

*Fast-forward to the mobile Internet*





***Fast-forward***

In the future, mobile devices will become smarter. Together with smart networks, they'll deliver the smart, personalized mobile Internet.

Tellabs (NASDAQ: TLAB) is part of the S&P 500, NASDAQ Global Select Market, Ocean Tomo 300 Patent Index, and corporate responsibility indexes such as the Maplecroft Climate Innovation Index, FTSE KLD and FTSE4Good.

*Tellabs innovations fast-forward the future  
to empower the mobile Internet.*

*Now that smartphones are as brainy as PCs,  
Tellabs is helping to make networks smarter too.  
Smartphones plus smart networks will advance  
the mobile Internet revolution, enable carriers  
to transform their business models and deliver  
a personalized user experience to you.*

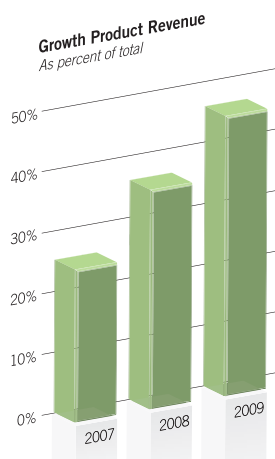
*Today 43 of the top 50 global telecom  
service providers choose Tellabs solutions.  
We fast-forward the future.*

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Tellabs fiscal years ended January 1, 2010, and January 2, 2009.

In millions, except per-share and employee data	2009	2008	Change
Revenue	\$ 1,526	\$ 1,729	(12)%
Gross profit	\$ 666	\$ 660	1%
Operating earnings (loss)	\$ 94	\$ (970)	N/M
Earnings (loss) before income tax	\$ 113	\$ (953)	N/M
Net earnings (loss)	\$ 114	\$ (930)	N/M
Net earnings (loss) per share	\$ 0.29	\$ (2.32)	N/M
Total cash, cash equivalents and marketable securities	\$ 1,105	\$ 1,152	(4)%
Total assets	\$ 2,623	\$ 2,511	4%
Total liabilities	\$ 708	\$ 665	6%
Stockholders' equity	\$ 1,915	\$ 1,847	4%
Net cash provided by operating activities	\$ 234	\$ 131	79%
Working capital	\$ 1,289	\$ 1,376	(6)%
Research and development expense	\$ 269	\$ 305	(12)%
Return on average stockholders' equity	6.0%	(39.1)%	N/M
Weighted average shares outstanding	394	400	(2)%
Number of shares outstanding at year-end	384	396	(3)%
Number of employees	3,295	3,228	2%



#### Growth product momentum

Almost half of Tellabs' 2009 revenue came from growth products. Growth products include the Tellabs 6300, 7100, 7300, 8600, 8800 and 9100 systems and professional services.

## Fast-forwarding Tellabs to profitable growth



### **Dear Stockholders, Customers, Employees and Friends,**

We performed well in a challenging economy during 2009. We're helping our customers succeed, increasing our profits and positioning ourselves to grow with the mobile Internet.

Still, we're going through the most challenging global economy since the Great Depression. Our customers, the telecom service providers, have reduced capital spending and deferred projects.

Our customers continue to consolidate and garner greater purchasing power. Competition among service providers is driving demand. But competition among network equipment vendors is intensifying, which pressures selling prices.

We are seeing positive trends as the world's economies begin to thaw. People are communicating more and consuming more bandwidth than ever. Customers are spending to meet the growing needs of the mobile Internet, a major trend that will shape the next decade in telecom. They're also spending to meet growing demand for videoconferencing, telecommuting and Internet video. Our customers' need to invest continues to drive demand for innovative Tellabs solutions.

**Tellabs is committed to profitable revenue growth, which we pursue vigorously.** Last year we reduced expenses, increased profit margins and moved into the black. Our revenue fell 12% to \$1.53 billion, as a result of lower customer spending and our decision to focus research and development (R&D) in more profitable growth areas. Some of the highlights of 2009 were:

- We grew data product revenue 59% to \$342 million, a record high.
- We earned \$114 million or 29 cents per share, versus a loss of \$930 million or \$2.32 per share a year ago.
- We increased operating earnings to \$93.5 million, the best since 2006.
- We improved gross profit margins to 43.6%, the highest since 2006.
- We boosted operating margins to 6%, the best since 2006.
- We generated cash from operations of \$234 million, the most since 2006.
- We reduced operating expense to \$572 million, the lowest since 1998.
- We acquired Silicon Valley start-up WiChorus, and its breakthrough mobile packet core platform, to empower the mobile Internet.
- We delivered a total return to shareholders of 38%.

**We kept Tellabs' balance sheet rock-solid.** After paying \$165 million in net cash for the WiChorus acquisition and repurchasing \$83 million in Tellabs shares, we ended the year with more than \$1.1 billion in cash and cash equivalents. And we carry zero debt.

