

ADTRAN INC
Form DEF 14A
April 03, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

ADTRAN, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

(3) Filing Party:

(4) Date Filed:

NOTICE OF 2017 ANNUAL MEETING

AND

PROXY STATEMENT

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901 Explorer Blvd.
Huntsville, AL 35806

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April 3, 2017

Dear Stockholder:

You are cordially invited to attend the 2017 Annual Meeting of Stockholders of ADTRAN, Inc. to be held at ADTRAN's headquarters at 901 Explorer Boulevard, Huntsville, Alabama, on Wednesday, May 10, 2017, at 10:30 a.m., local time. The meeting will be held in the East Tower on the second floor.

The attached Notice of Annual Meeting and Proxy Statement describes the formal business to be transacted at the meeting. During the meeting, we also will report on ADTRAN's operations during the past year and our plans for the future. Our directors and officers, as well as representatives from our independent registered public accounting firm, PricewaterhouseCoopers LLP, will be present to respond to appropriate questions from stockholders.

Please mark, date, sign and return your proxy card in the enclosed envelope, or vote by telephone or over the Internet as directed on the enclosed proxy card, at your earliest convenience. This will assure that your shares will be represented and voted at the meeting, even if you do not attend.

For ease of voting, stockholders are encouraged to vote using the Internet. If you would like to reduce the costs incurred by ADTRAN, Inc. in mailing proxy materials, you can consent to receive all future proxy statements, proxy cards, and annual reports electronically. To sign up for electronic delivery, please vote using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years.

Sincerely,

THOMAS R. STANTON
Chairman of the Board

ADTRAN, INC.

901 EXPLORER BOULEVARD

HUNTSVILLE, ALABAMA 35806

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 10, 2017

NOTICE HEREBY IS GIVEN that the 2017 Annual Meeting of Stockholders of ADTRAN, Inc. will be held at ADTRAN's headquarters at 901 Explorer Boulevard, Huntsville, Alabama, on the second floor of the East Tower, on Wednesday, May 10, 2017, at 10:30 a.m., local time, for the purposes of considering and voting upon:

1. A proposal to elect seven directors to serve until the 2018 Annual Meeting of Stockholders;
2. Two advisory proposals with respect to compensation of officers. These proposals are:

(a) to consider and vote on the following:

RESOLVED, that the stockholders approve the overall executive compensation policies and procedures employed by the Company as well as the compensation of the named executive officers, all as described in the Compensation Discussion and Analysis and the tabular disclosure regarding named executive officer compensation in this Proxy Statement.

(b) to consider and vote on whether the stockholders shall consider and approve the overall executive compensation policies and procedures employed by the Company and the compensation for named executive officers not less frequently than every three years, two years or one year.

3. A proposal to ratify the appointment of PricewaterhouseCoopers LLP as the independent registered public accounting firm of ADTRAN, Inc. for the fiscal year ending December 31, 2017; and
4. Such other business as properly may come before the Annual Meeting or any adjournments thereof. The Board of Directors is not aware of any other business to be presented to a vote of the stockholders at the Annual Meeting.

Information relating to the above matters is set forth in the attached Proxy Statement. Stockholders of record at the close of business on March 13, 2017 are entitled to receive notice of and to vote at the Annual Meeting and any adjournments thereof.

By Order of the Board of Directors.

ROGER D. SHANNON
Senior Vice President of Finance, Chief Financial Officer,
Corporate Secretary and Treasurer

Huntsville, Alabama

April 3, 2017

Important Notice Regarding the Availability of Proxy Materials for the

Annual Meeting of Stockholders to be Held on May 10, 2017:

This Notice, the Proxy Statement and the 2016 Annual Report to Stockholders of ADTRAN, Inc. are available at www.proxyvote.com.

PLEASE READ THE ATTACHED PROXY STATEMENT AND THEN PROMPTLY COMPLETE, EXECUTE AND RETURN THE ENCLOSED PROXY CARD IN THE ACCOMPANYING POSTAGE-PAID ENVELOPE OR VOTE BY TELEPHONE OR OVER THE INTERNET AS INSTRUCTED ON THE ENCLOSED PROXY CARD.

ADTRAN, INC.

901 EXPLORER BOULEVARD

HUNTSVILLE, ALABAMA 35806

PROXY STATEMENT

FOR THE ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 10, 2017

We are providing this Proxy Statement to the stockholders of ADTRAN, Inc. in connection with the solicitation of proxies by our Board of Directors to be voted at the 2017 Annual Meeting of Stockholders and at any adjournments of that meeting. The Annual Meeting will be held at ADTRAN's headquarters, 901 Explorer Boulevard, Huntsville, Alabama, on Wednesday, May 10, 2017, at 10:30 a.m., local time. The meeting will be held in the East Tower on the second floor. When used in this Proxy Statement, the terms we, us, our and ADTRAN refer to ADTRAN, Inc.

The approximate date on which this Proxy Statement and form of proxy card are first being sent or given to stockholders is April 3, 2017.

This Proxy Statement, the attached Notice of Annual Meeting and our 2016 Annual Report to Stockholders are available at www.proxyvote.com.

VOTING

General

The securities that can be voted at the Annual Meeting consist of our common stock, \$0.01 par value per share, with each share entitling its owner to one vote on each matter submitted to the stockholders. The record date for determining the holders of common stock who are entitled to receive notice of and to vote at the Annual Meeting is March 13, 2017. On the record date, 48,305,324 shares of common stock were outstanding and eligible to be voted at the Annual Meeting.

Quorum and Vote Required

The presence, in person or by proxy, of a majority of the outstanding shares of our common stock is necessary to constitute a quorum at the Annual Meeting. In counting the votes to determine whether a quorum exists at the Annual Meeting, we will use the proposal receiving the greatest number of all votes for or against and abstentions, including instructions to withhold authority to vote.

