exercisable after the earlier to occur of (1) the expiration date of such Option, or (2) one year after the date on which such Optionee ceases to be an employee of the Company due to Disability; provided, the Committee may provide in the Option Agreement that such Option or any unexercised portion thereof shall terminate sooner. Prior to the earlier of such date, such Option shall be exercisable only in accordance with its terms and only for the number of shares exercisable on the date such Optionee's employment ceases due to Disability.

(c) Death. In the event of the death of the Optionee (1) while he is an employee of the Company, (2) within three months after the date on which such Optionee's employment terminated (for a reason other than Cause) as provided in subsection (a) above, or (3) within one year after the date on which such Optionee's employment terminated due to his Disability as provided in subsection (b), any Option or unexercised portion thereof granted to him which is otherwise exercisable may be exercised by his Beneficiary at any time prior to the expiration of one year from the date of death of such Optionee, but in no event later than the date of expiration of the option period; provided, the Committee may provide in the Option Agreement that such Option or any unexercised portion thereof shall terminate sooner. Such

exercise shall be effected pursuant to the terms of this Section as if such Beneficiary is the named Optionee.

6.10 Restrictions on Transfer and Exercise of Options. No Option shall be assignable or transferable by the Optionee except by transfer to a Beneficiary upon the death of the Optionee, and any purported transfer (other than as excepted above) shall be null and void. After the death of an Optionee and upon the death of the Optionee's Beneficiary, an Option shall be transferred only by will or by the laws of descent and distribution. During the lifetime of an Optionee, the Option shall be exercisable only by him; provided, however, that in the event the Optionee is incapacitated and unable to exercise Options, such Options may be exercised by such Optionee's legal guardian, legal representative, fiduciary or other representative whom the Committee deems appropriate based on applicable facts and circumstances.

6.11 Rights as a Shareholder. An Optionee shall have no rights as a shareholder with respect to shares covered by his Option until date of the issuance of the shares to him and only after the Option Price of such shares is fully paid. Unless specified in Article 7, no adjustment will be made for dividends or other rights for which the record date is prior to the date of such issuance.

6.12 No Obligation to Exercise Option. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

6.13 Acceleration. The Committee shall at all times have the power to accelerate the vesting date of Options previously granted under this Plan.

6.14 Designation of Option as ISO or NQSO. Subject to the provisions of this Article, each Option granted under the Plan shall be designated either as an ISO or a NQSO. An Option Agreement evidencing both an ISO and a NQSO shall identify clearly the status and terms of each Option.

6.15 ISO's Converted to NQSO's. In the event any part or all of an Option granted under the Plan which is intended to be an ISO at any time fails to satisfy all of the requirements of an ISO, then such ISO shall be split into an ISO and NQSO so that the portion of the Option, if any, that still qualifies as an ISO shall remain an ISO and the portion that does not qualify as an ISO shall become a NQSO. Such split of an Option into an ISO portion and a NQSO portion shall be evidenced by one or more Option Agreements, as long as each Option is identified clearly as to its status as an ISO or NQSO.

ARTICLE 7

Adjustments Upon Changes in Capitalization

7.1 Recapitalization. In the event that the outstanding shares of the Common Stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a recapitalization, reclassification, stock split, combination of shares or dividend payable in shares of the Common Stock, the following rules shall apply:

- (a) The Committee shall make an appropriate adjustment in the number and kind of shares available for the granting of Options under the Plan.
- (b) The Committee also shall make an appropriate adjustment in the number and kind of shares as to which outstanding Options, or portions thereof then unexercised, shall be exercisable; any such adjustment in any outstanding Options shall be made without change in the total price applicable to the unexercised portion of such Option and with a corresponding adjustment in the Option Price per share. No fractional shares shall be issued or optioned in making the foregoing adjustments, and the

number of shares available under the Plan or the number of shares subject to any outstanding Options shall be the next lower number of shares, rounding all fractions downward.

(c) Any adjustment to or assumption of ISO's under this Section shall be made in accordance with Code (S)424(a) and the regulations promulgated thereunder so as to preserve the status of such Options as ISO's under Code (S)422.

(d) If any rights or warrants to subscribe for additional shares are given pro rata to holders of outstanding shares of the class or classes of stock then set aside for the Plan, each Optionee shall be entitled to the same rights or warrants on the same basis as holders of the outstanding shares with respect to such portion of his Option as is exercised on or prior to the record date for determining shareholders entitled to receive or exercise such rights or warrants.

7.2 Reorganization. Subject to any required action by the shareholders, if the Company shall be a party to any reorganization involving merger, consolidation, acquisition of the stock or acquisition of the assets of the Company which does not constitute a Change of Control, the Committee, in its discretion, may declare that:

(a) any Option granted but not yet exercised shall pertain to and apply, with appropriate adjustment as determined by the Committee, to the securities of the resulting corporation to which a holder of the number of shares of the Common Stock subject to such Option would have been entitled;

(b) any or all outstanding Options granted hereunder shall become immediately nonforfeitable and fully exercisable or vested (to the extent permitted under federal or state securities laws); and/or

(c) any or all Options granted hereunder shall become immediately nonforfeitable and fully exercisable or vested (to the extent permitted under federal or state securities laws) and are to be terminated after giving at least 30 days' notice to the Optionees to whom such Options have been granted.

7.3 Dissolution and Liquidation. If the Board adopts a plan of dissolution and liquidation that is approved by the shareholders of the Company, the Committee shall give each Optionee written notice of such event at least ten days prior to its effective date, and the rights of all Optionees shall become immediately nonforfeitable and fully exercisable or vested (to the extent permitted under federal or state securities laws).

7.4 Limits on Adjustments. Any issuance by the Company of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of the Common Stock subject to any Option, except as specifically provided otherwise in this Article. The grant of Options pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate or dissolve, or to liquidate, sell or transfer all or any part of its business or assets. All adjustments the Committee makes under this Article shall be conclusive.

ARTICLE 8

Agreement by Optionee and Securities Registration

8.1 Agreement. If, in the opinion of counsel to the Company, such action is necessary or desirable, no Options shall be granted to any Optionee, and no Option shall be exercisable, unless, at the time of grant or exercise, as applicable, such Optionee (i) represents and warrants that he will acquire the

Common Stock for investment only and not for purposes of resale or distribution, and (ii) makes such further representations and warranties as are deemed necessary or desirable by counsel to the Company with regard to holding and resale of the Common Stock. The Optionee shall, upon the request of the Committee, execute and deliver to the Company an agreement or affidavit to such effect. Should the Committee have reasonable cause to believe that such Optionee did not execute such agreement or affidavit in good faith, the Company shall not be bound by the grant of the Option or by the exercise of the Option. All certificates representing shares of Common Stock issued pursuant to the Plan shall be marked with the following restrictive legend or similar legend, if such marking, in the opinion of counsel to the Company, is necessary or desirable:

The shares represented by this certificate [have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state] [and] [are held by an "affiliate" (as such term is defined in Rule 144 promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended) of the Corporation]. Accordingly, these shares may not be sold, hypothecated, pledged or otherwise transferred except (i) pursuant to an effective registration statement under the Securities Act of 1933, as amended, and any applicable securities laws or regulations of any state with respect to such shares, (ii) in accordance with Securities and Exchange Commission Rule 144, or (iii) upon the issuance to the Corporation of a favorable opinion of counsel or the submission to the Corporation of such other evidence as may be satisfactory to the Corporation that such proposed sale, assignment, encumbrance or other transfer will not be in violation of the Securities Act of 1933, as amended, or any applicable securities laws of any state or any rules or regulations thereunder. Any attempted transfer of this certificate or the shares represented hereby which is in violation of the preceding restrictions will not be recognized by the Corporation, nor will any transferee be recognized as the owner thereof by the Corporation.

If the Common Stock is (A) held by an Optionee who is not an "affiliate," as that term is defined in Rule 144 of the 1933 Act, or who ceases to be an "affiliate," or (B) registered under the 1933 Act and all applicable state securities laws and regulations as provided in Section 8.2, the Committee, in its discretion and with the advice of counsel, may dispense with or authorize the removal of the restrictive legend set forth above or the portion thereof which is inapplicable.

8.2 Registration. In the event that the Company in its sole discretion shall deem it necessary or advisable to register, under the 1933 Act or any state securities laws or regulations, any shares with respect to which Options have been granted hereunder, then the Company shall take such action at its own expense before delivery of the certificates representing such shares to an Optionee. In such event, and if the shares of Common Stock of the Company shall be listed on any national securities exchange or on The Nasdaq National Market at the time of the exercise of any Option, the Company shall make prompt application at its own expense for the listing on such stock exchange or The Nasdaq National Market of the shares of Common Stock to be issued.

ARTICLE 9

Effective Date

The Plan shall be effective as of the Effective Date, and no Options shall be granted hereunder prior to said date. Adoption of the Plan shall be approved by the shareholders of the Company at the earlier of (i) the annual meeting of the shareholders of the Company which immediately follows the date of the first grant or award of Options hereunder, or (ii) 12 months after the adoption of the Plan by the Board, but in no event earlier than 12 months prior to the adoption of the Plan by the Board. Shareholder approval shall be made by a majority of the votes cast at a duly held meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy, present and voting

on the Plan, or by the written consent in lieu of a meeting of the holders of a majority of the outstanding voting stock or such greater number of shares of voting stock as may be required by the Company's articles of incorporation and bylaws and by applicable law; provided, however, such shareholder approval, whether by vote or by written consent in lieu of a meeting, must be solicited substantially in accordance with the rules and regulations in effect under Section 14(a) of the 1934 Act. Failure to obtain such approval shall render the Plan and any Options granted hereunder null and void ab initio.

ARTICLE 10 Amendment and Termination

10.1 Amendment and Termination By the Board. Subject to Section 10.2 below, the Board shall have the power at any time to add to, amend, modify or repeal any of the provisions of the Plan, to suspend the operation of the entire Plan or any of its provisions for any period or periods or to terminate the Plan in whole or in part. In the event of any such action, the Committee shall prepare written procedures which, when approved by the Board, shall govern the administration of the Plan resulting from such addition, amendment, modification, repeal, suspension or termination.