In January, we announced Tellabs' first quarterly cash dividend of 2 cents per share. We believe that dividends are a good way to return capital to shareholders. And we're confident that Tellabs will continue to generate ample cash from operations to enable us to invest in the growth of our business, repurchase shares and pay dividends.



Robert W. Pullen, Chief Executive Officer and President

***We're fast-forwarding Tellabs' strategy.*** In late 2008, we introduced a strategy that began to show positive results during 2009.

***Focus our investments in growth products and services.*** In 2009 we applied more than 80% of our R&D spending to develop innovative mobile, optical and Internet Protocol/Ethernet products. Our focus on innovation is paying off. These growth products and services generated 36% of our 2008 revenue and 46% of our 2009 revenue. In 2010, we expect growth products and services to generate more than half of revenue.

***Innovate in growth markets.*** We continue to emphasize markets that are growing faster than customers' overall capital spending — mobile, optical and business.

In the mobile market, we see tremendous opportunities ahead, driven by the mobile Internet. The WiChorus acquisition significantly increases Tellabs' addressable mobile market. Through the acquisition, we've added the innovative Tellabs® SmartCore™ 9100 platform, a leader in the 4G WiMax mobile packet core market, used by customers such as Clearwire. Going forward, we're positioning this platform for the larger 3G evolved high-speed packet access (HSPA+) and 4G long-term evolution (LTE) markets. Most important, the acquisition increases the value we can offer customers.

In the optical market, we see growing bandwidth demand, and we are innovating to lower the cost per bit and reduce network energy consumption. Tellabs® Optical Solutions provide enormous bandwidth while cutting capital expenditures up to 65%, power consumption up to 65% and operating expenses up to 85%.

In the business market, we helped service providers win dozens of business customers with Tellabs® Business Solutions. Many of these businesses are Fortune 500 companies, including financial institutions that need highly available networks for their mission-critical traffic. U.S. federal government agencies are using the innovative Tellabs® Optical LAN (local area network) as a higher-bandwidth alternative to active Ethernet LANs, cutting capital expense up to 70%, reducing power consumption up to 80% and shrinking space needs up to 90%.

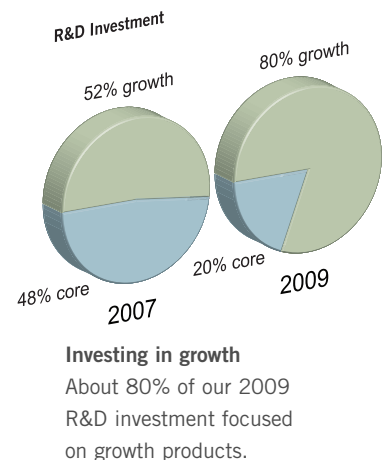
***One constant at Tellabs is that when we focus, we win.*** In 2009 we focused on what we could control: implementing Tellabs' strategies, expanding into new markets with the WiChorus acquisition, controlling costs and expenses, and delivering innovative, differentiated solutions to customers.

We're fortunate to be well-positioned in an industry as essential as communications. Tellabs is committed to helping customers succeed by delivering these life-enriching services. While billions of people enjoy communications services today, billions more still need them. People want to connect, to do business, to be educated and to be entertained.

***Fast-forwarding the mobile Internet.*** Four decades ago, the Internet started up. Fast-forward to today: half a billion people use high-speed Internet services.

Three decades ago, cellular phones appeared. Fast-forward to today: almost 5 billion mobile devices connect us, and the mobile Internet is rapidly growing.

Most of the world's people will first experience the Internet through a mobile device. Looking ahead, the mobile Internet will profoundly transform communications around the world. Fast-forward to tomorrow: the mobile Internet will be considered as essential as a telephone.



Smartphones put the power of a PC in your hand, as 3G and 4G mobile networks deliver high-speed Internet services. But to fully unlock the potential of the mobile Internet, we need smarter, higher-bandwidth networks. That's why Tellabs is innovating to empower the mobile Internet.

***Fast-forward to tomorrow: the mobile Internet will anticipate your personal needs.*** With your permission, it's smart enough to know your whereabouts, your needs and your preferences.

- When you want to schedule time with family or friends, you can instantly put an invitation on their calendars.
- When you need to track health indicators such as blood pressure or blood sugar, it stays in touch with your doctor.
- When you're in traffic, it suggests an alternate route to save you time.
- When your flight touches down, it suggests how to reach your destination quickly — providing routes and schedules of shuttles, trains and buses.
- When you want entertainment, it shows what's playing, with reviews from people like you.

Such applications are emerging today. Over the next decade, we will begin to see the full potential of the mobile Internet. The key focus of Tellabs' innovators is to enable smart networks and smart mobile devices to work together intelligently.

***To fast-forward the mobile Internet, we acquired WiChorus and its team of innovators.*** This acquisition expands Tellabs® Mobile Solutions, already in more than 120 networks around the world. WiChorus logically extends Tellabs from mobile backhaul into the adjacent mobile packet core.