In voting with regard to Proposal 1, the election of directors, stockholders may vote in favor of all nominees, withhold their votes as to all nominees or withhold their votes as to specific nominees. The vote required to approve Proposal 1 is governed by the Bylaws of the Company and is a majority of the votes cast by the holders of shares represented and entitled to vote at the Annual Meeting, provided a quorum is present. As a result, abstentions will be considered in determining whether a quorum is present and the number of votes required to obtain the necessary majority vote for the nominees and, therefore, will have the same legal effect as voting against the proposal.

In voting with regard to Proposal 2(a), an advisory vote to approve the Company's executive compensation, stockholders may vote in favor of the proposal or against the proposal or may abstain from voting. As the vote is

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advisory only and not binding there is no required vote. In determining the results of the vote, however, abstentions will have the same legal effect as voting against the proposal.

In voting with regard to Proposal 2(b), an advisory vote on the frequency of vote on executive compensation, stockholders may vote in favor of holding a vote every three years, every two years or every one year or may abstain from voting. Abstentions will be considered only in establishing the total vote and the percentage of shares voted for each category.

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In voting with regard to Proposal 3, the ratification of the appointment of the independent registered public accounting firm, stockholders may vote in favor of the proposal or against the proposal or may abstain from voting. The vote required to approve of Proposal 3 is governed by Delaware law and is the affirmative vote of the holders of a majority of the shares represented and entitled to vote on the proposals at the Annual Meeting, provided a quorum is present. As a result, abstentions will be considered in determining whether a quorum is present and the number of votes required to obtain the necessary majority vote for each proposal and, therefore, will have the same legal effect as voting against the proposal.

Under the rules of the national stock exchanges that govern most domestic stock brokerage firms, member firms that hold shares in street name for beneficial owners may, to the extent that those beneficial owners do not furnish voting instructions with respect to any or all proposals submitted for stockholder action, vote in their discretion upon proposals that are considered discretionary proposals under the rules of the exchanges. These votes by brokers are considered as votes cast in determining the outcome of any discretionary proposal. We believe that Proposal 3 is discretionary. Member brokerage firms that have received no instructions from their clients as to non-discretionary proposals do not have discretion to vote on these proposals. If the brokerage firm returns a proxy card without voting on a non-discretionary proposal because it received no instructions, this is referred to as a broker non-vote on the proposal. Broker non-votes are considered in determining whether a quorum exists at the Annual Meeting, but broker non-votes are not considered as votes cast in determining the outcome of any non-discretionary proposal. We believe Proposals 1 and 2 are non-discretionary.

As of March 13, 2017, the record date for the Annual Meeting, our directors and executive officers beneficially owned or controlled approximately 1,376,966 shares of our common stock, constituting approximately 2.79% of the outstanding common stock. We believe that these holders will vote all of their shares of common stock in favor of each of the proposals.

Proxies

You should specify your choices with regard to each of the proposals (1) by telephone as directed on the enclosed proxy card, (2) over the Internet as directed on the enclosed proxy card, or (3) on the enclosed proxy card by signing, dating and returning it in the accompanying postage paid envelope. All properly executed proxy cards delivered by stockholders to ADTRAN in time to be voted at the Annual Meeting and not revoked will be voted at the Annual Meeting in accordance with the directions noted on the proxy card. **In the absence of such instructions, the shares represented by a signed and dated proxy card will be voted FOR the election of all director nominees, FOR approval of a shareholder advisory vote on executive compensation and FOR the ratification of the appointment of the independent registered public accounting firm.** If any other matters properly come before the Annual Meeting, the persons named as proxies will vote upon those matters according to their judgment.

Any stockholder delivering a proxy has the power to revoke it at any time before it is voted by:

giving written notice to Roger D. Shannon, Secretary of ADTRAN, at 901 Explorer Boulevard, Huntsville, Alabama 35806 (for overnight delivery) or at P.O. Box 140000, Huntsville, Alabama 35814-4000 (for mail delivery);

executing and delivering to Mr. Shannon a proxy card bearing a later date;

voting again prior to the time at which the telephone and Internet voting facilities close by following the procedures applicable to those methods of voting, as directed on the enclosed proxy card; or

voting in person at the Annual Meeting.

Please note, however, that under the rules of the national stock exchanges, any beneficial owner of our common stock whose shares are held in street name by a member brokerage firm may revoke his proxy and vote his shares in person at the Annual Meeting only in accordance with applicable rules and procedures of the exchanges, as employed by the beneficial owner's brokerage firm.

In addition to soliciting proxies through the mail, we may solicit proxies through our directors, officers and employees in person and by telephone or facsimile. We have hired Georgeson Inc. to assist in the solicitation of proxies from stockholders at a fee of approximately \$9,000 plus reasonable out-of-pocket expenses. We will pay all expenses incurred in connection with the solicitation of proxies. We may also request that brokerage firms, nominees, custodians and fiduciaries forward proxy materials to the beneficial owners of shares held of record by them. We will also reimburse such brokerage firms and other nominees for their reasonable expenses in forwarding proxy materials to beneficial owners of our common stock.

SHARE OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership of our common stock as of March 13, 2017, by (1) each of our directors and director emeritus, (2) each of our executive officers named in the Summary Compensation Table in this Proxy Statement and (3) all of our directors and executive officers as a group, based in each case on information furnished to us by these persons. We believe that each of the named individuals and each director and executive officer included in the group has sole voting and investment power with regard to the shares shown except as otherwise noted.