10.2 Restrictions on Amendment and Termination. Notwithstanding the provisions of Section 10.1 above, the following restrictions shall apply to the Board's authority under Section 10.1 above:

(a) Prohibition Against Adverse Affects on Outstanding Options. No addition, amendment, modification, repeal, suspension or termination shall adversely affect, in any way, the rights of the Optionees who have outstanding Options without the consent of such Optionees;

(b) Shareholder Approval Required for Certain Modifications. No modification or amendment of the Plan may be made without the prior approval of the shareholders of the Company if (1) such modification or amendment would cause the applicable portions of the Plan to fail to qualify as an ISO plan pursuant to Code (S)422, (2) such modification or amendment would materially increase the benefits accruing to participants under the Plan, (3) such modification or amendment would materially increase the number of securities which may be issued under the Plan, or (4) such modification or amendment would materially modify the requirements as to eligibility for participation in the Plan, or (v) such modification or amendment would modify the material terms of the Plan within the meaning of Treas. Reg. (S)1.162-27(e)(4). Clauses (ii), (iii) and (iv) of the preceding sentence shall be interpreted in accordance with the provisions of paragraph (b)(2) of Rule 16b-3 of the 1934 Act. Shareholder approval shall be made by a majority of the votes cast at a duly held meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy, present and voting, or by the written consent in lieu of a meeting of the holders of a majority of the outstanding voting stock or such greater number of shares of voting stock as may be required by the Company's articles or certificate of incorporation and bylaws and by applicable law; provided, however, that for modifications described in clauses (ii), (iii) and (iv) above, such shareholder approval, whether by vote or by written consent in lieu of a meeting, must be solicited substantially in accordance with the rules and regulations in effect under Section 14(a) of the 1934 Act as required by paragraph (b)(2) of Rule 16b-3 of the 1934 Act.

ARTICLE 11 Miscellaneous Provisions

11.1 Application of Funds. The proceeds received by the Company from the sale of the Common Stock subject to the Options granted hereunder will be used for general corporate purposes.

11.2 Notices. All notices or other communications by an Optionee to the Committee pursuant to or in connection with the Plan shall be deemed to have been duly given when received in the form

specified by the Committee at the location, or by the person, designated by the Committee for the receipt thereof.

11.3 Term of Plan. Subject to the terms of Article 10, the Plan shall terminate upon the later of (i) the complete exercise or lapse of the last outstanding Option, or (ii) the last date upon which Options may be granted hereunder.

11.4 Compliance with Rule 16b-3. This Plan is intended to be in compliance with the requirements of Rule 16b-3 as promulgated under Section 16 of the 1934 Act.

11.5 Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Alabama.

11.6 Additional Provisions By Committee. The Option Agreements authorized under the Plan may contain such other provisions, including, without limitation, restrictions upon the exercise of an Option, as the Committee shall deem advisable.

11.7 Plan Document Controls. In the event of any conflict between the provisions of an Option Agreement and the Plan, the Plan shall control.

11.8 Gender and Number. Wherever applicable, the masculine pronoun shall include the feminine pronoun, and the singular shall include the plural.

11.9 Headings. The titles in this Plan are inserted for convenience of reference; they constitute no part of the Plan and are not to be considered in the construction hereof.

11.10 Legal References. Any references in this Plan to a provision of law which is, subsequent to the Effective Date of this Plan, revised, modified, finalized or redesignated, shall automatically be deemed a reference to such revised, modified, finalized or redesignated provision of law.

11.11 No Rights to Employment. Nothing contained in the Plan, or any modification thereof, shall be construed to give any individual any rights to employment with the Company or any parent or subsidiary corporation of the Company.

11.12 Unfunded Arrangement. The Plan shall not be funded, and except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any grant under the Plan.

ADOPTED BY BOARD OF DIRECTORS EFFECTIVE AS OF FEBRUARY 14, 1996

APPROVED BY SHAREHOLDERS AS OF APRIL 19, 1996

**FIRST AMENDMENT ADOPTED BY BOARD OF DIRECTORS
AND APPROVED BY SHAREHOLDERS
EFFECTIVE AS OF APRIL 23, 1997**

**SECOND AMENDMENT ADOPTED BY BOARD OF DIRECTORS
EFFECTIVE AS OF JULY 15, 1999**

**AMENDED AND RESTATED PLAN ADOPTED BY BOARD OF DIRECTORS
EFFECTIVE AS OF JANUARY 13, 2000**

**FIRST AMENDMENT TO AMENDED AND RESTATED PLAN
ADOPTED BY BOARD OF DIRECTORS AND APPROVED BY SHAREHOLDERS
EFFECTIVE AS OF APRIL 21, 2000**

**FIRST AMENDMENT
TO THE ADTRAN, INC.
AMENDED AND RESTATED**

1996 EMPLOYEES INCENTIVE STOCK OPTION PLAN

This First Amendment to the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan (the "Plan") is made and entered into this 21st day of April, 2000, by ADTRAN, Inc. (the "Company").

WITNESSETH:

WHEREAS, the Company maintains the Plan, which is administered by a committee appointed by the Board of Directors of the Company (the "Board"), to provide for grants of options to employees of the Company; and

WHEREAS, the Board has determined that it is advisable to amend the Plan to increase the maximum aggregate number of shares available to be issued under the Plan from 2,488,100 shares of common stock to 5,488,100 shares of common stock (the "First Amendment");

WHEREAS, Article 10 of the Plan permits the Board to amend the Plan subject to certain restrictions, including stockholder approval of certain changes;

WHEREAS, the Board adopted resolutions approving the First Amendment on January 13, 2000; and

WHEREAS, the stockholders of the Company approved the First Amendment at the Company's 2000 Annual Meeting of Stockholders held on April 21, 2000;

NOW, THEREFORE, the Company hereby amends the Plan as follows:

1.

Effective as of April 21, 2000, Article 4 of the Plan shall be amended by striking "2,488,100" and by substituting "5,488,100" in lieu thereof.

2.

Except as specifically amended hereby, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this First Amendment on the date first set forth above.

ADTRAN, INC.

By: /s/ John R. Cooper

John R. Cooper
Vice President - Finance, Chief Financial
Officer and Treasurer

**SECOND AMENDMENT
TO THE ADTRAN, INC.
AMENDED AND RESTATED**

1996 EMPLOYEES INCENTIVE STOCK OPTION PLAN

This Second Amendment to the ADTRAN, Inc. Amended and Restated 1996 Employees Incentive Stock Option Plan (the "Plan") is made and entered into this 20th day of April, 2001, by ADTRAN, Inc. (the "Company").

WITNESSETH:

WHEREAS, the Company maintains the Plan, which is administered by a committee appointed by the Board of Directors of the Company (the "Board"), to provide for grants of options to employees of the Company; and

WHEREAS, the Board has determined that it is advisable to amend the Plan to increase the maximum aggregate number of shares available to be issued under the Plan by 3,000,000 shares, i.e., from 5,488,100 shares of Common Stock (as defined in the Plan) to 8,488,100 shares of Common Stock, and to place limits on the number of options that may be granted under the Plan with an option exercise price that is below the fair market value of the Company's common stock on the date of grant and on the class of employees to receive such options (the "Second Amendment");

WHEREAS, Article 10 of the Plan permits the Board to amend the Plan subject to certain restrictions, including stockholder approval of certain changes;

WHEREAS, the Board adopted resolutions approving the Second Amendment, subject to shareholder approval, on February 12, 2001; and

WHEREAS, the stockholders of the Company approved the Second Amendment at the Company's 2001 Annual Meeting of Stockholders held on April 20, 2001;

NOW, THEREFORE, the Company hereby amends the Plan as follows:

1.

Effective as of April 20, 2001, Article 4 of the Plan shall be amended by striking "5,488,100" and by substituting "8,488,100" in lieu thereof.

2.

Effective as of April 20, 2001, the Plan shall be amended by deleting Section 6.4 in its entirety and inserting in its place the following:

"6.4 Option Price. The Option Price of the shares of Common Stock underlying each Option shall be the Fair Market Value of the Common Stock on the date the Option is granted, unless otherwise determined by the Committee; provided, in no event shall the Option price of any ISO be less than 100% (110% in the case of ISO's of Optionees who own more than ten percent of the voting power of all classes of stock of either the Company or any "parent" or "subsidiary" corporation of the Company (within the meaning of subsections (e) and (f) of Code (S)424)) of the Fair Market Value of the Common Stock on the date the Option is granted; provided, further, in no event shall the Option price of any Option granted to

an executive officer of the Company be less than 100% of the Fair Market Value of the Common Stock on the date the Option is granted; provided, further, that at no time may the aggregate number of Options hereunder that are neither expired nor terminated, without regard to exercisability, with respect to which the Option price is less than 100% of the Fair Market Value of the Common Stock on the date the Option is granted, exceed 10% of the total number of shares of Common Stock for which Options may be granted pursuant to Article 4, including such total number of shares that are allocable to the unexercised portion of any expired or terminated Option that have again become subject to Options under the Plan. Upon execution of an Option Agreement by both the Company and Optionee, the date as of which the Committee granted the Option as specified in the Option Agreement shall be considered the date on which such Option is granted. For purposes of this Section, the term `executive officer of the Company' shall mean an officer of the Company who is a reporting person pursuant to (S)16(a) of the Securities Exchange Act of 1934, as amended."

3.

Except as specifically amended hereby, the Plan shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused its duly authorized officer to execute this Second Amendment on the date first set forth above.

ADTRAN, INC.

By: /s/ John R. Cooper

*John R. Cooper
Vice President - Finance, Chief Financial
Officer and Treasurer*

ADTRAN, INC.

**AMENDED AND RESTATED
1995 DIRECTORS STOCK OPTION PLAN**

ARTICLE 1

Purpose

1.1 General Purpose. The purpose of this Plan is to further the growth and development of the Company by encouraging Directors who are not employees of the Company to obtain a proprietary interest in the Company by owning its stock. The Company intends that the Plan will provide such persons with an added incentive to continue to serve as Directors and will stimulate their efforts in promoting the growth, efficiency and profitability of the Company. The Company also intends that the Plan will afford the Company a means of attracting persons of outstanding quality to service on the Board and on the board of directors of parent and subsidiary corporations of the Company.

1.2 Intended Tax Effects of Options. It is intended that the tax effects of any NQSO (as hereinafter defined) granted hereunder should be determined under Code(S).83.

ARTICLE 2

Definitions

The following words and phrases as used in this Plan shall have the meanings set forth in this Article unless a different meaning is clearly required by the context:

2.1 1933 Act shall mean the Securities Act of 1933, as amended.

2.2 1934 Act shall mean the Securities Exchange Act of 1934, as amended.

2.3 Beneficiary shall mean, with respect to an Optionee, the Person or Persons to whom the Optionee's Option shall be transferred upon the Optionee's death (i.e., the Optionee's Beneficiary).

(a) Designation of Beneficiary. An Optionee's Beneficiary shall be the Person who is last designated in writing by the Optionee as such Optionee's Beneficiary hereunder. An Optionee shall designate his or her original Beneficiary in writing on his or her Option Agreement. Any subsequent modification of the Optionee's Beneficiary shall be in a written executed and notarized letter addressed to the Company and shall be effective when it is received and accepted by the Committee, determined in the Committee's sole discretion.