Today, the Tellabs® SmartCore™ 9100 platform is the only mobile packet core platform that's purpose-built for 4G WiMax and LTE. This breakthrough technology makes mobile networks smarter — that is, content-aware, context-aware and application-aware. Such intelligence enables mobile carriers to make money and reduce expenses. Together, smart mobile devices and smart networks will bring you a smart, personalized mobile Internet that anticipates and addresses your personal needs.

Since our platform is compatible with 3G networks, mobile carriers can reap many of these benefits today. For example, carriers can offload Internet traffic at the network edge, reducing capital expenses in core networks as much as 50%. For users, that means faster downloads.

***We at Tellabs are driven by our passion to meet customers' communications needs.*** That's why we innovate to help our customers succeed. Today, we serve 43 of the world's top 50 telecom service providers, including nine of the top 10. We still see plenty of room to grow.

We're excited about our central role in empowering the mobile Internet. As much as our industry has accomplished over the past few decades, it's only a hint of what's to come. As our industry's exciting future unfolds, I believe that Tellabs has the right strategy, the right customer focus and the right people to succeed.

Sincerely,



**Robert W. Pullen**

Chief Executive Officer and President

March 1, 2010

## Answers to investor questions



CEO and president Robert W. Pullen answers investors' frequently asked questions.

### **Q. When will Tellabs attain year-over-year revenue growth?**

A. We expect first-quarter 2010 revenue to grow compared with first-quarter 2009. It's too soon to say how the year ahead will unfold.

We're committed to profitable revenue growth. We see an inflection point ahead, when user demands and network needs will require customers to increase capital spending. When that time comes, Tellabs is well-positioned to grow faster than the overall telecom equipment sector.

In this context, we focus on what we can control:

- We've cut operating expenses to \$572 million, the lowest since 1998.
- We've improved gross profit margins from 38.2% in 2008 to 43.6% in 2009.
- We've strategically focused Tellabs in markets that are growing faster than the overall telecom equipment market — mobile, optical, business and professional services.

### **Q. Why did you acquire WiChorus?**

A. The WiChorus acquisition logically extends Tellabs' mobile business from backhaul into an adjacent market, packet core. It's a great fit in terms of customers, products, technology, cultures and market potential:

- Customers: Tellabs and WiChorus address the same mobile customers. Our global sales and service reach provides WiChorus access to more than 120 Tellabs mobile backhaul customers. WiChorus brings Tellabs new WiMax customers.
- Products: WiChorus has the industry's best-of-breed 4G and 3G mobile packet core solution, now known as the Tellabs® SmartCore™ 9100 platform. It handles eight times more throughput and four times more simultaneous Internet sessions than competitors.
- Technology: Both Tellabs and WiChorus products use the same Internet Protocol (IP) technology, which is the key to next-generation 4G mobile networks.
- Cultures: Tellabs' and WiChorus' cultures both focus on developing best-of-breed products that deliver superior value to customers and enable us to beat larger competitors.
- Market Potential: The growth opportunities ahead are compelling. Mobile packet core is a growing market that is essential to the mobile Internet.

**Q. When will growth products be the main driver of Tellabs' business?**

A. Soon. We expect growth products to generate more than half of Tellabs' overall 2010 revenue. Growth products were 25% of our 2007 revenue, 36% of our 2008 revenue and 46% of our 2009 revenue. Our growth products include the Tellabs® 6300, 7100, 7300, 8600, 8800 and 9100 platforms, as well as Tellabs professional services.

**Q. How will you generate sufficient profit margins with growth products?**

A. We constantly work to improve gross profit margins on all of our products. The proof: Tellabs gross profit margins increased to 43.6% in 2009, up from 38.2% in 2008.

Our Tellabs® 8600, 8800 and 9100 platforms already generate gross profit margins above our corporate average. And gross profit margins on the Tellabs® 7100 system improved in each quarter of 2009.

**Q. Is Tellabs big enough to compete successfully and prosper?**

A. Absolutely. As a mid-sized company, we're big enough to tackle the focused markets we pursue – mobile, optical and business. We offer customers more global capabilities than start-ups and greater agility than the giants.

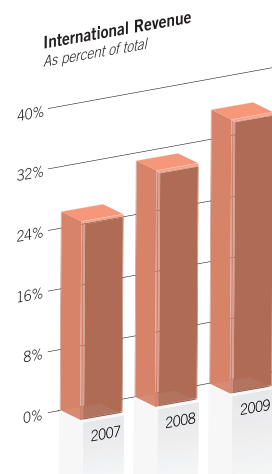
Our financial position also gives customers confidence. After 36 years in business, Tellabs has a rock-solid balance sheet with more than \$1.1 billion in cash and cash equivalents, and zero debt.

**Q. Do you intend to continue share repurchases?**

A. Yes, we may repurchase shares from time to time. We are authorized to purchase approximately \$400 million in our shares.