Name and Relationship to Company	Common Stock Beneficially Owned (1) (2)	
	Number of Shares	Percent of Class
Thomas R. Stanton <i>Chairman of the Board, Chief Executive Officer and Director</i>	655,137	1.34%
Roger D. Shannon <i>Senior Vice President of Finance, Chief Financial Officer, Corporate Treasurer and Secretary</i>	7,500	*
Raymond R. Schansman <i>Senior Vice President Global Services & Support</i>	152,527	*
James D. Wilson, Jr. <i>Senior Vice President Technology and Strategy</i>	90,458	*
Eduard Scheiterer <i>Senior Vice President Research and Development</i>	27,313	*
Roy J. Nichols <i>Director Emeritus</i>	77,575	*
William L. Marks <i>Director</i>	62,930	*
H. Fenwick Huss <i>Director</i>	34,314	*
Balan Nair <i>Director</i>	45,314	*
Kathryn A. Walker <i>Director</i>	12,237	*
Anthony J. Melone <i>Director</i>	2,227	*
Jacqueline H. Rice <i>Director</i>		*
All directors, director emeritus and executive officers as a group (14 persons)	1,376,966	2.96%

* Represents less than one percent of the outstanding shares of our common stock.

(1) Beneficial ownership as reported in the table has been determined in accordance with Securities and Exchange Commission (SEC) regulations and includes shares of our common stock that may be issued upon the exercise of stock options that are exercisable within 60 days of March 13, 2017 as follows: Mr. Stanton 567,138 shares; Mr. Shannon 7,500; Mr. Schansman 147,049 shares; Mr. Wilson 87,515 shares; Mr. Scheiterer 27,313 shares; Mr. Nichols 15,000 shares; Mr. Marks 10,000 shares; Dr. Huss 15,000 shares; Mr. Nair 25,000 shares; and all

directors and executive officers as a group 1,243,060 shares. The shares included in the table above, do not include shares of our common stock that may be issued upon distribution of stock awards that were deferred pursuant to the Company's Deferred Compensation Plan, which the individual becomes entitled to upon separation of service from ADTRAN, but which shares are actually payable on the first day of the month following the six month anniversary of the participant's separation from service from ADTRAN, as follows: Mr. Stanton 65,610 shares; Mr. Schansman 14,633 shares; Mr. Wilson 9,548 shares; and all directors and executive officers as a group 101,627 shares. Pursuant to SEC regulations, all shares not currently outstanding that are subject to options exercisable within 60 days or to which an officer or director may become entitled to under the terms of the Company's Deferred Compensation Plan upon separation of service within 60 days are deemed to be outstanding for the purpose of computing Percent of Class held by the holder thereof but are not deemed to be outstanding for the purpose of computing the Percent of Class held by any other stockholder.

(2) The shares shown include: as to Mr. Schansman, 5,478 shares held by 401(k) plan; as to Mr. Wilson, 2,943 shares held by 401(k) plan; as to Mr. Nichols, 23,328 shares held in a trust, 5,421 shares held by his wife and 12 shares held by his wife as custodian for grandchildren under Unified Transfers to Minors Act and as to which Mr. Nichols disclaims beneficial ownership of; as to Mr. Marks, 8,600 shares held in an Individual Retirement Account; and as to all directors and executive officers as a group, 8,616 shares held by 401(k) plan and Individual Retirement Account, 5,487 shares owned by spouses and other immediate family members (including as custodian) and 23,328 shares held by trusts for which an executive officer or director is a beneficiary or trustee.

The following table sets forth information regarding the beneficial ownership of our common stock as of the date indicated for each person, other than the officers or directors of ADTRAN, known to us to be the beneficial owner of more than 5% of our outstanding common stock.

Name and Address of Beneficial Owner	Common Stock Beneficially Owned Number of Shares	Percent of Class
BlackRock, Inc. 40 East 52nd Street New York, New York 10022	5,513,963 (1)	11.4%
T. Rowe Price Associates, Inc. 100 E. Pratt Street Baltimore, Maryland 21202	4,409,011 (2)	9.1%
The Vanguard Group 100 Vanguard Blvd Malvern, PA 19355	4,182,265 (3)	8.7%
Victory Capital Management Inc. 4900 Tiedman Rd. 4 th Floor Brooklyn, OH 44144	3,478,867 (4)	7.2%
Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, TX 78746	2,697,791 (5)	5.6%
Fuller & Thaler Asset Management, Inc. 411 Borel Avenue, Suite 300 San Mateo, CA 94402	2,554,593 (6)	5.3%

- (1) The amount shown and the following information are derived from Amendment No. 8 to the Schedule 13G filed by BlackRock, Inc., reporting beneficial ownership as of December 31, 2016. According to the Schedule 13G, BlackRock, Inc. is the beneficial owner of all of the shares, and has sole voting power over 5,396,914 shares and sole dispositive power as to all of the shares. The Schedule 13G indicates various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares; however, no one person's interest in the shares is more than five percent (5%) of the total shares.

- (2) The amount shown and the following information are derived from Amendment No. 6 to the Schedule 13G filed by T. Rowe Price Associates, Inc. (T. Rowe Price), reporting beneficial ownership as of December 31, 2016. According to the Schedule 13G, T. Rowe Price, a registered investment adviser, is the beneficial owner of all of the shares, and has sole voting power over 803,884 shares and sole dispositive power over all of the shares. The Schedule 13G indicates various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares; however, no one person's interest in the shares is more than five percent (5%) of the total shares.
- (3) The amount shown and the following information are derived from Amendment No. 5 to the Schedule 13G filed by The Vanguard Group, reporting beneficial ownership as of December 31, 2016. According to the Schedule 13G, the Vanguard Group, a registered investment adviser, is the beneficial owner of all of the shares, and has sole voting power over 4,091,574 shares, sole dispositive power over 83,445 shares, and shared dispositive power over 90,691 shares.
- (4) The amount shown and the following information are derived from the Schedule 13G filed by Victory Capital Management Inc., reporting beneficial ownership as of December 31, 2016. According to the Schedule 13G, Victory Capital Management Inc. is the beneficial owner of all of the shares, and has sole voting power over 3,386,172 shares and sole dispositive power as to all of the shares. The Schedule 13G indicates various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares; however, no one person's interest in the shares is more than five percent (5%) of the total shares.
- (5) The amount shown and the following information are derived from the Schedule 13G filed by Dimensional Fund Advisors LP, reporting beneficial ownership as of December 31, 2016. According to the Schedule 13G, Dimensional Fund Advisors LP is the beneficial owner of all of the shares, and has sole voting power over 2,535,410 shares and sole dispositive power as to all of the shares. The Schedule 13G indicates various funds, for which Dimensional Fund Advisors LP acts as an investment advisor have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares; however, no one fund's interest in the shares is more than five percent (5%) of the total shares.