(b) No Designated Beneficiary. If, at any time, no Beneficiary has been validly designated by an Optionee, or the Beneficiary designated by the Optionee is no longer living or in existence at the time of the Optionee's death, then the Optionee's Beneficiary shall be deemed to be the individual or individuals in the first of the following classes of individuals with one or members of such class surviving or in existence as of the Optionee's death, and in the absence thereof, the Optionee's estate:
the Optionee's surviving spouse; or the Optionee's then living lineal descendants, per stirpes.

(c) Designation of Multiple Beneficiaries. An Optionee may, consistent with subsection (a) above, designate more than one Person as a Beneficiary if, for each such Beneficiary, the Optionee also designates a percentage of the Optionee's Options to be transferred to such Beneficiary upon the Optionee's death. Unless otherwise specified by the Optionee, any designation by the Optionee of multiple Beneficiaries shall be interpreted as a designation by the Optionee that each such Beneficiary (to the extent such Beneficiary is alive or in existence as of the Optionee's date of death) should be entitled to an equal percentage of the Optionee's Options. Each Beneficiary shall have complete and non-joint rights with respect to the portion of an Optionee's Options to be transferred to such Beneficiary upon the Optionee's death.

(d) Contingent Beneficiaries. An Optionee may designate one or more contingent Beneficiaries to receive all or a portion of the Optionee's Option in the event that one or more of the Optionee's original Beneficiaries should predecease the Optionee; otherwise, in the event that one or more Beneficiaries predeceases the Optionee, then the individual or individuals specified in subsection (b) above shall take the place of each such deceased Optionee's Beneficiary.

2.4 Board shall mean the Board of Directors of the Company.

2.5 Cause shall mean an act or acts by an individual involving personal dishonesty, incompetence, willful misconduct, moral turpitude, intentional failure to perform stated duties, willful violation of any law, rule or regulation (other than traffic violations or similar offenses), the use for profit or disclosure to unauthorized persons of confidential information or trade secrets of the Company, the breach of any contract with the Company, the unlawful trading in the securities of the Company or of another corporation based on information gained as a result of the performance of services for the Company, a felony conviction or the failure to contest prosecution for a felony, embezzlement, fraud, deceit or civil rights violations, any of which acts causing the Company or any subsidiary liability or loss, as determined by the Committee in its sole discretion.

2.6 Change of Control shall mean the occurrence of any one of the following events:

(a) Acquisition By Person of Substantial Percentage. The acquisition by a Person (including "affiliates" and "associates" of such Person, but excluding the Company, any "parent" or "subsidiary" of the Company, or any employee benefit plan of the Company or of any "parent" or "subsidiary" of the Company) of a sufficient number of shares of the Common Stock, or securities convertible into the Common Stock, and whether through direct acquisition of shares or by merger, consolidation, share exchange, reclassification of securities or recapitalization of or involving the Company or any "parent" or "subsidiary" of the Company, to constitute the Person the actual or beneficial owner of greater than 50% of the Common Stock; or

(b) Disposition of Assets. Any sale, lease, transfer, exchange, mortgage, pledge or other disposition, in one transaction or a series of transactions, of all or substantially all of the assets of the Company or of any "subsidiary" of the Company to a Person described in subsection (a) above.

For purposes of this Section, the terms "affiliate," "associate," "parent" and "subsidiary" shall have the respective meanings ascribed to such terms in Rule 12b-2 under Section 12 of the 1934 Act.

2.7 Code shall mean the Internal Revenue Code of 1986, as amended.

2.8 Committee shall mean the committee appointed by the Board to administer and interpret the Plan in accordance with Article 3 below.

2.9 Common Stock shall mean the common stock, par value \$0.01 per share, of the Company.

2.10 Company shall mean ADTRAN, Inc., and shall also mean any parent or subsidiary corporation of ADTRAN, Inc. unless the context clearly indicates otherwise.

2.11 Director shall mean an individual who is serving as a member of the Board (i.e., a director of the Company) or who is serving as a member of the board of directors of a parent or subsidiary corporation of the Company.

2.12 Disability shall mean, with respect to an individual, the total and permanent disability of such individual as determined by the Committee in its sole discretion.

2.13 Effective Date shall mean October 31, 1995, subject to shareholder approval. See Article 9 herein.

2.14 Fair Market Value of the Common Stock as of a date of determination shall mean the following:

(a) Stock Listed and Shares Traded. If the Common Stock is listed and traded on a national securities exchange (as such term is defined by the 1934 Act) or on The Nasdaq National Market on the date of determination, the Fair Market Value per share shall be the closing price of a share of the Common Stock on said national securities exchange or National Market System on the date of determination. If the Common Stock is traded in the over-the-counter market, the Fair Market Value per share shall be the average of the closing bid and asked prices on the date of determination.

(b) Stock Listed But No Shares Traded. If the Common Stock is listed on a national securities exchange or on the National Market System but no shares of the Common Stock are traded on the date of determination but there were shares traded on dates within a reasonable period before the date of determination, the Fair Market Value shall be the closing price of the Common Stock on the most recent date before the date of determination. If the Common Stock is regularly traded in the over-the-counter market but no shares of the Common Stock are traded on the date of determination (or if records of such trades are unavailable or burdensome to obtain) but there were shares traded on dates within a reasonable period before the date of determination, the Fair Market Value shall be the average of the closing bid and asked prices of the Common Stock on the most recent date before the date of determination.

(c) Stock Not Listed. If the Common Stock is not listed on a national securities exchange or on the National Market System and is not regularly traded in the over-the-counter market, then the Committee shall determine the Fair Market Value of the Common Stock from all relevant available facts, which may include the average of the closing bid and ask prices reflected in the over-the-counter market on a date within a reasonable period either before or after the date of determination or opinions of independent experts as to value and may take into account any recent sales and purchases of such Common Stock to the extent they are representative.

The Committee's determination of Fair Market Value, which shall be made pursuant to the foregoing provisions, shall be final and binding for all purposes of this Plan.

2.15 NQSO shall mean an option to which Code (S).421 (relating generally to certain incentive stock options and other options) does not apply.

2.16 Option shall mean NQSO's granted to individuals pursuant to the terms and provisions of this Plan.

2.17 Option Agreement shall mean a written agreement, executed and dated by the Company and an Optionee, evidencing an Option granted under the terms and provisions of this Plan, setting forth the terms and conditions of such Option, and specifying the name of the Optionee and the number of shares of stock subject to such Option.

2.18 Option Price shall mean the purchase price of the shares of Common Stock underlying an Option.

2.19 Optionee shall mean an individual who is granted an Option pursuant to the terms and provisions of this Plan.

2.20 Person shall mean any individual, organization, corporation, partnership, trust or other entity.

2.21 Plan shall mean this ADTRAN, Inc. 1995 Directors Stock Option Plan.

ARTICLE 3

Administration

3.1 General Administration. The Plan shall be administered and interpreted by the Committee. Subject to the express provisions of the Plan, the Committee shall have authority (to the extent that such authority does not disqualify the Plan from being a "formula plan" within the meaning of paragraph (c)(2)(ii) of Rule 16b-3 of the 1934 Act) to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan, to determine the terms and provisions of the Option Agreements by which Options shall be evidenced (which shall not be inconsistent with the terms of the Plan), and to make all other determinations necessary or advisable for the administration of the Plan, all of which determinations shall be final, binding and conclusive.

3.2 Appointment. The Board shall appoint the Committee from among its members to serve at the pleasure of the Board. The Board from time to time may remove members from, or add members to, the Committee and shall fill all vacancies thereon. The Committee at all times shall be composed of two or more directors.

3.3 Organization. The Committee may select one of its members as its chairman and shall hold its meetings at such times, in such manner and at such places as it shall deem advisable. A majority of the Committee shall constitute a quorum, and such majority shall determine its actions. The Committee shall keep minutes of its proceedings and shall report the same to the Board at the meeting next succeeding.

3.4 Indemnification. In addition to such other rights of indemnification as they have as directors or as members of the Committee, the members of the Committee, to the extent permitted by applicable law, shall be indemnified by the Company against reasonable expenses (including, without limitation, attorneys' fees) actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Options granted hereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved to the extent required by and in the manner provided by the articles or certificate of

incorporation or the bylaws of the Company relating to indemnification of directors) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee member or members did not act in good faith and in a manner he or they reasonably believed to be in or not opposed to the best interest of the Company.

ARTICLE 4

Stock

The stock subject to the Options and other provisions of the Plan shall be authorized but unissued or reacquired shares of Common Stock. Subject to readjustment in accordance with the provisions of Article 7, the total number of shares of Common Stock for which Options may be granted to persons participating in the Plan shall not exceed in the aggregate 200,000 shares of Common Stock. Notwithstanding the foregoing, shares of Common Stock allocable to the unexercised portion of any expired or terminated Option again may become subject to Options under the Plan.

ARTICLE 5

Eligibility to Receive and Grant of Options

5.1 Individuals Eligible for Grants of Options. The individuals eligible to receive Options hereunder shall be solely those individuals who are Directors and who are not employees of the Company or any parent or subsidiary corporation of the Company. Such Directors shall receive Options hereunder in accordance with the provisions of Section 5.2 below.

5.2 Grant of Options. Options shall be granted to those Directors who are eligible under Section 5.1 above in accordance with the following formulas:

(a) Option Upon Initially Becoming a Director. Upon initially becoming a Director, an individual shall, subject to subsection (c) below, be granted an Option to purchase 10,000 shares of Common Stock, with such Option subject to the provisions of Article 6 below. The Options granted under this subsection (a) shall be evidenced by the Option Agreement shown in Exhibit A. The Options granted under this subsection (a) shall not be granted to a Director who has previously served as a Director and who is again becoming a Director, but shall only be granted upon an individual's initially becoming a Director.

(b) Option Upon Commencement of Term. As of December 31 of each calendar year following the calendar year in which a Director receives a grant of Options under subsection (a) above, an individual shall, if such individual is a Director as of such date and subject to subsections (c) and

(d) below, be granted an Option to purchase 5,000 shares of Common Stock, with such Option subject to the provisions of Article 6 below. Options granted under this subsection (b) shall be evidenced by the Option Agreement shown in Exhibit B.

(c) Transitional Rules. No individual who is serving as a Director as of the Effective Date of this Plan shall be entitled to any Options under subsection (b) above until the December 31 next following the Effective Date. Each Director as of the Effective Date shall be granted Options under the terms and provisions of subsection (a) above as of the Effective Date as if such Director had initially become a Director on the Effective Date. Options granted under this subsection (c) shall be evidenced by the Option Agreement shown in Exhibit A.

(d) Rules Against Double Granting of Options for Simultaneous Service. Notwithstanding any provision of this Section to the contrary, an individual shall not be granted an Option to purchase more than 2,000 shares as of any December 31 under the provisions of subsection (b) above.