**Q. Do you plan further acquisitions?**

A. We're always looking for opportunities to deliver compelling value to our customers and investors, but for competitive reasons, we can't share specifics. Today we're focused on maximizing the value of the WiChorus acquisition. We are determined to fully realize its potential to create value for our customers and our investors.



**International momentum**

More than one-third of Tellabs' 2009 revenue came from outside North America.

*“Tellabs can provide both the thinking and also the real-life solutions that can help deliver the ideas that service providers have.”*

— Warren Chaisatien  
Research Director, Telsyte



***What do mobile users want?***

*Mobile Internet, commerce and video with more bandwidth, availability and reliability.*

***What do service providers need?***

*Smart networks that know users' locations, devices and preferences, so they can deliver personalized mobile Internet experiences.*

***What does Tellabs offer?***

*Innovative mobile, optical and business solutions that enable service providers to deliver new services, generate revenue, reduce expenses and improve user experiences.*

## *Fast-forwarding innovation to help our customers succeed*

Compelling new mobile applications extend yesterday's boundaries. You can transfer money with mobile phones in Kenya. See historical images as you tour castles in Italy. Scan a barcode to compare prices in Europe and North America. What you can do with a PC today, the mobile Internet will do for you anywhere tomorrow.

That's how the mobile Internet will eclipse landlines and PCs. Mobile Internet, video and commerce are transforming our world. With almost 5 billion mobile phones in use today and continuing growth ahead, the extreme demands of the mobile Internet will require service providers to transform their networks.

### ***Tellabs innovations anticipate what's next***

Our solutions and services enable service providers to transform their business models and their networks to prepare for the mobile Internet revolution. We enable customers to generate revenue, extract savings and assure profitability for the long term. Looking through the eyes of our customers, Tellabs focuses on mobile, optical and business solutions, as well as professional services:

- Tellabs® Mobile Solutions help customers cut costs and generate revenue as mobile networks evolve to 3G and 4G. Our innovations in mobile solutions include the first purpose-built pseudowire solution to migrate mobile backhaul networks to Ethernet. And with our recent acquisition of WiChorus, Tellabs solutions include breakthrough mobile packet core technology to make networks content-aware, context-aware and application-aware.
- Tellabs® Optical Solutions enable service providers to add bandwidth when and where it's needed, deliver existing services, and lower capital and operating expenses. Our innovations in optical solutions include the first integration of multiservice provisioning platforms (MSPPs), Ethernet switching and dynamic optical layer for more bandwidth with less equipment.
- Tellabs® Business Solutions provide businesses high quality, reliability and availability while enabling them to save energy and become more "green." Our innovations in business solutions include the first service-interworking multiservice edge router to migrate to new networks with guaranteed service quality.
- Tellabs® Global Services provide the specialized expertise to design, build and optimize service providers' networks.

We help service providers deal effectively and quickly with change, whether it's planned or unplanned, so they can prepare for what's ahead.

*“We are growing very fast.  
Tellabs equipment helps us to  
define whatever we need.”*

— Vladimir Lutchenko  
Manager of the Access Network  
Planning Unit, Astelit, (life:)



### **Smarter shopping**

Maria Lopez ensures she's getting the best price by scanning bar codes and comparing prices with her mobile phone.

### **MOBILE SOLUTIONS**

Tellabs® Mobile Solutions enable service providers to:

- Achieve faster time-to-revenue with quicker services roll-out.
- Provide bandwidth quickly where and when it is needed.
- Offer high network availability and reliability.
- Use multiple wireless network technologies.
- Deliver new and differentiated applications.
- Transform today's business model for mobile services.
- Offload up to 70% of traffic at the edge.
- Save up to 50% in capital expense.

## Empowering networks for the mobile Internet revolution

Today, most people use mobile phones primarily for phone calls. But smartphone sales are growing 30% a year. Fast-forward: one day mobile phones will be smarter and deliver the smart, personalized mobile Internet.

With your permission, the mobile Internet will learn your needs, habits and preferences. It will be aware of your schedule and location to anticipate your needs and deliver what you want, when and how you want it.

To deliver that vision requires smarter networks. Tellabs® Mobile Solutions offer industry-leading mobile packet core and backhaul applications, backed by specialized professional services. Tellabs innovations enable the intelligent mobile Internet.

### Extending mobile solutions into the packet core

Our acquisition of WiChorus almost doubles the size of Tellabs' addressable mobile market, extending our business into the packet core. WiChorus technology powers the breakthrough Tellabs® SmartCore™ 9100 platform. It's the first purpose-built platform for 4G WiMax and LTE, with support for 3G.

This platform offers tremendous advantages, such as eight times more throughput and four times more simultaneous Internet sessions than competitors' gateways. It uniquely combines a mobile core gateway with world-class application analytics, so customers can optimize networks as never before.

For the long term, our platform enables mobile carriers to transform their business models. Carriers' profitability has been challenged by flat-rate pricing and 30% or higher growth in mobile data use. Our platform enables customers to analyze and monetize more than 400 of the top mobile Internet applications.