- (6) The amount shown and the following information are derived from Amendment No. 1 to the Schedule 13G filed by Fuller & Thaler Asset Management, Inc., reporting beneficial ownership as of December 31, 2016. According to the Schedule 13G, Fuller & Thaler Asset Management, Inc. is the beneficial owner of all of the shares, and has sole voting power over 2,508,764 shares and sole dispositive power as to all of the shares. The Schedule 13G indicates various persons have the right to receive or the power to direct the receipt of dividends from, or the proceeds from the sale of the shares.

PROPOSAL 1 ELECTION OF DIRECTORS

Nominees

The Board of Directors currently consists of seven members. In addition, Roy J. Nichols, who was a Board member until his resignation in August 2016, currently serves as a director emeritus of ADTRAN. Each of Thomas R. Stanton, H. Fenwick Huss, William L. Marks, Anthony J. Melone, Balan Nair and Kathryn A. Walker were elected at the 2016 Annual Meeting. On August 15, 2016, Jacqueline H. Rice was appointed as a director of ADTRAN to fill the vacancy created by Mr. Nichols' resignation.

The Board of Directors has nominated Thomas R. Stanton, H. Fenwick Huss, William L. Marks, Anthony J. Melone, Balan Nair, Jacqueline H. Rice and Kathryn A. Walker for election as directors at the 2017 Annual Meeting. If elected as a director at the Annual Meeting, each of the nominees would serve a one-year term expiring at the 2018 Annual Meeting of Stockholders and until his or her successor has been duly elected and qualified. There are no family relationships among the directors, director nominees or the executive officers.

Each of the nominees has consented to serve his term as a director if elected. If any of the nominees should be unavailable to serve for any reason (which is not anticipated), the Board of Directors may designate a substitute nominee or nominees (in which event the persons named on the enclosed proxy card will vote the shares represented by all valid proxies for the election of the substitute nominee or nominees), allow the vacancies to remain open until a suitable candidate or candidates are located, or by resolution provide for a lesser number of directors.

Our products and our success in our markets depend on our ability to stay abreast of and respond to developments in communications and information technologies. We have also grown profitably; in order to protect and enhance our growth and profitability it is important for us to understand the financial environments which impact us and the risks in those environments as well as the tools of corporate finance available to us to navigate and manage those risks. We also have a significant number of employees and numerous locations. In selecting directors we are concerned to have a diverse group of directors so that our board has an effective mix of technical, financial, operating and management experience in our directors. We have a long-standing policy of keeping our board relatively small. We also believe that our Board should be comprised predominantly of independent directors from diverse backgrounds external to the company but should nevertheless include the insight and judgment of our senior management; six of our seven directors are not employees.

The Board of Directors unanimously recommends that the stockholders vote FOR the proposal to elect Thomas R. Stanton, H. Fenwick Huss, William L. Marks, Anthony J. Melone, Balan Nair, Jacqueline H. Rice and Kathryn A. Walker as directors for a one year term expiring at the 2018 Annual Meeting of Stockholders and until their successors have been duly elected and qualified.

Information Regarding Nominees for Director

Set forth below is certain information as of January 31, 2017 regarding the seven nominees for director, including their ages and principal occupations.

THOMAS R. STANTON has served as our Chief Executive Officer and a director since September 2005, and as our Chairman of the Board since April 2007. Prior to becoming our Chief Executive Officer, Mr. Stanton served as our Senior Vice President and General Manager Carrier Networks from 2001 to September 2005, Vice President and General Manager Carrier Networks from 1999 to 2001, and Vice President Carrier Networks Marketing from 1995 to 1999. Before joining ADTRAN, Mr. Stanton served as Vice President Marketing & Engineering for Transcrypt International, Inc. in 1995. He also served as Director, Marketing and then Senior Director, Marketing, for the E.F. Johnson Company from 1993 until joining Transcrypt in 1995. Mr. Stanton has served on the board of directors for a

number of technology companies, the Chamber of Commerce of Huntsville/Madison County, as Chairman for the Federal Reserve Bank of Atlanta's Birmingham Branch and currently serves as Chairman for the Telecommunications Industry Association (TIA). He is also a board member for the Economic Development Partnership of Alabama (EDPA). Mr. Stanton has been selected as a nominee for director because he is our Chief Executive Officer and has extensive knowledge of all facets of our company and extensive experience in all aspects of our industry. Mr. Stanton is 52.

H. FENWICK HUSS has served as the Willem Kooyker Dean of the Zicklin School of Business at Baruch College, a senior college of The City University of New York since July 1, 2014. He is also a tenured Professor in Baruch's Stan Ross Department of Accountancy. He previously served as Dean of the J. Mack Robinson College of Business at Georgia State University from 2004 to 2014. Prior to his appointment as Dean, Dr. Huss was Associate Dean from 1998 to 2004 and Director of the School of Accountancy at Georgia State from 1996 to 1998, and on the faculty since 1989. He also served on the faculty of the University of Maryland as an assistant professor from 1983 to 1989, and is a visiting professor at the Université Paris 1 Pantheon-Sorbonne. Dr. Huss has been a member of our Board of Directors since October 2002 and has served as our lead director since May 2015. Dr. Huss also currently serves as a member of our Audit, Compensation and Nominating and Corporate Governance Committees. Dr. Huss has been selected as a nominee for director because he brings the point of view of academia and in particular the information and new concepts that develop in the business school environment, because he has extensive experience and knowledge of financial accounting and corporate finance and because he has management experience in the academic environment. Dr. Huss is 66.