ARTICLE 6

Terms and Conditions of Options

Options granted hereunder and Option Agreements shall comply with and be subject to the following terms and conditions:

6.1 Requirement of Option Agreement. Upon the grant of an Option hereunder, the Committee shall prepare (or cause to be prepared) an Option Agreement. The Committee shall present such Option Agreement to the Optionee. Upon execution of such Option Agreement by the Optionee, such Option shall be deemed to have been granted effective as of the date of grant. The failure of the Optionee to execute the Option Agreement within 30 days after the date of the receipt of same shall render the Option Agreement and the underlying Option null and void ab initio.

6.2 Optionee and Number of Shares. Each Option Agreement shall state the name of the Optionee and the total number of shares of the Common Stock to which it pertains, the Option Price, the Beneficiary of the Optionee and the date as of which the Option was granted under this Plan.

6.3 Vesting. Each Option shall first become exercisable (i.e., vested) with respect to the shares subject to such Option as of the first anniversary of the date the Option is granted. Prior to said date, the Option shall be unexercisable in its entirety. Notwithstanding the foregoing, all Options granted to an Optionee shall become immediately vested and exercisable for 100% of the number of shares subject to the Options upon the Optionee's becoming Disabled (within the meaning of Section 2.12 hereof) or upon his death or upon a Change in Control. Other than as provided in the preceding sentences, if an Optionee ceases to be a Director of the Company, his rights with regard to all non-vested Options shall cease immediately.

6.4 Option Price. The Option Price of the shares of Common Stock underlying each Option shall be the Fair Market Value of the Common Stock on the date the Option is granted. Upon execution of an Option Agreement by both the Company and Optionee, the date as of which the Option was granted under this Plan as noted in the Option Agreement shall be considered the date on which such Option is granted.

6.5 Terms of Options. Terms of Options granted under the Plan shall commence on the date of grant and shall expire ten years from the date the Option is granted. No Option shall be granted hereunder after ten years from the earlier of the date the Plan is approved by the shareholders, or the date the Plan is adopted by the Board.

6.6 Terms of Exercise. The exercise of an Option may be for less than the full number of shares of Common Stock subject to such Option, but such exercise shall not be made for less than (i) 100 shares or (ii) the total remaining shares subject to the Option, if such total is less than 100 shares. Subject to the other restrictions on exercise set forth herein, the unexercised portion of an Option may be exercised at a later date by the Optionee.

6.7 Method of Exercise. All Options granted hereunder shall be exercised by written notice directed to the Secretary of the Company at its principal place of business or to such other person as the

Committee may direct. Each notice of exercise shall identify the Option which the Optionee is exercising (in whole or in part) and shall be accompanied by payment of the Option Price for the number of shares specified in such notice and by any documents required by Section 8.1. The Company shall make delivery of such shares within a reasonable period of time; provided, if any law or regulation requires the Company to take any action (including, but not limited to, the filing of a registration statement under the 1933 Act and causing such registration statement to become effective) with respect to the shares specified in such notice before the issuance thereof, then the date of delivery of such shares shall be extended for the period necessary to take such action.

6.8 Medium and Time of Payment.

(a) The Option Price shall be payable upon the exercise of the Option in an amount equal to the number of shares then being purchased times the per share Option Price. Payment, at the election of the Optionee (or his Beneficiary as provided in subsection (c) of Section 6.9), shall be (A) in cash; (B) by delivery to the Company of a certificate or certificates for shares of the Common Stock duly endorsed for transfer to the Company with signature guaranteed by a member firm of a national stock exchange or by a national or state bank or a federally chartered thrift institution (or guaranteed or notarized in such other manner as the Committee may require) or by instructing the Company to retain shares of Common Stock upon the exercise of the Option with a Fair Market Value equal to the exercise price as payment; or (C) by a combination of (A) and (B).

(b) If the Optionee delivers Common Stock with a value that is less than the total Option Price, then such Optionee shall pay the balance of the total Option Price in cash, other property or services, as provided in subsection (a) above.

6.9 Effect of Termination of Service, Disability or Death. Except as provided in subsections (a), (b) and (c) below, no Option shall be exercisable unless the Optionee thereof shall have been a Director from the date of the granting of the Option until the date of exercise.

(a) Termination of Service. In the event an Optionee ceases to be a Director for any reason other than death or Disability, any Option or unexercised portion thereof granted to him shall terminate on and shall not be exercisable after the earliest to occur of the expiration date of the Option, three months after the date the Optionee ceases to be a Director or the date on which the Company gives notice to such Optionee of termination of his service as a Director if service is terminated by the Company or by its shareholders for Cause (an Optionee's resignation in anticipation of termination of service by the Company or by its shareholders for Cause shall constitute a notice of termination by the Company). Notwithstanding the foregoing, in the event that an Optionee's service as a Director terminates for a reason other than death or Disability at any time after a Change of Control, the term of all Options of that Optionee shall be extended through the end of the three-month period immediately following the date of such termination of service. Prior to the earlier of the dates specified in the preceding sentences of this subsection (a), the Option shall be exercisable only in accordance with its terms and only for the number of shares exercisable on the date of termination of service as a Director.

(b) Disability. Upon the termination of an Optionee's service as a Director due to Disability, any Option or unexercised portion thereof granted to him which is otherwise exercisable shall terminate on and shall not be exercisable after the earlier to occur of the expiration date of such Option, or one year after the date on which such Optionee ceases to be a Director due to Disability. Prior to the earlier of such date, such Option shall be exercisable only

in accordance with its terms and only for the number of shares exercisable on the date such Optionee's service as a Director ceases due to Disability.

(c) Death. In the event of the death of the Optionee while he is a Director, within three months after the date on which such Optionee's service as a Director is terminated (for a reason other than Cause) as provided in subsection (a) above, or within one year after the date on which such Optionee's service as a Director terminated due to his Disability, any Option or unexercised portion thereof granted to him which is otherwise exercisable may be exercised by the Optionee's Beneficiary at any time prior to the expiration of one year from the date of death of such Optionee, but in no event later than the date of expiration of the option period. Such exercise shall be effected pursuant to the terms of this Section as if such Beneficiary is the named Optionee.

6.10 Restrictions on Transfer and Exercise of Options. No Option shall be assignable or transferable by the Optionee except by transfer to a Beneficiary upon the death of the Optionee, and any purported transfer (other than as excepted above) shall be null and void. After the death of an Optionee and upon the death of the Optionee's Beneficiary, an Option shall be transferred only by will or by the laws of descent and distribution. During the lifetime of an Optionee, the Option shall be exercisable only by him; provided, however, that in the event the Optionee is incapacitated and unable to exercise Options, such Options may be exercised by such Optionee's legal guardian, legal representative, fiduciary or other representative whom the Committee deems appropriate based on applicable facts and circumstances.

6.11 Rights as a Shareholder. An Optionee shall have no rights as a shareholder with respect to shares covered by his Option until date of the issuance of the shares to him and only after the Option Price of such shares is fully paid. Unless specified in Article 7, no adjustment will be made for dividends or other rights for which the record date is prior to the date of such issuance.

6.12 No Obligation to Exercise Option. The granting of an Option shall impose no obligation upon the Optionee to exercise such Option.

ARTICLE 7

Adjustments Upon Changes in Capitalization

7.1 Recapitalization. In the event that the outstanding shares of the Common Stock of the Company are hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of a recapitalization, reclassification, stock split, combination of shares or dividend payable in shares of the Common Stock, the following rules shall apply:

(a) The Committee shall make an appropriate adjustment in the number and kind of shares available for the granting of Options under the Plan, and in the number and kind of shares granted under Section 5.2.

(b) The Committee also shall make an appropriate adjustment in the number and kind of shares as to which outstanding Options, or portions thereof then unexercised, shall be exercisable; any such adjustment in any outstanding Options shall be made without change in the total price applicable to the unexercised portion of such Option and with a corresponding adjustment in the Option Price per share. No fractional shares shall be issued or optioned in making the foregoing adjustments, and the number of shares available under the Plan or the

number of shares subject to any outstanding Options shall be the next lower number of shares, rounding all fractions downward.

(c) If any rights or warrants to subscribe for additional shares are given pro rata to holders of outstanding shares of the class or classes of stock then set aside for the Plan, each Optionee shall be entitled to the same rights or warrants on the same basis as holders of the outstanding shares with respect to such portion of his Option as is exercised on or prior to the record date for determining shareholders entitled to receive or exercise such rights or warrants.

7.2 Reorganization. Subject to any required action by the shareholders, if the Company shall be a party to any reorganization involving merger, consolidation, acquisition of the stock or acquisition of the assets of the Company which does not constitute a Change of Control, and if the agreement memorializing such reorganization so provides, any Option granted but not yet exercised shall pertain to and apply, with appropriate adjustment as determined by the Committee, to the securities of the resulting corporation to which a holder of the number of shares of the Common Stock subject to such Option would have been entitled. If such agreement does not so provide, any or all Options granted hereunder shall become immediately nonforfeitable and fully exercisable or vested (to the extent permitted under federal or state securities laws) and are to be terminated after giving at least 30 days' notice to the Optionees to whom such Options have been granted.

7.3 Dissolution and Liquidation. If the Board adopts a plan of dissolution and liquidation that is approved by the shareholders of the Company, the Committee shall give each Optionee written notice of such event at least ten days prior to its effective date, and the rights of all Optionees shall become immediately nonforfeitable and fully exercisable or vested (to the extent permitted under federal or state securities laws).

7.4 Limits on Adjustments. Any issuance by the Company of stock of any class, or securities convertible into shares of stock of any class, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of the Common Stock subject to any Option, except as specifically provided otherwise in this Article. The grant of Options pursuant to the Plan shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate or dissolve, or to liquidate, sell or transfer all or any part of its business or assets. All adjustments the Committee makes under this Article shall be conclusive.