### Advancing mobile backhaul networks to 4G

Tellabs serves more than 120 mobile backhaul customers worldwide. One customer expects to save more than 120 million euros during its migration to 4G LTE networks. That's 60% to 93% savings over three years, compared with the present mode of operation.

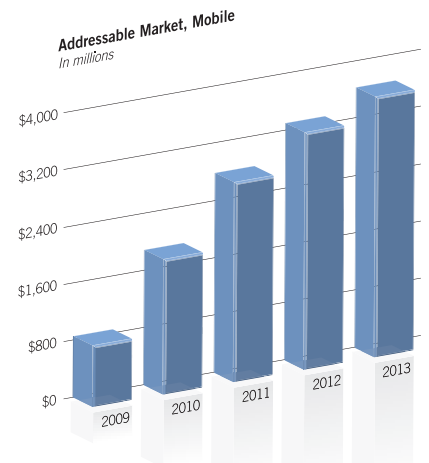
Tellabs Global Services helps customers navigate through complex decisions and implementation challenges such as whether to own or lease backhaul facilities.

#### PRODUCT PORTFOLIO

Tellabs® 3000 Voice-Quality Enhancement Series  
 Tellabs® 6300 Managed Transport System  
 Tellabs® 7100 Optical Transport System  
 Tellabs® 7300 Metro Ethernet Switching Series  
 Tellabs® 8000 Intelligent Network Manager  
 Tellabs® 8100 Managed Access System  
 Tellabs® 8600 Managed Edge System  
 Tellabs® 8800 Multiservice Router Series  
 Tellabs® SmartCore™ 9100 Platform  
 Tellabs® Global Services

#### CUSTOMER EXAMPLES

Asia Pacific: Celcom Axiata Berhad, China Mobile, China Unicom, DTAC, SMART Communications, True Move Co, Ltd., VNPT  
 MobiFone  
 Europe, Middle East, Africa: Ericsson, Magyar Telekom, Netcom, Nokia Siemens Networks, Orange Slovakia, Swisscom (Switzerland) AG, Vodacom South Africa, Vodafone Ireland, Vodafone – Panafone S.A.  
 North America: SureWest, Telecom Transport Management, Verizon



As providers upgrade to 3G and 4G mobile networks, our addressable mobile market is forecast to grow at a compound annual rate of 24%.

(Source: Tellabs and third-party estimates.)

*“The challenge to constantly improve the performance and efficiency of our global network is effectively addressed with partners like Tellabs who share our passion for excellence and performance.”*

— Stuart D. Elby  
Vice President-Network Architecture, Verizon



#### **Mobile Internet video**

Juan Garcia and Mark Smith can quickly download and watch Internet videos through Tellabs® Optical Solutions.

#### **OPTICAL SOLUTIONS**

Tellabs® Optical Solutions enable service providers to:

- Reduce initial installation time by several weeks.
- Turn on services and add capacity in hours, not weeks, improving customer retention.
- Achieve up to 99.9999% availability (limiting downtime to about half a minute per year).
- Deliver up to four times more bandwidth at just 50% to 75% of the cost of upgrading competitive products.

## Advancing innovation with optical breakthroughs

User demand for faster and more reliable mobile, business, video and Internet services is surging. Today, to download a high-definition video, you may wait and wait. Fast-forward a few years: you'll be watching that movie in minutes.

To deliver that vision requires new bandwidth management solutions and more cost-effective ways to carry traffic, including optical and Ethernet networking. With Tellabs® Optical Solutions, service providers can quickly and cost-effectively add bandwidth in networks — with just a few keystrokes.

Technologies such as ROADM (remote optical add drop multiplexer), Ethernet and OTN (optical transport network) enable customers to deliver high-bandwidth services cost-effectively.

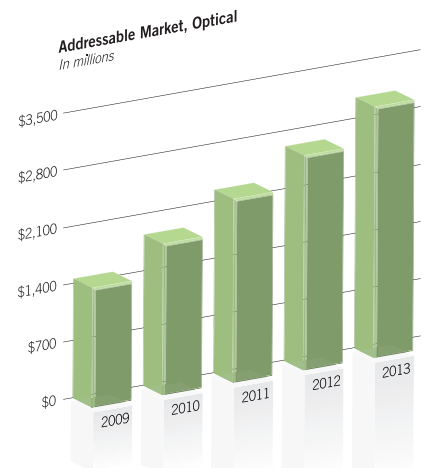
One of Tellabs' optical customers operates the world's largest ROADM network, delivering mobile, business and consumer services on an efficient, converged platform. The results: capital expenses decreased 65%, power consumption fell 65% and operating expenses dropped 85%. Tellabs optical customers include wireline service providers, mobile carriers and cable TV multiple system operators around the world.

### Professional services enable network efficiencies

Tellabs® Global Services offers customers a unique depth of experience in planning and architecting high-performance optical networks.