WILLIAM L. MARKS served as Chairman of the Board and Chief Executive Officer of Whitney Holding Corp., the holding company for Whitney National Bank of New Orleans, from 1990 to his retirement in March 2008, and served in various executive and management capacities with AmSouth Bank, N.A. from 1977 to 1990. Mr. Marks served as a director of CLECO Corporation and CLECO Power, LLC from 2001 to April 2016, and as a Life Trustee of Wake Forest University. Mr. Marks has served as a director of ADTRAN since 1993 and currently serves as a member of our Audit, Compensation and Nominating and Corporate Governance Committees. Mr. Marks has been selected as a nominee for director because of his career in finance and financial services, because of his expertise in banking and corporate finance and because of his extensive experience as an executive and senior manager in the course of his career. Mr. Marks is 73.

ANTHONY J. MELONE has over 32 years of experience in the telecommunications industry, including having served as Executive Vice President and Chief Technology Officer for Verizon Communications from December 2010 to April 2015. In addition, Mr. Melone served in a variety of positions with Verizon Wireless from 2000 to December 2010, including as Senior Vice President and Chief Technical Officer from 2007 to December 2010. Over his 32 year career with Verizon and its predecessor, Bell Atlantic, he also has served as Vice President of Network Operations and Staff Vice President of Network Planning and Administration. Mr. Melone also serves as a director of Crown Castle International Corp. Mr. Melone received a Bachelor of Science degree in electrical engineering from Villanova University and a Master of Science degree in engineering from the University of Pennsylvania. Mr. Melone currently serves as a member of our Audit, Compensation and Nominating and Corporate Governance Committees. Mr. Melone has been selected as a nominee for director because of his extensive experience as an executive and senior manager in the telecommunications industry. Mr. Melone is 56.

BALAN NAIR is Executive Vice President and Chief Technology Officer for Liberty Global, Inc., a telecommunications company. In this capacity he is responsible for overseeing the global network and technology operations, which span three continents and over 20 million customers. He is also responsible for new product development, oversees global procurement functions and leads Liberty Global's Technology Investment Venture group. Mr. Nair is an executive officer of Liberty Global and sits on the company's Executive Management Committee and Investment Committee. Prior to joining Liberty Global in July of 2007, Mr. Nair served as AOL's chief technology officer overseeing the company's network operations and back-office systems. After joining AOL in 2006, Mr. Nair led the Technology Operations organization in creating synergies, improving productivity, and increasing efficiencies. Prior to his role at AOL, Mr. Nair spent 12 years at Qwest Communications International Inc. (Qwest), most recently as Chief Information Officer (CIO). As CIO, he was responsible for supporting Qwest's internal and external applications, legacy systems including maintenance, internal network operations, data centers, and help desk and desktop support functions. He also headed Qwest's technology management operations that included technical aspects of the company's product rollouts in broadband, video, call center technology, VoIP, and wireless, among other offerings. As Qwest's Chief Technology Officer from 2003 to 2005, he spoke often in public forums on technology

and strategic topics in the telecommunications industry. Mr. Nair sits on the board of Charter Communications, a leading cable operator in the United States. He holds a patent in systems development and is a Licensed Professional Engineer in Colorado. Mr. Nair holds a Masters of Business Administration and a Bachelor of Science in electrical engineering, both from Iowa State University. Mr. Nair currently serves as a member of our Compensation and Nominating and Corporate Governance Committees. Mr. Nair has been selected as a nominee for director because he has extensive experience with the technologies that influence our industry and our markets and because he has management experience, particularly managing technical personnel. Mr. Nair is 50.

JACQUELINE H. RICE has over 19 years of legal and compliance experience in all aspects of global compliance, including anti-corruption, export controls, data privacy and ethics. Ms. Rice serves as Target Corporation's EVP and chief risk and compliance officer and is responsible for managing enterprise and vendor risk, corporate security and corporate compliance and ethics to protect Target and its stakeholders. Prior to joining Target in December 2014, she served as chief compliance officer and legal counsel for General Motors from 2013 to 2014 and before that as General Motors Executive Director, Global Ethics & Compliance from 2010 to 2013. Ms. Rice graduated from the University of Detroit Mercy School of Law, where she was editor-in-chief of the Law Review, and she obtained her undergraduate degree from James Madison College at Michigan State University. Ms. Rice currently serves as a member of our Audit, Compensation and Nominating and Corporate Governance Committees. Ms. Rice has been selected as a nominee for director because of her legal background and her experience with compliance, ethics and risk management for large, publicly held corporations. Ms. Rice is 45.

KATHRYN A. WALKER has more than 30 years of experience in the communications industry. Since 2009, she has served as a managing director for OpenAir Equity Partners, a venture capital firm focusing on the wireless, communications and mobile Internet sectors. Prior to joining OpenAir, Ms. Walker worked in a variety of roles at various subsidiaries of Sprint Corporation from 1985 to 2009, culminating in the position of Chief Information and Chief Network Officer at Sprint Nextel Corporation. She currently serves on the board of directors for SmartHome Ventures, Zubie, on the Council of Trustees at South Dakota State University, as a member of the Board of Trustees at Missouri University of Science and Technology and as a member of the board of directors of the Heartland Chapter of the National Association of Corporate Directors. Ms. Walker currently serves as a director of ADTRAN and is a member of our Audit, Compensation and Nominating and Corporate Governance Committees. Ms. Walker has been selected as a nominee for director because she has extensive experience with the technologies that influence our industry and our markets and because she has management experience, particularly managing technical personnel. Ms. Walker is 57.

Information Regarding Director Emeritus

Set forth below is certain information as of January 31, 2017 regarding our director emeritus, including his age and principal occupation.