ARTICLE 8

Agreement by Optionee and Securities Registration

8.1 Agreement. If, in the opinion of counsel to the Company, such action is necessary or desirable, no Options shall be granted to any Optionee, and no Option shall be exercisable, unless, at the time of grant or exercise, as applicable, such Optionee (i) represents and warrants that he will acquire the Common Stock for investment only and not for purposes of resale or distribution, and (ii) makes such further representations and warranties as are deemed necessary or desirable by counsel to the Company with regard to holding and resale of the Common Stock. The Optionee shall, upon the request of the Committee, execute and deliver to the Company an agreement or affidavit to such effect. Should the Committee have reasonable cause to believe that such Optionee did not execute such agreement or affidavit in good faith, the Company shall not be bound by the grant of the Option or by the exercise of the Option. All certificates representing shares of Common Stock issued pursuant to the Plan shall be marked with the following restrictive legend or similar legend, if such marking, in the opinion of counsel to the Company, is necessary or desirable:

The shares by this certificate [have not been registered under the Securities Act of 1933, as amended, or the securities laws of any state and] are held by an "affiliate" (as such term is defined in Rule 144 promulgated by the Securities and Exchange Commission under the Securities Act of 1933, as amended) of the Corporation. Accordingly, these shares may not be sold, hypothecated, pledged or otherwise transferred except (i) pursuant to an effective registration statement under the Securities Act of 1933, as amended, and any applicable securities laws or regulations of any state with respect to such shares, (ii) in accordance with Securities and Exchange Commission rule 144, or (iii) upon the issuance to the Corporation of a favorable opinion of counsel or the submission to the Corporation of such other evidence as may be satisfactory to the Corporation that such proposed sale, assignment, encumbrance or other transfer will not be in violation of the Securities Act of 1933, as amended, or any applicable securities laws of any state or any rules or regulations thereunder. Any attempted transfer of this certificate or the shares represented hereby which is in violation of the preceding restrictions will not be recognized by the Corporation, nor will any transferee be recognized as the owner thereof by the Corporation.

If the Common Stock is (A) held by an Optionee who ceases to be an "affiliate," as that term is defined in Rule 144 of the 1933 Act, or (B) registered under the 1933 Act and all applicable state securities laws and regulations as provided in Section 8.2, the Committee, in its discretion and with the advice of counsel, may dispense with or authorize the removal of the restrictive legend set forth above or the portion thereof which is inapplicable.

8.2 Registration. In the event that the Company in its sole discretion shall deem it necessary or advisable to register, under the 1933 Act or any state securities laws or regulations, any shares with respect to which Options have been granted hereunder, then the Company shall take such action at its own expense before delivery of the certificates representing such shares to an Optionee. In such event, and if the shares of Common Stock of the Company shall be listed on any national securities exchange or on The Nasdaq National Market at the time of the exercise of any Option, the Company shall make prompt application at its own expense for the listing on such stock exchange or The Nasdaq National Market of the shares of Common Stock to be issued.

ARTICLE 9

Effective Date

The Plan shall be effective as of the Effective Date, and no Options shall be granted hereunder prior to said date. Adoption of the Plan shall be approved by the shareholders of the Company at the earlier of (i) the annual meeting of the shareholders of the Company which immediately follows the date of the first grant or award of Options hereunder, or (ii) 12 months after the adoption of the Plan by the Board. Shareholder approval shall be made by a majority of the votes cast at a duly held meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy, present and voting on the Plan, or by the written consent in lieu of a meeting of the holders of a majority of the outstanding voting stock or such greater number of shares of voting stock as may be required by the Company's articles or certificate of incorporation and bylaws and by applicable law; provided, however, such shareholder approval, whether by vote or by written consent in lieu of a meeting, must be solicited substantially in accordance with the rules and regulations in effect under Section 14(a) of the 1934 Act. Failure to obtain such approval shall render the Plan and any Options granted hereunder null and void ab initio.

ARTICLE 10

Amendment and Termination

10.1 Amendment and Termination By the Board. Subject to Section 10.2 below, the Board shall have the power at any time to add to, amend, modify or repeal any of the provisions of the Plan, to suspend the operation of the entire Plan or any of its provisions for any period or periods or to terminate the Plan in whole or in part. In the event of any such action, the Committee shall prepare written procedures which, when approved by the Board, shall govern the administration of the Plan resulting from such addition, amendment, modification, repeal, suspension or termination.

10.2 Restrictions on Amendment and Termination. Notwithstanding the provisions of Section 10.1 above, the following restrictions shall apply to the Board's authority under Section 10.1 above:

(a) Prohibition Against Adverse Affects on Outstanding Options. No addition, amendment, modification, repeal, suspension or termination shall adversely affect, in any way, the rights of the Optionees who have outstanding Options without the consent of such Optionees;

(b) Shareholder Approval Required for Certain Modifications. No modification or amendment of the Plan may be made without the prior approval of the shareholders of the Company if such modification or amendment would cause the applicable portions of the Plan to fail to qualify as an ISO plan pursuant to Codess.422, such modification or amendment would materially increase the benefits accruing to participants under the Plan, such modification or amendment would materially increase the number of securities which may be issued under the Plan, or such modification or amendment would materially modify the requirements as to eligibility for participation in the Plan. Clauses (ii), (iii) and (iv) of the preceding sentence shall be interpreted in accordance with the provisions of paragraph (b)(2) of Rule 16b-3 of the 1934 Act. Shareholder approval shall be made by a majority of the votes cast at a duly held meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy, present and voting, or by the written consent in lieu of a meeting of the holders of a majority of the outstanding voting stock or such greater number of shares of voting stock as may be required by the Company's articles or certificate of incorporation and bylaws and by applicable law; provided, however, that for modifications described in clauses (ii), (iii) and (iv) above, such shareholder approval, whether by vote or by written consent in lieu of a meeting, must be solicited substantially in accordance with the rules and regulations in effect under Section 14(a) of the 1934 Act as required by paragraph (b)(2) of Rule 16b-3 of the 1934 Act; and

(c) Six Month Restriction on Amendments. No provision of this Plan may be modified or amended more than once every six months, other than to comport with changes in the Code, the Employee Retirement Income Security Act of 1974, as amended, or the rules and regulations promulgated thereunder. The preceding sentence shall be interpreted in accordance with the provisions of paragraph (c)(ii)(B) of Rule 16b-3 of the 1934 Act.

ARTICLE 11

Miscellaneous Provisions

11.1 Application of Funds. The proceeds received by the Company from the sale of the Common Stock subject to the Options granted hereunder will be used for general corporate purposes.

11.2 Notices. All notices or other communications by an Optionee to the Committee pursuant to or in connection with the Plan shall be deemed to have been duly given when received in the form specified by the Committee at the location, or by the person, designated by the Committee for the receipt thereof.

11.3 Term of Plan. Subject to the terms of Article 10, the Plan shall terminate upon the later of (i) the complete exercise or lapse of the last outstanding Option, or (ii) the last date upon which Options may be granted hereunder.

11.4 Compliance with Rule 16b-3. This Plan is intended to be in compliance with the requirements of Rule 16b-3 as promulgated under Section 16 of the 1934 Act.

11.5 Governing Law. The Plan shall be governed by and construed in accordance with the laws of the State of Alabama.

11.6 Additional Provisions By Committee. The Option Agreements authorized under the Plan may contain such other provisions, including, without limitation, restrictions upon the exercise of an Option, as the Committee shall deem advisable; provided, such authority may not disqualify the Plan from being a "formula plan" within the meaning of paragraph (c)(2)(ii) of Rule 16b-3 of the 1934 Act.

11.7 Plan Document Controls. In the event of any conflict between the provisions of an Option Agreement and the Plan, the Plan shall control.

11.8 Gender and Number. Wherever applicable, the masculine pronoun shall include the feminine pronoun, and the singular shall include the plural.

11.9 Headings. The titles in this Plan are inserted for convenience of reference; they constitute no part of the Plan and are not to be considered in the construction hereof.

11.10 Legal References. Any references in this Plan to a provision of law which is, subsequent to the Effective Date of this Plan, revised, modified, finalized or redesignated, shall automatically be deemed a reference to such revised, modified, finalized or redesignated provision of law.

11.11 No Rights to Perform Services. Nothing contained in the Plan, or any modification thereof, shall be construed to give any individual any rights to perform services for the Company or any parent or subsidiary corporation of the Company.

11.12 Unfunded Arrangement. The Plan shall not be funded, and except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the payment of any grant under the Plan.

ADOPTED BY BOARD OF DIRECTORS EFFECTIVE AS OF OCTOBER 31, 1995

APPROVED BY SHAREHOLDERS ON APRIL 19, 1996

**FIRST AMENDMENT ADOPTED BY BOARD OF DIRECTORS
EFFECTIVE AS OF APRIL 20, 1999**

**SECOND AMENDMENT ADOPTED BY BOARD OF DIRECTORS
EFFECTIVE AS OF JULY 15, 1999**

**AMENDED AND RESTATED PLAN ADOPTED BY BOARD OF DIRECTORS
EFFECTIVE AS OF JANUARY 13, 2000**

**FIRST AMENDMENT TO THE
ADTRAN, INC. AMENDED AND RESTATED
1995 DIRECTORS STOCK OPTION PLAN**

This FIRST AMENDMENT to the ADTRAN, INC. AMENDED AND RESTATED 1995 DIRECTORS STOCK OPTION PLAN (the "Plan"), made by ADTRAN, Inc. (the "Company") is effective as of December 20, 2001;

W I T N E S S E T H:

WHEREAS, the Company maintains the Plan for the benefit of its non- employee directors;

WHEREAS, the Company implemented the Plan to encourage its non-employee directors to obtain a proprietary interest in the Company, to provide those directors with an added incentive to continue service as directors and to stimulate their efforts in promoting the growth, efficiency and profitability of the Company;

WHEREAS, due to market fluctuations, the exercise prices of many of the options granted to non-employee directors under the Plan are not significantly higher than current value, and the optionees holding those options are unlikely to be motivated by the opportunities generally presented by the grant of stock options;

WHEREAS, the Company wishes to recapture the value of stock options for its non-employee directors in order to further the purposes of the Plan;

WHEREAS, the Company intends to implement a program to offer its non-employee directors (as well as others) the opportunity to surrender certain previously granted stock options and receive a smaller number of new options granted under the Plan and the Company's other stock option plans at current market prices;

WHEREAS, in order to permit the Company's non-employee directors to participate in the option exchange offer, the Company wishes to amend the Plan at this time;

WHEREAS, Article 10 of the Plan allows the Board of Directors to amend the Plan at any time, subject to shareholder approval of any amendment which would materially increase the benefits accruing to participants under the Plan, and certain other restrictions not applicable in this instance; and

WHEREAS, the Board of Directors, after consulting with counsel, determined this First Amendment to the Plan, does not materially increase the

benefits accruing to participants under the Plan;

NOW, THEREFORE, the Company hereby amends the Plan as follows:

1. A new Section 2.13A shall be added between Sections 2.13 and 2.14 of the Plan, to read as follows:

"2.13A Exchange Offer shall mean that certain Offer to Exchange dated January __, 2002, as set forth in the Schedule TO to be filed with the Securities and Exchange Commission under Rule 13e-4 of the 1934 Act."

2. The first sentence of Section 5.2(b) of the Plan shall be amended to read as follows:

"Option Upon Commencement of Term. Except as provided in Section 5.3(a) below, as of December 31 of each calendar year following the calendar year in which a Director receives a grant of Options under subsection (a) above, an individual shall, if such individual is a Director as of such date and subject to subsections (c) and (d) below, be granted an Option to purchase 5,000 shares of Common Stock, with such Option subject to the provisions of Article 6 below."