For example, Tellabs has extensive expertise in migrating live traffic from existing equipment to new optical equipment without disrupting service to users. This experience enables customers to increase capacity or reduce costs with minimal impact to user service availability.

We also help customers avoid costly network redesigns and delays in implementation through network planning and design.



Our addressable optical market is forecast to grow at a compound annual rate of 20%.

(Source: Tellabs and third-party estimates.)

### PRODUCT PORTFOLIO

Tellabs® 6300 Managed Transport System  
 Tellabs® 7100 Optical Transport System  
 Tellabs® 7100 Nano Optical Transport System  
 Tellabs® 7300 Metro Ethernet Switching Series  
 Tellabs® 8000 Intelligent Network Manager  
 Tellabs® Global Services

### CUSTOMER EXAMPLES

Asia Pacific: Bharti Airtel, Globe Telecom, KDDI Corporation, Korea Telecom, Power Grid Corp of India Ltd., PT Aplikanusa Lintasarta, SMART Communications, Time dotcom Berhad  
 Europe, Middle East, Africa: Astelit, life :), Telenor, Vodacom  
 South Africa  
 Latin America, Caribbean: Alestra  
 North America: Bluegrass Network, LLC, Telecom Transport Management, tw telecom (Services), Verizon

*“Financial institutions have a very high level of mission-critical traffic, and with Tellabs we provide a very high level of mission criticality to those institutions.”*

— Shunichi Umino  
Executive Manager of IP Networks,  
NTT Com



#### **Real-time data**

Jim Messer and Kevin Kometer of CME Group, the world's leading and most diverse derivatives marketplace, conduct real-time business on a fast and reliable network through Tellabs® Business Solutions.

#### **BUSINESS SOLUTIONS**

Tellabs offers a comprehensive portfolio of business solutions that enables service providers to deliver what businesses need:

- Tellabs® Wavelength Services provide advanced optical technology to deliver fast and reliable services, and add on new services almost instantly.
- Tellabs® Multiservice Edge helps deliver legacy and next-generation services over one converged network that protects legacy revenue streams and delivers new services.
- Tellabs® Optical Enterprise offers businesses the highest availability, capacity and security, while delivering dramatic savings in capital, space and power requirements.
- Tellabs® Carrier Ethernet migrates legacy networks to scalable networks with greater speed, reliability and lower costs.

## Reducing the cost of mission-critical services

Business users need easy access to software applications, with high levels of speed, availability, service quality and security. Today, businesses must plan months ahead to assess needs, choose software providers and put telecom infrastructure into place. Fast-forward a few years: virtually any business software application will be accessible instantly, and telecom services will be provisioned faster than ever before.

Cloud computing will deliver software applications from servers through the Internet or private networks. That reduces companies' needs to maintain their own data centers and software applications.

What will be required to deliver cloud computing is a network with unmatched capacity, availability and security. New capabilities may also be needed, such as "cloud switching," which will enable users to access multiple applications sequentially without placing undue strain on telecom networks.

Tellabs helps service providers deliver vital services to global businesses today and prepare for the growth opportunity of cloud computing tomorrow. With Tellabs® Business Solutions, a major carrier can now deploy new services quickly to increase its market share.

### *Innovation means fast, secure and always-on connections*

Many Fortune 500 companies rely on Tellabs® Business Solutions, including financial institutions that have millions riding on each millisecond. Our solutions help customers support enterprise services with reliable, cost-effective Carrier Ethernet and Internet Protocol (IP) technologies. We lower the total cost of ownership, with typical capital expense savings ranging from 20% to 70% and operating expense savings ranging from 40% to 80%.

For example, as we provide Tellabs® Optical Enterprise to U.S. federal government agencies, they are realizing dramatic savings. By substituting an optical LAN (local area network) for the traditional active Ethernet LAN, we:

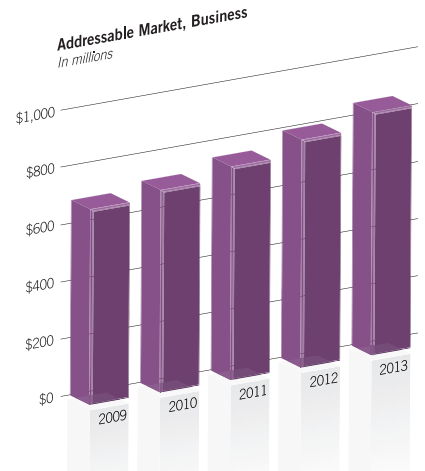
- Cut capital expense up to 70%.
- Cut energy consumption up to 80% to support green initiatives.
- Reduce space requirements up to 90% at the access layer.

