

TELLABS, INC.
AUDIT AND ETHICS COMMITTEE CHARTER

I. PURPOSE

The primary function of the Audit and Ethics Committee (“Committee”) is to assist the Board of Directors in fulfilling its oversight corporate responsibilities. Consistent with this function, the Committee will encourage continuous improvement of, and will foster adherence to, the Company’s policies, procedures and practices at all levels. The Committee’s primary duties and responsibilities are:

- To serve as an independent and objective party to monitor the Company’s financial reporting process and internal control system;
- To appoint, compensate, retain and oversee the work of the Company’s independent auditor
- To oversee the work of the internal audit function and to provide it with organizational independence by providing it a direct reporting line to the Board of Directors;
- To oversee the Company’s compliance with legal and regulatory requirements and its code of ethics.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and has the authority to engage and determine funding for independent counsel and other advisors as it determines necessary to carry out its duties and as permitted by law.

The Committee does not plan or conduct audits or determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Management and the independent auditor are responsible for these activities.

The Committee shall review at least annually and update this charter as deemed appropriate.

II. COMPOSITION

The Committee shall be comprised of three or more directors as determined by the Board of Directors. The members of the Committee shall meet the independence requirements of the NASDAQ Stock Exchange (“NASDAQ”), Rule 4200, and the Securities and Exchange Commission (“SEC”), Rule 10A-3. The Committee shall provide assistance to the Nominating and Governance Committee to determine the continuing compliance with the NASDAQ independence and corporate governance requirements. All members of the Committee shall be able to read and understand financial statements at the time of their appointment, and at least one member of the Committee shall be an “audit committee financial expert”, as defined by SEC regulations.

The members of the Committee shall be elected by the Board of Directors at the annual organizational meeting of the Board of Directors or until their successors shall be duly elected and qualified. Unless a chairman is elected by the full Board of Directors, the members of the Committee may designate a chairman by majority vote of the full Committee membership.

The Committee, in conjunction with the Nominating and Governance Committee, shall perform an evaluation of the Committee's performance at least annually and the Nominating and Governance Committee shall recommend to the Board of Directors proposed Committee members.

III. MEETINGS

The Committee shall meet at least four times annually in person or by phone and more frequently if circumstances dictate. As part of its job to foster open communication, the Committee will meet at least quarterly with management, the internal audit function, the independent auditor and amongst themselves in separate executive sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately.

IV. RESPONSIBILITIES AND DUTIES

The Committee, in carrying out its responsibilities, believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee should take appropriate actions to set the overall corporate "tone" for quality financial reporting, accounting, sound business risk practices and ethical behavior. The following shall be the principal responsibilities and duties of the Committee that may be supplemented from time to time as deemed appropriate by this Committee.

General

1. Discuss with management and the independent auditor the status of internal control recommendations made by the independent auditor and the internal audit function. Review the internal reports to management prepared by the internal audit function and management's response.
2. Discuss with management, the internal auditors and the independent auditor the adequacy and effectiveness of the accounting and financial controls; the policies and procedures to assess, monitor and manage risk; the investment policies, practices and programs; and the legal and ethical compliance programs.

Internal Audit

3. Review plans, annual budget, activities, staffing and organizational structure of the internal audit function, including its charter; Ensure there are no restrictions or limitations, which impact or impair the scope of the internal audit function's activities or their access to required information.
4. Review and concur in the appointment, replacement or dismissal of the internal audit director and the internal audit co-sourced firm.