ROY J. NICHOLS founded and served as President of Nichols Research Corporation, a defense and information systems company, where he worked from 1976 until its merger with Computer Sciences Corporation in November 1999. Mr. Nichols currently serves as a director of Blue Creek Investments and the Hudson Alpha Institute of Biotechnology. Mr. Nichols currently serves as a director emeritus of ADTRAN and served as a director from 1994 to August 2016, including as our lead director from October 2006 through May 2015. Mr. Nichols has been asked to remain as a director emeritus because he has extensive experience with leadership, risk assessment, information technologies and extensive knowledge of and history with our company. Mr. Nichols is 78.

CORPORATE GOVERNANCE

Board Structure Independent Directors

The Nominating and Corporate Governance Committee and the Board of Directors have determined that Messrs. Marks, Melone, and Nair, Dr. Huss, Ms. Rice and Ms. Walker do not have any relationships that would interfere with the exercise of independent judgment in carrying out their responsibilities as directors and are independent in accordance with Rule 4200(a)(15) of the NASDAQ Marketplace Rules. The incumbent independent directors also constitute all of the members of the Compensation Committee and Nominating and Corporate Governance Committee, and with the exception of Mr. Nair, constitute all the members of the Audit Committee. Prior to each regularly scheduled Audit Committee meeting, these directors convene and hold a separate executive session as the independent directors of the Board. Dr. Huss, our independent lead director, presides over these meetings, coordinates the activities of the independent directors and serves as liaison between the independent directors and our Chief Executive Officer and senior management. We believe this structure facilitates the development of a productive relationship with our Chief Executive Officer and ensures effective communication between our Chief Executive Officer and the independent directors.

Mr. Stanton is both our Chief Executive Officer and our Chairman; his predecessor, Mark Smith, one of our founders, also held both of these positions and we believe that having our Chief Executive Officer also holding the position of Chairman is important in underscoring his authority to our customers, our vendors and our employees and in our markets generally. We believe that this structure enhances our day-to-day operating effectiveness and does not undercut the benefits available to the Board of having separated these functions because we have established a lead director whose role is extensive and who in relationship to the other directors performs many of the functions that might otherwise be performed by a board chairman.

Meetings of the Board of Directors and its Committees

The Board of Directors conducts its business through meetings of the full Board and through committees of the Board, consisting of an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. During the fiscal year ended December 31, 2016, the Board of Directors held seven meetings, the Audit Committee held eight meetings, the Compensation Committee held six meetings and the Nominating and Corporate Governance Committee held four meetings. All members of the Board of Directors attended at least 75% of the aggregate of meetings of the Board of Directors and of the committees of which he or she is a member. Five of the incumbent directors attended the 2016 Annual Meeting of Stockholders on May 11, 2016.

Audit Committee

The Audit Committee is responsible for assisting the Board of Directors in fulfilling its oversight responsibilities with respect to: (1) the financial reports and other financial information provided by us to the public or any governmental body; (2) our compliance with legal and regulatory requirements; (3) our systems of internal controls regarding finance, accounting and legal compliance that have been established by management and the Board; (4) the qualifications and independence of our independent registered public accounting firm; (5) the performance of our internal audit function and the independent registered public accounting firm; and (6) our auditing, accounting and financial reporting processes generally. The Audit Committee has been established in accordance with Section 3(a)(58)(A) of the Exchange Act. In connection with its responsibilities, the Board has delegated to the Audit Committee the authority to select and hire our independent registered public accounting firm and determine their fees and retention terms. The Audit Committee operates under a charter approved by the Board. The charter is posted on our website at www.adtran.com. The Audit Committee is composed of H. Fenwick Huss, William L. Marks, Anthony J. Melone, Jacqueline H. Rice and Kathryn A. Walker, each of whom is independent under NASDAQ listing standards. William L. Marks is the Chair of the Audit Committee. The Board has determined that Dr. Huss is an audit

committee financial expert.

Compensation Committee

The Compensation Committee is responsible for setting the compensation of our Chief Executive Officer and assisting the Board in discharging its responsibilities regarding the compensation of our other executive officers. In addition, the Compensation Committee is responsible for administering our 2015 Employee Stock Incentive Plan, our 2010 Directors Stock Plan, our Variable Incentive Compensation Plan and our Deferred Compensation Plan. The Compensation Committee operates under a charter approved by the Board. The charter is posted on our website at www.adtran.com. The Compensation Committee is composed of H. Fenwick Huss, William L. Marks, Anthony J. Melone, Balan Nair, Jacqueline H. Rice and Kathryn A. Walker, each of whom is independent under NASDAQ listing standards. Mr. Nair is the Chair of the Compensation Committee.

Compensation Committee Process

Under our Compensation Committee's charter, the Committee has the power and duty to discharge our Board's responsibilities related to compensation of our executive officers, within guidelines established by the Board. Generally, the Compensation Committee reviews and approves all compensation, including base salary, annual incentive awards and equity awards, for the Chief Executive Officer and our other officers. The Compensation Committee also makes recommendations to the Board regarding our incentive compensation plans and equity plans, and approves equity grants. The Committee has authority to review and approve annual performance goals and objectives for our Chief Executive Officer, to evaluate his performance and to set his compensation based on the evaluation. The Committee is also responsible for reviewing and approving executive officers' compensation and establishing performance goals related to their compensation within 90 days of the beginning of each fiscal year. The Committee oversees our benefit plans and evaluates any proposed new retirement or executive benefit plans. The Committee also advises the Board on trends in compensation programs for non-employee directors. The Compensation Committee has the authority to delegate its duties to subcommittees, but to date has not done so. In accordance with Delaware law, in November 2016 the Compensation Committee also delegated to the Chief Executive Officer the authority to approve individual restricted stock unit awards to employees of ADTRAN who are not officers, subject to a maximum aggregate limit of 297,210 restricted stock units and pre-approved terms and conditions.