3. To conform Section 5.2(d) of the Plan to the amendments effective as of April 20, 1999, Section 5.2(d) shall be amended by striking "2,000" and by substituting "5,000" in lieu thereof.

4. A new Section 5.3 shall be added to the Plan as follows:

"5.3 Option Exchange. Notwithstanding anything in this Plan to the contrary, each individual who is a Director as of December 31, 2001 shall receive a grant of Options pursuant to subsection (a) below, and may be eligible for a grant of Options pursuant to subsection (b) below under the terms of the Exchange Offer:

(a) Elimination of 2001 Grants. No grants shall be made to Directors under Section 5.2(b) above as of December 31, 2001. Any individual who would otherwise have received a grant under Section 5.2(b) shall instead receive a grant as follows: (i) for any Director who elects to participate in the Exchange Offer, as of the date that such Director receives a grant of Options under subsection (b) below, such individual shall, if such individual is a Director as of such date, be granted an Option to purchase 5,000 shares of Common Stock, with such Option subject to the provisions of Article 6 below; or (ii) for any Director who elects not to participate in the Exchange Offer, as of the date that is one business day after termination of the Exchange Offer, such individual shall, if such individual is a Director as of such date, be granted an Option to purchase 5,000 shares of Common Stock, with such Option subject to the provisions of Article 6 below. No Director shall be granted an Option to purchase more than 5,000 shares under the provisions of this subsection.

(b) Option Grants. As of a date that is within the 30-day period beginning on the first business day which is at least six months and two days after the date on which Options are cancelled under the Exchange Offer, for each eligible Option that a Director tenders and the Company accepts for exchange pursuant to the terms of the Exchange Offer, such Director shall, if the individual is a Director as of such date, be granted an Option to purchase a number of shares of Common Stock equal to three shares for every four shares that were subject to the tendered Option plus additional shares equal to the remaining number of shares if the number tendered is not divisible by four, as provided under the terms of the Exchange Offer. Such grant shall be subject to the provisions of Article 6 below."

5. The first sentence of Section 6.3 shall be amended in its entirety as follows:

"Each Option shall first become exercisable with respect to the shares subject to such Option as of the first anniversary of the date the Option is granted; provided, any Option granted under Section 5.3(b) as a result of the Exchange Offer shall be 100% exercisable immediately upon the date of grant."

6. Section 6.5 shall be amended in its entirety as follows:

"6.5 Terms of Options. Terms of Options granted under the Plan shall commence on the date of grant and shall expire ten years from the date the Option is granted. Notwithstanding the foregoing, the term of any Option granted under Section 5.3(b) as a result of the Exchange Offer shall commence on the date of grant and shall expire on the expiration date of the Option that was tendered in exchange for such

Option pursuant to the terms of the Exchange Offer. No Option shall be granted hereunder after ten years from the earlier of (a) the date the Plan is approved by the shareholders, or (b) the date the Plan is adopted by the Board."

7. Section 10.2(b) shall be amended in its entirety as follows:

"(b) Shareholder Approval Required for Certain Modifications. No modification or amendment of the Plan may be made without the prior approval of the shareholders of the Company if (i) such modification or amendment would materially increase the benefits accruing to participants under the Plan, (ii) such modification or amendment would materially increase the number of securities which may be issued under the Plan, or (iii) such modification or amendment would materially modify the requirements as to eligibility for participation in the Plan. Clauses (i), (ii) and (iii) of the preceding sentence shall be interpreted in accordance with the provisions of paragraph (b)(2) of Rule 16b-3 promulgated under the 1934 Act, as such rule was in effect on August 14, 1996. Shareholder approval shall be made by a majority of the votes cast at a duly held meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy, present and voting, or by the written consent in lieu of a meeting of the holders of a majority of the outstanding voting stock or such greater number of shares of voting stock as may be required by the Company's articles or certificate of incorporation and bylaws and by applicable law; provided, however, that for modifications described in clauses (i), (ii) and (iii) above, such shareholder approval, whether by vote or by written consent in lieu of a meeting, must be solicited substantially in accordance with the rules and regulations in effect under Section 14(a) of the 1934 Act as required by paragraph (b)(2) of Rule 16b-3 of the 1934 Act; and"

8. Section 10.2(c) shall be deleted.

9. All other provisions of the Plan not inconsistent herewith shall remain in full force and effect.

IN WITNESS WHEREOF, the Company has caused this First Amendment to the Amended and Restated Plan to be executed by its duly authorized officer.

ADTRAN, INC.

By: _____
Title: _____
Date: _____

Exhibit (d)(3)

ADTRAN, INC.

EMPLOYEE INCENTIVE STOCK OPTION PLAN

February 14, 1986

1. Plan Summary

The Plan provides that an aggregate of 200,000 shares of the Corporation's common stock may be optioned to key employees of the grantor Corporation. The Plan provides authority for a Stock Option Plan Committee to select the employees of the Corporation to whom incentive stock options will be granted. No person may be granted any option unless he agrees to remain an employee of the Corporation for at least one (1) year and to become a party to a stock buy and sell agreement. There are approximately three (3) officers and directors of the Corporation plus other key employees eligible to receive options under the Plan. All officers and directors may participate in the Plan.

Following the statutory requirements of Code (S)422A, the Plan provides that the Committee may establish the purchase price of the stock at the time the option is granted. However, the purchase price may not be less than 100 percent of the fair market value of the Corporation's common stock on the date the option is granted. In addition, for employees possessing more than ten (10) percent of the issued shares of common stock of the Corporation at the time the option is granted, the purchase price may not be less than 110 percent of the fair market value of the Corporation's common stock on the date the option is granted. Options granted by the Committee will be ten (10) years or less in duration, with the exception of options granted to employees possessing more than ten (10) percent of the issued shares of common stock of the Corporation at the time the option is granted, which options will be five (5) years or less in duration. In addition, if fifty (50) percent or more of the Corporation's assets are sold, the Committee, in its sole discretion, may reduce the duration of all outstanding options so as to terminate within ninety (90) days after the date of said sale of assets. The aggregate fair market value of the stock for which any employee may be granted options in any calendar year shall not exceed \$100,000 plus any unused limit carried over (as defined in Plan (S)3(d)) to such year from any prior calendar year.

The Plan terminates ten (10) years from its effective date. All new options to be granted are nontransferable. The Corporation is to receive no cash consideration for granting options under the Plan. However, when an option is exercised, the holder is required to pay the option price, in cash or certified bank check, shares of the Corporation's common stock or in any combination of the above, for the number of shares of common stock to be issued on exercise of the option. No adjustment shall be made for cash dividends or the issuance to shareholders of rights to subscribe to additional common stock or other securities.

2. Administration of the Plan

The Board of Directors shall appoint a Stock Option Plan Committee (hereinafter called the "Committee") which shall consist of not less than two (2) members,

at least one of whom shall be a director of the Corporation. Subject to the provisions of the Plan, the Committee shall have plenary authority, in its discretion: (a) to determine the employees of the Corporation (from among the class of employees eligible under Section 3 to receive options under the Plan) to whom options shall be granted; (b) to determine the time or times at which options shall be granted; (c) to determine the option price of the shares subject to each option, which price shall not be less than the minimum specified in Section 5; (d) to determine (subject to Section 7) the time or times when each option shall become exercisable and the duration of the exercise period; and (e) to interpret the Plan and to prescribe, amend, and rescind rules and regulations relating to it. The Board may from time to time appoint members of the Committee in substitution for members previously appointed and may fill vacancies, however caused, in the Committee; provided, however that at all times at least one member shall be a director of the Corporation. The Committee shall select one of its members as its Chairman and shall hold its meetings at such times and places as it shall deem advisable. All actions of the Committee shall be taken by unanimous vote of its members. Any action may be taken by a written instrument signed by all the members of the Committee, and action so taken shall be fully as effective as if it had been taken by a unanimous vote of the members at a meeting duly called and held. The Committee may appoint a Secretary to keep minutes of its meetings and shall make such rules and regulations for the conduct of its business as it shall deem advisable.

3. Eligibility and Limitations on Options Granted under this Plan

(a) Options will be granted only to persons who are key employees of the grantor Corporation who agree, in writing, to (1) remain in the employ of, and render services to, the Corporation or a subsidiary corporation of the Corporation for a period of at least one (1) year from the date of granting of the option; and (2) become a party to that certain Stock Buy and Sell Agreement dated February 14, 1986, for its duration. The term "key employees" shall include officers, directors, executives, and supervisory personnel, as well as other employees of the Corporation.

(b) No option may be granted to any employee, who at the time of such grant, owns more than ten percent (10%) of the issued common stock of the Corporation, unless at the time of such grant, the option price is fixed at not less than one hundred and ten percent (110%) of the fair market value of the stock subject to the option, and the exercise of such option is prohibited by its terms after the expiration of five (5) years from the date such option is granted.

(c) The aggregate fair market value of the stock for which any employee may be granted options in any calendar year shall not exceed \$100,000 plus any unused limit carryover (as defined in 3(d) hereof) to such year from any prior calendar year.

(d) The unused limit carryover from any such calendar year shall be one-half of any excess of \$100,000 over the aggregate fair market value of the common stock for which an employee was granted options under the Plan. The unused limit for any calendar year shall be carried forward for three (3) years. Options granted under the Plan in any year shall be applied against the current year limitation first and

then against the remaining unused limit carryovers to such year in the order of the calendar year in which the carryovers arose.

4. Shares of Stock Subject to the Plan

There will be reserved for use upon the exercise of options to be granted from time to time under the Plan (subject to the provisions of Section 12) an aggregate of 200,000 shares of common stock of the par value of \$.01 per share (hereinafter called the "common stock") of the Corporation, which shares may be in whole or in part, as the Board of Directors of the Corporation (hereinafter called the "Board") shall from time to time determine, authorized but unissued shares of the common stock or issued shares of the common stock which shall have been reacquired by the Corporation. Any shares subject to an option under the Plan, which option for any reason expires or is terminated unexercised as to such shares, may again be subjected to an option under the Plan.

5. Option Price

The purchase price under each option issued shall be determined by the Committee at the time the option is granted, but in no event shall such purchase price be less than 100 percent of the fair market value of the Corporation's common stock on the date of grant. However, if the option is granted to an employee described in Section 3(b), the purchase price shall not be less than 110 percent of the fair market value of the Corporation's common stock on the date of grant.