#### PRODUCT PORTFOLIO

Tellabs® 1100/1600 Enterprise GPON Platforms  
 Tellabs® 1600 Optical Network Terminal Series  
 Tellabs® 6300 Managed Transport System  
 Tellabs® 7100 Optical Transport System  
 Tellabs® 7300 Metro Ethernet Switching Series  
 Tellabs® 8000 Intelligent Network Manager  
 Tellabs® 8100 Managed Access System  
 Tellabs® 8600 Managed Edge System  
 Tellabs® 8800 Multiservice Router Series  
 Tellabs® Global Services

#### CUSTOMER EXAMPLES

Asia Pacific: Bharat Sanchar Nigam Limited, Globe Telecom, Jupiter Telecommunications Co. Ltd. (Services), Mahanagar Telephone Nigam Limited, NTT Communications Corp., Philippine Long Distance Telephone Company, PT Telekomunikasi Indonesia Tbk, Sri Lanka Telecom, Telekom Malaysia Berhad, Telstra Corporation, United Information Highway Co. Ltd.  
 Europe, Middle East, Africa: Vodacom South Africa  
 North America: Bresnan Communication (Services), Optimum Lightpath, Verizon



Our addressable business market, which overlaps with our addressable mobile market, is forecast to grow at a compound annual rate of 6%.

(Source: Tellabs and third-party estimates.)

*“Carriers around the world are looking at environmental issues. As the traffic grows, so grow power and cooling requirements, so there’s a basic economic need to buy equipment that reduces size and simultaneously reduces power and electrical usage.”*

— Michael Howard  
Co-founder and Principal Analyst, Infonetics



***Designing for the environment***

Engineers in Shanghai engage in a Design for Environment workshop, under Tellabs’ global program to improve energy-efficiency and reduce waste as our products evolve.

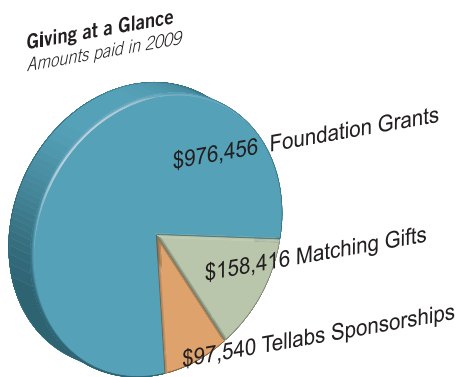
## Advancing our sustainability

Successful companies make choices that are sustainable. Tellabs conducts its business in ways that respect people and protect the environment. We act with integrity to create long-term value for our customers, investors, employees, suppliers and communities.

### Our top priorities for 2010

- **Reduce energy consumption with more efficient products and operations.** Our designers hold Design for Environment workshops, under Tellabs' global program to improve energy-efficiency and reduce waste as our products evolve. To help measure our carbon footprint, Tellabs completes the Carbon Disclosure Project survey. In 2009 we expanded our scope to include 100% of our facilities, which emitted 44,171 metric tons of CO<sub>2</sub>. We will continue to report and work towards reducing our CO<sub>2</sub> emissions.
- **Work with supply chain to responsibly manage materials and waste.** We conducted our first survey of preferred suppliers and found that 98% of them adhere to a code of conduct. These codes set expectations for ethical, environmental and labor practices.
- **Strengthen the communities where we live and work.** Tellabs offers to match employee gifts of time and money, up to \$2,000 per employee per year. Excluding employee gifts, Tellabs and the Tellabs Foundation contributed \$1.4 million in 2009 to worthwhile causes.
- **Proactively communicate our plans and progress.** On page 19 of this report, Tellabs reports its progress in each area of corporate responsibility. We also share our plans for 2010.

We remain committed to open, honest communication about our efforts. For more detailed information on corporate responsibility, visit [www.tellabs.com](http://www.tellabs.com) or contact us at [corporate.responsibility@tellabs.com](mailto:corporate.responsibility@tellabs.com).



In 2009 Tellabs and the Tellabs Foundation gave more than \$1.4 million to nonprofit organizations (excluding employee gifts and volunteerism).

*“Tellabs is a special partner in feeding hungry people, and they genuinely want to help. Employees were generous, enthusiastic, and truly made a difference.”*

— H. Dennis Smith  
President & CEO,  
Northern Illinois Food Bank



***Benefit ride in Petaluma***

As part of our employee giving campaign, Ted Meister and a team of Tellabs cyclists from Petaluma, Calif., rode 100 miles to benefit the local food bank.

Inspired by employees, Tellabs matched their gifts of time and money. Tellabs employees and the company pledged gifts to 400 charities in 2009.

