



EN Team,

Second quarter was a record for ADTRAN, with excellent results from both divisions, record shipments in multiple product areas, and solid performance across our various channels. The Enterprise Division posted revenue growth, both sequentially and year over year, positioning us to exceed our growth plans for 2010. On an annual basis, EN revenue grew by 10%, while sequentially our revenue was up 19%. First-half revenue was up 14% over 2009. We achieved record shipments in Business Networking, Internetworking, IP Business Gateways, NetVanta products, Switches, and UC/IPT. All of these product areas were up over 20% both year over year and sequentially.

Our channels, competitive service providers, national service providers, and resellers, all performed well, with each increasing both sequentially and year over year. The CSP team set the pace with a phenomenal 23% growth over 2009. In the reseller space, we grew revenue substantially, added nearly 200 resellers to the ADTRAN ADvantage Partner Program, and launched a reseller program in Canada. The major carriers grew revenue, added service bundles and continued to lead the way with UC/IPT adoption.

Unified Communications remains a significant focus for our division. Marketing activities have been focused on raising the awareness of resellers and customers, as well as reseller recruitment. We have been very pleased with the UC adoption rate at major service providers, and AT&T has approved moving to Tier 1 status, which enables them to perform installation and support. This is a significant step toward driving business to a much higher level within a service provider. NetVanta 7100 approvals continued with Fibernet and One Communications adding the product to their list of approved products. A number of large UC deals are being worked, and we were recently awarded a large voicemail replacement project by the Nuclear Regulatory Commission serving up to 6,000 users. Our addressable market continues to expand dramatically through these efforts.

Outside the US, a number of important activities are underway. Various NetVanta routers were formally approved for use by Axtel, the second largest carrier in Mexico. Solution1, a CLEC in the UK, evaluated and approved our NetVanta 1335 switches in support of its Public Services Network project. The Irish government IT procurement group approved our NetVanta switches for deployment in its network. ADTRAN has officially been invited into the TELMEX/Red Uno lab for evaluation of our switches, routers and UC solutions. The first round of NetVanta 7100 testing was also successfully completed at Etisalat, a UAE-based service provider operating in 18 countries.

Our market share is increasing with many customers. Windstream business continues to grow; the latest development was the addition of NetVanta switches to its new voice and data bundles. New Edge Networks expanded their use of our products with new EVDO/T1 applications. TW Tel formally approved the TA900 and launched their service. Our push into the MSO space has resulted in initial IPBG orders from Comcast. These efforts have produced the following results for the Division:

EN Division - Q2 RESULTS

	Q2 '09	Q1 '10	Q2 '10	QoQ Change	YoY Change
Total EN Net Revenue: (\$M)	\$ 29.76	\$ 27.50	\$ 32.78	19%	10%
Internetworking	\$ 19.58	\$ 20.25	\$ 24.81	23%	27%
Legacy products	\$ 10.18	\$ 7.25	\$ 7.97	10%	-22%
EN Operating Profit	\$ 4.1	\$.9	\$ 3.8	322%	-7%
EN Operating Profit (%)	14%	3%	12%		

We are making excellent progress on our 2010 GOALS:

- Increase EN Division revenue 10% YoY
- Non-US revenue increase 20%
- Maintain Gross Margins in the range of 56% - 59%
- Successful refurb/lease/trade-in program
- Channel expansion, 420 net new partners
- Execute the IP Phone Strategy
- DVT Automation
- Submit 15 patent Ideas
- Establish NetVanta UC Brand and Market Position
- Implement Enterprise End-user Awareness Program
- Gain GPON approvals in all Tier 2s and at least 30 Tier 3 accounts
- Maintain a forecast accuracy >50% every month

Revenue growth is firmly on track and we have excellent potential outside the US. Our gross margin was solid in Q2 at over 58%. A number of programs have been added this year, culminating in the Guide to Profit and Sales (GPS) program which includes financing options, trade-in programs, deal registration, professional services, and more. The Marketing organization executed a phenomenal 70 marketing events during the quarter, and continues to drive activity toward increased brand recognition. Our messaging has evolved to be solutions-oriented, providing a higher-level view of our capabilities, and supporting the thought leadership that is important to our customer base.

WELCOME

I would like to extend a warm welcome to our new employees that joined the Division during the first half of this year. Welcome to ADTRAN, the Enterprise Networks Division, and to exciting times ahead:

Name	Title	Department
Kivanc Freed	Sales Engineer	EN Sales Management
Dan Gentil	Applications Engineer	CN Applications Engineering
(Justin) Brett Tolbert	Design Engineer	IP Business Gateways/FTTH
Barry Derrick	Marketing Manager	EN Product Marketing
Dariusz Eslimi	Software Engineer	Unified Communications (Ottawa)
William Stevenson	Design Engineer	AOS UC Core Technologies
(Katherine) Kate Simpson	Design Engineer	IP Business Gateways/FTTH
(Charles) Bryan Smith	PQ Engineer	NetVanta Switches and Routers
John Wainwright	Design Engineer	IP Business Gateways/FTTH
Jervis Pride	Engineering Technician	EN DVT

At the end of 2009, we spoke of how well we were weathering the economic environment – growing despite the recession, and that the view for 2010 was for increased growth. Our success in Q2 and the first half of this year are a clear indication that we are on the right path. This success is a direct reflection of your extensive efforts. Thanks for all you have done, and thanks in advance for your continued support throughout 2010.

Rick Schansman