6. Dilution or Other Agreement

In the event that additional shares of common stock are issued pursuant to a stock split or stock dividend, the number of shares of common stock then covered by each outstanding option granted hereunder shall be increased proportionately with no increase in the total purchase price of the shares then so covered, and the number of shares of common stock reserved for the purpose of the plan shall be increased by the same proportion. In the event that the shares of common stock of the Corporation from time to time issued and outstanding are reduced by a combination of shares, the number of shares of common stock then covered by each outstanding option granted hereunder shall be reduced proportionately with no reduction in the total price of the shares then so covered, and the number of shares of common stock reserved for the purposes of the Plan shall be reduced by the same proportion. In the event that the Corporation should transfer assets to another corporation and distribute the stock of such other corporation without the surrender of common stock of the Corporation, and if such distribution is not taxable as a dividend and no gain or loss is recognized by reason of Section 355 of the Internal Revenue Code of 1954, or some similar section, then the total purchase price of the shares covered by each outstanding option shall be reduced by an amount which bears the same ratio to the total purchase price then in effect as the fair market value of the stock distributed in respect of a share of the common stock of the Corporation immediately following the distribution, bears to the aggregate of the fair market value at such time of a share of the common stock of the Corporation

and the stock distributed in respect thereof. All such adjustments shall be made by the Committee, whose determination upon the same shall be final and binding upon the optionees. No fractional shares shall be issued, and any fractional shares resulting from the computations pursuant to this Section 6 shall be eliminated from the respective option. No adjustment shall be made for cash dividends or the issuance to shareholders of rights to subscribe to additional common stock or other securities.

7. Period of Option and Certain Limitations on Right to Exercise

(a) All options issued under the Plan shall be for such period as the Committee shall determine, but for not more than ten (10) years from the grant thereof. However, if the option is granted to an employee described in Section

3(b), the option shall be for a period not more than five (5) years from the date of grant thereof.

(b) The period of the option, once it is granted, may be reduced only as provided for in Section 9 in connection with the termination of employment or death of the optionee or in Section 7(c) in the case of less than satisfactory performance or the purchase of fifty (50) percent or more of the Corporation's assets.

(c) Each option granted under this Plan shall become exercisable only (1) after the employee consents in writing to that certain Buy and Sell Agreement between the Corporation and the shareholders dated February 14, 1986, provided that said agreement is still in effect and (2) after one (1) year continued employment of the optionee with the Corporation immediately following the date the option is granted. Each option shall be exercisable in full, or as to any part thereof, at any time after the expiration of one (1) year following the date such option is granted, but only if the optionee chooses to exercise such option and to pay for such option in the manner set forth in Section 7(e) hereof (i.e., in cash or certified bank check or shares of the Corporation's common stock or any combination of the foregoing in an amount equal to the full option price of the shares being purchased).

Notwithstanding the foregoing, the Committee may, in its sole discretion,

(i) prescribe longer time periods and additional requirements with respect to the exercise of an option; (ii) terminate in whole or in part such portion of any option as has not yet become exercisable at the time of termination if it determines that, within one (1) year after the option is granted, the optionee is not performing satisfactorily the duties to which he was assigned on the date the option was granted or duties of at least equal responsibility; or (iii) reduce the duration of all outstanding options, upon the purchase of fifty (50) percent or more of the fair market value of the Corporation's assets, so that all outstanding options will terminate within ninety (90) days after the purchase of said assets.

(d) No option under the Plan may be exercised while there is outstanding in the hands of the optionee any prior option under the Plan. For purposes of this

Section 7(d), any option shall be treated as outstanding until such option is exercised in full or expires by reason of lapse of time.

(e) The exercise of any option shall also be contingent upon receipt by the Corporation of cash or certified bank check to its order, shares of the Corporation's common stock, or any combination of the foregoing in an amount equal to the full option price of the shares being purchased. For purposes of this paragraph, shares of the Corporation's common stock that are delivered in payment of the option price shall be valued at their fair market value as of the date of the exercise of the option. However, in order to facilitate the accumulation of funds to enable employees to exercise their option, they will have the right, if they so elect, to direct the Corporation to withhold from their compensation regular amounts to be applied toward the exercise of the options. Funds credited to their stock option accounts will be under the control of the Corporation until applied to the payment of the option price at the direction of the employee or returned to the employee in the event the amount is not used for purchase of shares under option, and all funds received or held by the Corporation under the Plan may be used for any corporate purpose, and interest shall be payable to a participant on account of any amounts so held, to be calculated so as to equal the ninety (90) day U.S. Treasury Bill bond equivalent yield as determined by the Committee in its sole discretion. Such amounts may be withdrawn by the employee at any time, in whole or in part, for any reason. In addition, the establishment of such a stock option account by an employee shall not constitute an election to pay for shares with cash upon the exercise of an option.

(f) No optionee or his legal representative, legatees, or distributees, as the case may be, will be, or will be deemed to be, a holder of any share subject to an option unless and until certificates for such shares are issued to him or them under the terms of the Plan. No adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

(g) In no event may an option be exercised after the expiration of its term.

(h) Exercise of an option in any manner shall result in a decrease in the number of shares of common stock which thereafter may be available under the Plan by the number of shares as to which the option is exercised.

8. Assignability

Each option granted under this Plan shall be transferable only by will or the laws of descent and distribution and shall be exercisable, during his lifetime, only by the employee to whom the option is granted. Except as permitted by the preceding sentence, no option granted under the Plan or any of the rights and privileges thereby conferred shall be transferred, assigned, pledged, or hypothecated in any way (whether by operation of law or otherwise), and no such option, right, or privilege shall be subject to execution, attachment, or similar process. Upon any attempt so to transfer, assign, pledge, hypothecate, or otherwise dispose of the option, or of any right or privilege conferred thereby, contrary to the provisions hereof, or upon the levy of any attachment or similar process upon such option, right or privilege, the option and such rights and privileges shall immediately become null and void.

9. Effect of Termination of Employment, Death or Disability

- (a) In the event of the termination of employment of an optionee during the one (1) year period after the date of issuance of an option to him either by reason of (i) a discharge for cause or (ii) voluntary separation on the part of the optionee and without consent of the Corporation, any option or options theretofore granted to him under this Plan shall forthwith terminate.
- (b) In the event of the termination of employment of an optionee (otherwise than by reason of death or retirement of the optionee at his Retirement Date by the Corporation), any option or options granted to him under the Plan to the extent not theretofore exercised shall be deemed cancelled and terminated forthwith, except that, subject to the provisions of section (a) of this Section, such optionee may exercise any options theretofore granted to him, which have not then expired and which are otherwise exercisable within the provisions of Sections 3(a) and 7(c) hereof, within three (3) months after such termination. If the employment of an optionee shall be terminated by reason of the optionee's retirement at his Retirement Date by the Corporation, the optionee shall have the right to exercise such option or options held by him to the extent that such options have not expired, at any time within three (3) months after such retirement. The one (1) year employment duration provisions of Sections 3(a) or 7(c) to the contrary notwithstanding, upon retirement, all options held by an optionee shall be immediately exercisable in full.
- (c) In the event that an optionee shall die while employed by the Corporation or shall die within three (3) months after retirement at his Retirement Date (by the Corporation), any option or options granted to him under this Plan and not theretofore exercised by him or expired shall be exercisable by the estate of the optionee or by any person who acquired such option by bequest or inheritance from the optionee in full, notwithstanding the one (1) year employment provisions of Sections 3(a) or 7(c), at any time within one (1) year after the death of the optionee. References hereinabove to the optionee shall be deemed to include any person entitled to exercise the option after the death of the optionee under the terms of this Section.
- (d) In the event of the termination of employment of an optionee by reason of the optionee's disability, the optionee shall have the right, notwithstanding the one (1) year employment duration provisions of Sections 3(a) or 7(c) hereof, to exercise all options held by him, to the extent that options have not previously expired or been exercised, at any time within one (1) year after such termination.
- (e) For the purposes of this Plan, "Retirement Date" shall mean any date an employee is otherwise entitled to retire and does retire under the Corporation's retirement plans and shall include normal retirement at age 65, early retirement at age 62, and retirement at age 60 after 30 years of service.
- (f) In the event that fifty (50) percent or more of the Corporation's assets, as determined by their fair market value, are purchased, then, notwithstanding the provisions of Sections 3(a), 7(c), 9(a), 9(b), 9(c) and 9(d), the Committee, in its sole discretion, may reduce the duration of all outstanding options so that all options terminate not later than ninety (90) days after said asset purchase.

10. Listing and Registration of Shares

Each option shall be subject to the requirement that if at any time the Committee shall determine, in its sole discretion, that the listing, registration, or qualification of the shares covered thereby upon any securities exchange or under any state or federal law or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such option or the issuance or purchase of shares thereunder, such option may not be exercised in whole or in part unless and until such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee.

11. Expiration and Termination of the Plan

Options may be granted under the Plan at any time or from time to time as long as the total number of shares optioned or purchased under the Plan does not exceed 200,000 shares of common stock. The Plan may be abandoned or terminated at any time by the Board of Directors of the Corporation except with respect to any options then outstanding under the Plan. No option shall be granted pursuant to the Plan after ten (10) years from the effective date of the Plan.

12. Amendment of Plan

The Board of Directors may at any time and from time to time modify and amend the Plan (including any form of option agreement) in any respect; provided, however, that no such amendment shall: (a) increase (except in accordance with Section 6) the maximum number of shares for which options may be granted under the Plan either in the aggregate or to any individual employee; or (b) reduce (except in accordance with Section 6) the minimum option prices which may be established under the Plan; or (c) extend the period or periods during which options may be granted or exercised; or (d) change the provisions relating to the determination of employees to whom options shall be granted and the number of shares to be covered by such options; or (e) change the provisions relating to adjustments to be made upon changes in capitalization; or (f) change the method for the selection of the Committee as provided by Section 2 hereof. The termination or any modification or amendment of the Plan shall not, without the consent of an employee, affect his rights under an option theretofore granted to him.

13. Effective Date of Plan

This Plan shall become effective on the later of the date of its adoption by the Board of Directors of the Corporation or its approval by the vote of the holders of a majority of the outstanding shares of common stock. This Plan shall not become effective unless such shareholder approval shall be obtained within twelve (12) months before or after the adoption of the Plan by the Board of Directors.