Independent Auditor

5. Appoint, compensate, review the performance of, and retain or terminate the independent auditor with the independent auditor directly reporting to the Committee. Discuss with the independent auditor the overall scope and plans for their audit activities, including the adequacy of staffing.
6. Pre-approve all audit and non-audit services provided by the independent auditor. The Committee may delegate pre-approval authority to a member of the Committee. The approved non-audit services shall not include any services prohibited by law or regulation.
7. Oversee the work of the independent auditor, including resolution of any disagreements between management and the independent auditor regarding financial reporting.
8. Actively discuss with the independent auditor any relationships or services that may impact the objectivity and independence of the independent auditor. Ensure that the independent auditor submit annually a formal written statement, including the written disclosures required by Independence Standards Board Standard No. 1, delineating all relationships between the independent auditor and the Company.
9. Discuss with the independent auditor the nature of the independent auditor's internal quality control procedures, including any material issues raised by (a) the most recent internal quality control or peer review of the independent auditor or (b) any inquiry or investigation by the PCAOB or other governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the independent auditor, and any steps taken to deal with any such material issues such as those that would impact the independent auditor's ability to maintain its license to operate and function.
10. Set clear hiring policies for employees or former employees of the independent auditor that meets the SEC regulations and NASDAQ listing standards.

Financial Reporting

11. Review management's assertion on its assessment of the effectiveness of internal controls as of the end of the most recent fiscal year and the independent auditor's report on management's assertion.
12. Review the Company's annual financial statements and any reports, including Form 10-K, or other financial information submitted to any governmental body, or the public, including any certification, report, opinion, or review rendered by the independent auditor.
13. Oversee preparation of the Audit & Ethics Committee Report required by the rules of the SEC to be included in the Company's annual proxy statement.
14. Review with management and the independent auditor the Company's quarterly financial statements prior to the release of earnings and prior to the filing of the Form 10-Q and the results of the independent auditor's review of the quarterly financial statements as required by Statement on Auditing Standards No. 71, *Interim Financial Information*.
15. Review earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.
16. Review the charter and activities of the Company's Disclosure Committee and management's processes and resources to execute the responsibilities outlined in the Disclosure Committee charter.
17. Review with management and the independent auditor critical accounting and reporting principles, practices and procedures selected and applied by the Company in preparing its financial statements. Discuss with the independent auditor those matters required to be discussed by Statement on Auditing Standards No. 61, *Communication with Audit Committees*. Consider the independent auditor's judgments about the quality and appropriateness of the Company's accounting principles.
18. Review major changes to the Company's accounting principles and practices as suggested by the independent auditor or management. Review all material alternative treatments of financial information within generally accepted accounting principles that have been discussed between the independent auditor and management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the independent auditor, and any other material written communications between the independent auditor and management.
19. Review and discuss with management and the independent auditor any material financial or non-financial arrangements of the Company which do not appear in the financial statements.
20. Review and approve all related party transactions for potential conflict of interest situations. "Related party transactions" refers to the transactions required to be disclosed pursuant to the SEC regulations.

21. Discuss with management and the independent auditor any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments.
22. Review separately with each member of management, the independent auditor and the internal audit function any significant difficulties or disagreements encountered during the course of the annual audit, including any restrictions on the scope of work or access to required information.

Ethical and Legal Compliance

23. Review the Company's Integrity Policy and management's system to publish, circulate and enforce the Integrity Policy.
24. Review management's monitoring of the Company's compliance with its Integrity Policy, including any changes to or waivers of the Integrity Policy.
25. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls, or auditing matters, and the confidential, anonymous submission by Company employees of concerns regarding accounting or auditing matters.
26. Review, with the Company's counsel, legal compliance matters including violations of securities laws or breaches of fiduciary duty.
27. Review, with the Company's counsel, any legal matter that could have a significant impact on the Company's financial statements.
28. Review the charter and activities of the Company's Business Conduct and Ethics Committee.
29. Perform any other activities consistent with this charter, the Company's by-laws and governing law, as the Committee or the Board of Directors deems necessary or appropriate.

Risk Management

30. Discuss with management the significant business risks or exposures facing the Company; assess the steps management has taken or proposes to take to minimize such risks to the Company; and periodically review compliance with such steps.
31. Review the Company's business continuity plan and key disaster recovery programs.