At the beginning of each calendar year, our Compensation Committee reviews the variable incentive cash compensation (VICC) program results from the prior year and approves any payouts thereunder, establishes the performance goals for the current year, approves any increases in executive salaries or other compensation, recommends plan changes, if any, for submission to our stockholders at the annual meeting, and approves the Compensation Committee's report for our proxy statement. Mid-year the Compensation Committee generally reviews our compensation programs and makes recommendations to the Board regarding outside director compensation and, as necessary throughout the year, approves any equity awards and/or compensation for newly hired or promoted executives. Our Compensation Committee generally meets in the latter part of each calendar year to determine and approve annual equity awards.

Our Compensation Committee generally receives proposals and information from our Chief Executive Officer for its consideration regarding executive and director compensation. Our Chief Executive Officer makes recommendations regarding salary increases, annual cash incentives and equity awards for all of our executive officers other than himself.

Our Compensation Committee has authority to retain and terminate any outside advisors, such as compensation consultants. The Committee has not historically employed compensation consultants to assist it in designing our compensation programs. The Committee has, however, periodically engaged Willis Towers Watson, as an independent compensation consultant, to provide information and analysis of our executive compensation in the context of the telecom industry and our peer companies in the industry and to present this information with possible modifications to our compensation of executives and directors for the Committee's consideration. The Committee engaged Willis Towers Watson in 2016 to evaluate the competitiveness of the base salaries, annual bonuses and long-term incentives awarded to the company's executive officers, to provide competitive market data on new compensation arrangements and to evaluate the continued appropriateness of existing arrangements. Willis Towers Watson attended compensation committee meetings at the committee's request and was available to provide guidance to the Compensation Committee on compensation questions and issues as they arose. The results of this consultation, in combination with our own research and analysis, were a part of the process the Compensation Committee undertook in determining the compensation packages (including the grants of incentive awards in November 2016 and, in January 2017, the finalization of the VICC awards for 2016, of our executives and directors). See Executive Compensation Compensation Discussion and Analysis Executive Summary .

Compensation Committee Interlocks and Insider Participation

None of our executive officers or directors serves as a member of the board of directors or compensation committee of any entity that has one or more of its executive officers serving as a member of our Board of Directors or Compensation Committee.

Nominating and Corporate Governance Committee

The Nominating and Corporate Governance Committee is responsible for assisting the Board in identifying and attracting highly qualified individuals to serve as directors of ADTRAN, selecting director nominees and recommending them to the Board for election at annual meetings of stockholders. The Nominating and Corporate Governance Committee operates under a charter approved by the Board. The charter is posted on our website at www.adtran.com. The Nominating and Corporate Governance Committee is composed of H. Fenwick Huss, William L. Marks, Anthony J. Melone, Balan Nair, Jacqueline H. Rice and Kathryn A. Walker, each of whom is independent under NASDAQ listing standards. Ms. Walker is the Chair of the Nominating and Corporate Governance Committee.

Consideration of Director Nominees

The Nominating and Corporate Governance Committee seeks to create a Board that as a whole is strong in its collective knowledge of, and has a diversity of skills and experience with respect to, accounting and finance, management and leadership, vision and strategy, business operations, business judgment, crisis management, risk assessment, industry knowledge, corporate governance and global markets. When the Committee reviews a potential new candidate, the Committee looks specifically at the candidate's qualifications in light of the needs of the Board and ADTRAN at that time given the then current mix of director attributes.

In accordance with NASDAQ listing standards, we ensure that at least a majority of our Board is independent under the NASDAQ definition of independence, and that the members of the Board as a group maintain the requisite qualifications under NASDAQ listing standards for populating the Audit, Compensation and Nominating and Corporate Governance Committees. The Board has adopted Corporate Governance Principles that set forth the principles that guide us and the Board on matters of corporate governance. The Corporate Governance Principles are posted on our website at www.adtran.com.

As provided in its charter, the Nominating and Corporate Governance Committee will consider nominations submitted by stockholders. To recommend a nominee, a stockholder should write to the Nominating and Corporate Governance Committee, care of Roger D. Shannon, Secretary of ADTRAN, at 901 Explorer Boulevard, Huntsville, Alabama 35806 (for overnight delivery) or at P.O. Box 140000, Huntsville, Alabama 35814-4000 (for mail delivery). Any recommendation must include:

the name and address of the candidate;

a brief biographical description, including his or her occupation for at least the last ten years, and a statement of the qualifications of the candidate, taking into account the qualification requirements set forth above; and

the candidate's signed consent to be named in the proxy statement if nominated and to serve as a director if elected.

To be considered by the Nominating and Corporate Governance Committee for nomination and inclusion in our proxy statement for the 2018 Annual Meeting, stockholder recommendations for director must be received by us no later than December 4, 2017. Once we receive the recommendation, we will deliver a questionnaire to the candidate that requests additional information about the candidate's independence, qualifications and other information that would assist the Nominating and Corporate Governance Committee in evaluating the candidate, as well as certain information that must be disclosed about the candidate in the proxy statement, if nominated. Candidates must complete and return the questionnaire within the time frame provided to be considered for nomination by the Committee.

All of the current nominees for director recommended by the Board for election by the stockholders at the 2017 Annual Meeting are current members of the Board. In evaluating candidates for director, the Committee uses the qualifications described above, and evaluates stockholder candidates in the same manner as candidates from all other sources. Based on the Committee's evaluation of each nominee's satisfaction of the qualifications described above and his prior performance as a director, the Committee determined to recommend each incumbent director for re-election. The Committee has not received any nominations from stockholders for the 2017 Annual Meeting.