## Corporate Social Responsibility (CSR) — managing our business for positive economic, social and environmental outcomes

Commitment	2009 Plans	2009 Progress	2010 Plans
<b>Environment</b> <i>Help protect the environment</i>	<ul style="list-style-type: none"> <li>&gt; Complete the Carbon Disclosure Project Survey (CDP7), reporting on all locations</li> <li>&gt; Initiate work to determine carbon footprint by product</li> <li>&gt; Continue testing reliability of lead-free products</li> </ul>	<ul style="list-style-type: none"> <li>✓ Expanded CDP7 response to all locations with full operational control</li> <li>✓ Participated in industry efforts to standardize energy-efficiency measurements, which enable accurate carbon footprint calculation</li> <li>✓ Continued lead-free testing in anticipation of ANSI standards</li> <li>★ Completed Design for Environment workshops in all research and development facilities</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Complete Carbon Disclosure Project Survey 2010</li> <li>&gt; Develop a three-year environmental plan, including Key Performance Indicators (KPIs)</li> <li>&gt; Comply with anticipated ANSI lead-free standard following its release</li> <li>&gt; Espoo, Finland, office will begin using hydroelectric power to reduce carbon emissions</li> </ul>
<b>Supply Chain</b> <i>Expect excellence throughout our supply chain</i>	<ul style="list-style-type: none"> <li>&gt; Reach all suppliers with our code of conduct expectations</li> <li>&gt; Incorporate CSR expectations in supplier contracts</li> </ul>	<ul style="list-style-type: none"> <li>✓ Survey revealed that 98% of preferred suppliers adhere to a code of conduct</li> <li>X Continue commitment to reflect CSR expectations in supplier contracts</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Educate suppliers about conflict minerals and improve substance reporting</li> <li>&gt; Incorporate CSR expectations in supplier contracts</li> </ul>
<b>Employees</b> <i>Engage and develop talented people</i>	<ul style="list-style-type: none"> <li>&gt; Conduct employee engagement survey</li> <li>&gt; Update employee data privacy policy</li> <li>&gt; Expand manager effectiveness, health and wellness initiatives globally</li> </ul>	<ul style="list-style-type: none"> <li>✓ Completed engagement survey</li> <li>✓ Updated employee data privacy policy</li> <li>✓ Delivered manager effectiveness training, health and wellness programs globally</li> <li>★ Formalized and disclosed Global Human Resources policy</li> <li>★ Translated code of conduct and other global policies into local languages</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Develop action plans in response to employee engagement survey</li> <li>&gt; Publicly release Tellabs data privacy policy</li> </ul>
<b>Community</b> <i>Give back to the communities where we live and work</i>	<ul style="list-style-type: none"> <li>&gt; Distribute \$1 million in Tellabs Foundation grants</li> <li>&gt; Maintain high participation in employee giving programs</li> </ul>	<ul style="list-style-type: none"> <li>★ Tellabs Foundation distributed \$1.1 million in grants</li> <li>★ Employee giving increased to more than half of employees</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Distribute \$1 million in Tellabs Foundation grants</li> <li>&gt; Maintain high participation in employee giving programs</li> </ul>
<b>Ethics &amp; Governance</b> <i>Meet highest standards for ethics and governance</i>	<ul style="list-style-type: none"> <li>&gt; Formalize guidance on political and charitable contributions</li> <li>&gt; Update anti-corruption policy</li> </ul>	<ul style="list-style-type: none"> <li>✓ Released political and charitable contributions policy to employees in 3Q09</li> <li>✓ Updated anti-corruption policy</li> </ul>	<ul style="list-style-type: none"> <li>&gt; Conduct ethics and integrity survey</li> </ul>

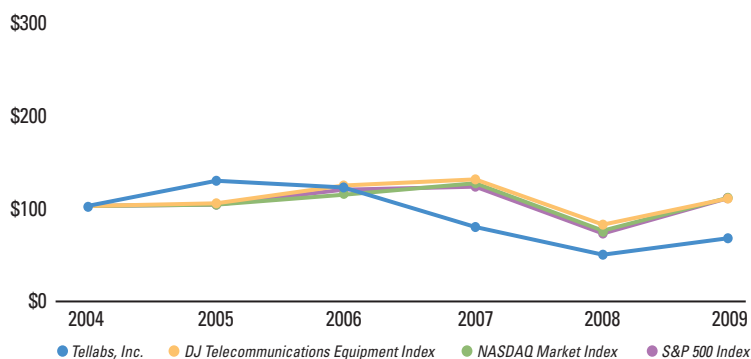
## Tellabs Common Stock Market Data

	2009	
	High	Low
First Quarter	\$ 4.78	\$ 3.52
Second Quarter	\$ 6.02	\$ 4.45
Third Quarter	\$ 7.70	\$ 4.96
Fourth Quarter	\$ 7.36	\$ 5.36

	2008	
	High	Low
First Quarter	\$ 7.21	\$ 5.09
Second Quarter	\$ 6.32	\$ 4.60
Third Quarter	\$ 5.58	\$ 3.67
Fourth Quarter	\$ 4.56	\$ 3.10

## Five-Year Cumulative Total Return Comparison



Tellabs stock performance over five years through Jan. 1, 2010, is compared with a peer group (the Dow Jones Telecommunications Equipment Index), the NASDAQ Market Index and the S&P 500 Index, assuming that \$100 was invested in each on Jan. 1, 2005.



*[www.tellabs.com/investors](http://www.tellabs.com/investors)*