**FIRST AMENDMENT
TO
ADTRAN, INC.
EMPLOYEES INCENTIVE STOCK OPTION PLAN**

**MINUTES OF ANNUAL MEETING OF THE
STOCKHOLDERS OF ADTRAN, INC.
HELD IN THE OFFICES OF THE COMPANY
ON MARCH 16, 1994 AT 10:00 A.M., C.S.T.**

The annual meeting of the stockholders of ADTRAN, Inc. (hereinafter the "Company") was held at the offices of the Company at 901 Explorer Blvd., Huntsville, Alabama on March 16, 1994 at 10:00 a.m., C.S.T. Present at the meeting were Mark C. Smith, Lonnie S. McMillian, Roger W. Cain, James L. North, Michael McCleary, Clint S. Coleman, Robert E. Bowlin, Anthony Blackmon, Steven Smith, Michael Turner, Jerry D. Moore, and Danny Windham. Stockholders absent were Norm Harris, Tommy Killian, Sandra Jones, Trustee for Clay Smith and Cyndi Smith, Norris E. Birchfield, Barbara Fisk, Emily Key, Susan Whitehead, John Jurenko, Ruth Jurenko, Janet Brown, Carole Jones, Rickey Causey, Beth A. Strickland, Michael Reynolds, Anita Anderson, Donald G. McDonald, Larry Owen, Dale Minton and Rose Marie Lee.

Mr. Smith noted that a quorum was in attendance and called the meeting to order. He asked that the shareholders elect the Board of Directors for the new year. Mike McCleary moved and Jerry Moore seconded the following resolution:

RESOLVED that Mark C. Smith, Lonnie S. McMillian, James L. North, and William L. Marks be elected to continue to serve on the Board of Directors of ADTRAN until their successors have been duly elected and qualified.

Upon vote being taken, the resolution was unanimously adopted.

Following a request by Mr. Smith that the shareholders appoint the Company auditors for 1994, Danny Windham moved and Mike Turner Moore seconded the following resolution:

RESOLVED that Coopers and Lybrand continue to be retained as the Company auditors.

Upon vote being taken, the resolution was unanimously adopted.

Mr. Smith explained that the ADTRAN Employee Stock Option Plan which currently provides an aggregate of 1,200,000 shares should be increased. A motion by Jerry Moore and seconded by Ed Bowlin was unanimously approved:

RESOLVED that the number of shares of the Company's Common Stock set aside for the ADTRAN Employee Stock Option Plan be increased from 1,200,000 to 1,400,000 shares.

There being no further business to come before the meeting, a motion was made by Anthony Blackmon, seconded by Steve Smith, and unanimously adopted that the meeting be adjourned.

/s/ Mark C. Smith

Mark C. Smith, President

/s/ Lonnie McMillian

Lonnie McMillian, Secretary

**SECOND AMENDMENT
TO
ADTRAN, INC.
EMPLOYEE INCENTIVE STOCK OPTION PLAN**

THIS SECOND AMENDMENT to the Adtran, Inc. Employee Incentive Stock Option Plan (the "Plan") is made by Adtran, Inc. (the "Company"), effective as noted below.

W I T N E S S E T H:

WHEREAS, the Board of Directors of the Company (the "Board") has previously adopted the Plan and, pursuant to Section 12 thereof, the Board has the right to amend the Plan at any time; and

WHEREAS, the Board wishes to amend the Plan for compliance with Sections 162(m) and 422 of the Internal Revenue Code of 1986, as amended, and Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Act");

NOW, THEREFORE, the Plan is hereby amended as follows effective as noted below:

I.

The first sentence of the first paragraph of Section 1 of the Plan is amended as of June 27, 1994 by striking "200,000" and inserting in lieu thereof "1,400,000".

II.

The first paragraph of Section 1 of the Plan is amended effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section 12 of the Act by striking the words "and to become a party to a stock buy and sell agreement" and by striking the last two sentences thereof.

III.

The second paragraph of Section 1 of the Plan is amended for options granted after December 31, 1986, by striking the last sentence thereof.

IV.

Section 2 of the Plan is amended effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section

12 of the Act by striking the first sentence thereof and inserting in lieu thereof the following:

The Board of Directors shall appoint a Stock Option Plan Committee (hereinafter called the "Committee") which shall consist of not less than two (2) members, all of whom shall be directors of the Corporation.

V.

Section 2 of the Plan is amended effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section 12 of the Act by striking the proviso at the end of the third sentence thereof and inserting in lieu thereof the following:

(1) provided, however, that at all times all members shall be directors of the Corporation.

VI.

Subsection (a) of Section 3 of the Plan is amended effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section 12 of the Act by striking clause (2) of the first sentence thereof in its entirety and by striking the reference to clause "(1)" in said sentence.

VII.

Subsections (c) and (d) of Section 3 of the Plan are amended for options granted after December 31, 1986, to read as follows:

(c) The aggregate fair market value of incentive stock options granted under the Plan or any other stock option plan adopted by the Corporation that are first exercisable in any one calendar year shall not exceed \$100,000.00. The Committee shall interpret and administer the limitation set forth in this subsection in accordance with Code (S)422(d).

(d) [Reserved.]

VIII.

A new subsection (e) is added to Section 3 of the Plan effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section 12 of the Act to read as follows:

(e) No more than 100,000 shares of the Corporation's common stock may be subject to the aggregate options granted during a calendar year to any one individual.

IX.

Subsection (c) of Section 7 of the Plan is amended effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section 12 of the Act by striking clause (1) of the first sentence thereof in its entirety and by striking the reference to clause "(2)" in said sentence.

X.

Subsection (d) of Section 7 of the Plan is amended as of June 27, 1994 by striking said subsection in its entirety and inserting in lieu thereof the following:

(d) [Reserved.]

XI.

Section 11 of the Plan is amended by striking the second sentence thereof.

XII.

Section 12 of the Plan is amended effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section 12 of the Act to read as follows:

12. Amendment and Termination of Plan.

(a) Subject to subsection (b) below, the Board of Directors shall have the power at any time and from time to time to add to, amend, modify or repeal any of the provisions of the Plan (including any form of option agreement) in any respect, to suspend the operation of the entire Plan or any of its provisions for any period or periods or to terminate the Plan in whole or in part.

(b) Notwithstanding the provisions of subsection (a) above, the following restrictions shall apply to the Board's authority under subsection (a) above:

(i) Prohibition against adverse effects on outstanding stock rights. No addition, amendment, modification, repeal, suspension or termination shall adversely affect, in any way, the rights of optionees who have outstanding options without the consent of such optionees;

(ii) Shareholder approval required for certain modifications. No modification or amendment of the Plan may be made without the prior approval of the shareholders of the Corporation if (1) such modification or amendment would cause the applicable portions of the Plan to fail to qualify as an incentive stock option plan pursuant to Code (S)422, (2) such modification or amendment would materially increase the benefits accruing to participants under the Plan, (3) such

modification or amendment would materially increase the number of securities which may be issued under the Plan, or (4) such modification or amendment would materially modify the requirements as to eligibility for participation in the Plan, or (5) such modification or amendment would modify the material terms of the Plan within the meaning of Prop. Treas. Reg. (S)1.162-27(e)(4) or the corresponding provision of any future regulations. Clauses (2), (3), and (4) of the preceding sentence shall be interpreted in accordance with the provisions of paragraph (b)(2) of Rule 16b-3 of the 1934 Act. Shareholder approval shall be made by a majority of the votes cast at a duly held meeting at which a quorum representing a majority of all outstanding voting stock is, either in person or by proxy, present and entitled to vote, or by the written consent in lieu of a meeting of the holders of a majority of the outstanding voting stock or such greater number of shares of voting stock as may be required by the Corporation's articles or certificate of incorporation and bylaws and by applicable law; provided, however, that for modifications described in clauses (2), (3) and (4) above, written consent in lieu of a meeting must be solicited substantially in accordance with the rules and regulations in effect under Section 14(a) of the 1934 Act as required by paragraph (b)(2) of Rule 16b-3 of the 1934 Act.

XIII.

All other provisions of the Plan not inconsistent herewith are hereby confirmed and ratified.

Approved by Board of Directors of the Company on June 27, 1994.

Approved by Shareholders of the Company on June 27, 1994.

**THIRD AMENDMENT
TO
ADTRAN, INC.
EMPLOYEE INCENTIVE STOCK OPTION PLAN**

THIS THIRD AMENDMENT to the Adtran, Inc. Employee Incentive Stock Option Plan (the "Plan") is made by Adtran, Inc. (the "Company"), effective as stated below.

W I T N E S S E T H:

WHEREAS, the Board of Directors of the Company (the "Board") has previously adopted the Plan and, pursuant to Section 12 thereof, the Board has the right to amend the Plan at any time; and

WHEREAS, the Board wishes to amend the Plan to provide that the Plan shall be administered by a Stock Option Plan Committee composed of disinterested directors within the meaning of Rule 16b-3 of the Securities Exchange Act of 1934, as amended (the "Act"), and for other purposes;

NOW, THEREFORE, the Plan is amended as follows effective as noted below:

I.

Section 2 of the Plan is amended by adding the following after the first sentence thereof effective as of August 9, 1994 (the date the Company's Common Stock was registered under Section 12 of the Act):

Furthermore, during the period any director is serving on the Committee and during the 1-year period immediately preceding the commencement of such service, he shall not be or have been granted or awarded any Option or other equity securities of the Corporation under the Plan (or any other discretionary stock plan of the Corporation or any Corporation affiliate as defined by Rule 144(a)(1) of the Securities Exchange Act of 1933, as amended (the "1933 Act"). Notwithstanding the preceding sentence, a member of the Committee may participate during such period in (A) a formula plan, (B) an ongoing securities acquisition program with broad-based employee participation, and/or (C) a program to elect to receive all or part of his annual retainer in equity securities of the Corporation, all as defined and limited by Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended (the "1934 Act"). The requirements of the preceding sentence are intended to comply with the "disinterested administration rule" of Rule 16b-3 under Section 16 of the 1934 Act or any successor rule or regulation, and shall be interpreted and construed in a manner which assures compliance with said Rule. To the extent said Rule 16b-3 is modified to reduce or increase the restrictions on who may serve on the Committee, the Plan shall be deemed modified in a similar manner.

II.

Section 2 of the Plan is amended effective as of August 9, 1994 by striking the proviso at the end of the third sentence thereof, and inserting in lieu thereof the following:

provided, however, that at all times all members of the Committee shall be directors of the Corporation satisfying the "disinterested administration" requirement of the second sentence of this Section 2.

III.

Item V of the Second Amendment to the Plan (which would amend a proviso in Section 2 of the Plan) is repealed as if never adopted.

IV.

The first sentence of Section 4 of the Plan is amended effective as of June 27, 1994, by striking "200,000" and inserting in lieu thereof "1,400,000".

V.

Item XI of the Second Amendment to the Plan (which would strike the second sentence of Section II of the Plan) is amended by making such modification to the Plan effective as of the date on which any class of common equity securities issued by the Company is required to be registered under Section 12 of the Act.

VI.

The first sentence of Section 11 of the Plan is amended effective as of June 27, 1994, by striking "200,000" and inserting in lieu thereof "1,400,000".

VII.

All other provisions of the Plan not inconsistent herewith are hereby confirmed and ratified.

Approved by Board of Directors of the Company on August 17, 1994.

End of Filing

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