Communications with the Board of Directors

The Board has established a process for stockholders to communicate with members of the Board. If you have any concern, question or complaint regarding any accounting, auditing or internal controls matter, as well as any issues arising under our Code of Conduct or other matters that you wish to communicate to ADTRAN's Audit Committee or Board of Directors, you can reach the ADTRAN Board of Directors through our Corporate Governance Hotline by email at hotline@adtran.com, by mail at ADTRAN, Inc. Hotline, P.O. Box 5765, Huntsville, Alabama 35814, or by calling the hotline at 1-888-723-8726 (1-888-7ADTRAN). Information about the Corporate Governance Hotline can be found on our website at www.adtran.com under the links Investor Relations Corporate Governance.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

Overview and Philosophy

The goals of our executive compensation program are to:

provide competitive compensation that will help attract, retain and reward qualified executive management, with a focus on talent from within the telecommunications industry;

align management's interests with our success by making a portion of our executive management's compensation dependent upon ADTRAN's short-term and long-term performance; and

align our executive management's interests with the interests of stockholders by including long-term equity incentives as a significant component of executive compensation.

We design our executive compensation packages in a manner to help us achieve these goals. More specifically, in any given year we evaluate the compensation packages in the context of a number of considerations, including:

the need to motivate officers;

to deliver strong performance results in the compensation year under consideration and

to build the necessary foundation for realization of our strategic initiatives within the immediate, near and long-term time frames our directors and management have developed;

the need to retain strong executives;

the performance of the Company in prior periods;

the performance of the industry, and, more particularly, of our competitors in those periods;

the extent to which strategic initiatives have been executed and comparison of that progress to our expectations; and

TSR in both the immediate as well as the near term past.

We also maintain a positive working environment that provides intangible benefits to our executives and encourages longevity. Combining compensation with a desirable working environment allows us to maintain a compensation program that generally provides overall compensation to our executive officers that is approximately at the median when compared to companies with which we compete for talent, but still remains competitive with those companies.

2016 Compensation

The setting of executive compensation for 2016 reflects a number of considerations and factors:

Total Shareholder Return (TSR)

The Company's TSR in 2016 of 32.25% significantly outpaced the TSR of the average of S&P 500 companies (11.93%) and the TSR of the NASDAQ Telecommunications Index (13.82%).

TSR had not compared favorably in the immediately prior years due to decreased investment in broadband access and unfavorable foreign exchange rates. However, the Company had in those years initiated and advanced several strategic initiatives of further extending global distribution, of expanding services offerings and of realigning operating and reporting structures.

We believe that TSR is an important tool in aligning our business goals with our executive compensation program, and ADTRAN is committed to delivering strong total shareholder return. Following a year in which our TSR was negatively affected by a significant decline in the value of the euro compared to the U.S. dollar and the cancellation of a project with a major tier 1 service provider in the U.S., our 2016 TSR rebounded to a positive 32.25%.

The Company had positive operating results in those prior years and, as a result of those prior years' efforts, was well positioned competitively for 2016 and the future. Driven by accelerating demand for broadband speed and access in the U.S. and around the world, our 2016 revenues were up six percent from the previous year, and our operating profit grew 158% over 2015. Our domestic business was up almost 20 percent over 2015, as our U.S. customers' spending continued to accelerate as a result of an increase in demand for our higher-speed solutions and a record performance by our services team. Included in this performance, as examples: Services & Support set a new revenue record, growing 53% in 2016 on a growth trajectory that has continued; and we shipped over 10 million vectoring capable ports in 2016, making that the fastest growing product in company history. In addition, we experienced a resurgence in our international business in the second half of the year, and we are carrying that positive momentum into 2017. During the course of 2015, the Company took steps to reduce operating expenses and to more efficiently deploy our research and development resources, and we believe this, in combination with market share gains and improving environment, should lead to continued TSR performance improvement in the future. To this end, we believe our executive compensation programs provide significant incentive to our management to work towards long-term TSR growth.

We also use TSR as the metric against which our executive performance is measured over three-year periods in a performance share program. The program allows executives to earn shares based upon our three-year TSR performance against an industry peer group (the NASDAQ Telecommunications Index). The share potential is awarded each year but shares vest only at the end of each three-year period. The program adds an additional element of rigor to our overall executive compensation program as the ultimate award is dependent on our own performance as well as that of the industry and the peer group. In 2014, for example, 35.70% of the shares from the 2011 grant vested; in 2015, the yield from the 2012 grant was 75.26%; and in 2016 the yield from the 2013 grant was 102.72%.

Base Compensation

In January 2016, the Compensation Committee, taking into account the considerations described below, recommended increases of up to 3% in the base salaries for the named executive officers.

Annual Cash Incentive Awards

The variable incentive cash compensation (VICC) program is intended to be a critical motivating component of each particular officer's compensation package.

Executives had received no short-term incentive compensation since 2011 under the VICC program despite positive operating results.

Each VICC program established by the Compensation Committee in January 2016 was designed to encourage growth in company operating income and company revenue. VICC was available under each program only if both of certain minimum operating income and revenue thresholds were achieved. If these minimum thresholds were achieved, VICC was available in two categories: total company operating income and total company revenue. Additionally, the participants other than Mr. Stanton could earn up to twenty-five percent of their target VICC through achievement of personal goal elements. For the categories other than personal goal elements, VICC was scaled depending upon the amount of growth the company experienced in excess of the minimum threshold in any category. In order to measure the value of each possible VICC award, the programs assigned to each participating executive a number identified as the target VICC. VICC available in each category was expressed as percentages of the target VICC and ranged from a small percentage if the required threshold was reached through the possibility of as much as 200% of the target VICC. In no event could any executive receive more than 200% of the target VICC in any combination of VICC awards for all categories, including any personal goals.

The participants could earn any VICC only if each of total company operating income and total company revenue grew by at least 1% over the prior year. If these two threshold growth measures were both achieved, they could earn VICC for growth in any one of total company operating income or total company revenue.

In determining the target VICC for each executive, the Compensation Committee considered, among other things, the executive's responsibilities and opportunity to influence the outcomes in the several categories under which VICC could be earned, as well as the executive's prior contributions to company performance.

