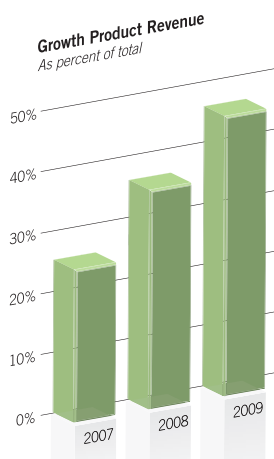




Tellabs fiscal years ended January 1, 2010, and January 2, 2009.

| 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%.

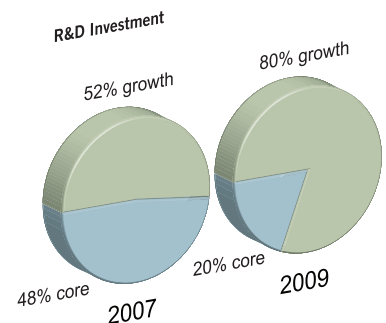
One constant at Tellabs is that when we focus, we win. In 2009 we focused on what we could control: implementing Tellabs' strategies, expanding into new markets with the WiChorus acquisition, controlling costs and expenses, and delivering innovative, differentiated solutions to customers.

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.



Investing in growth
About 80% of our 2009 R&D investment focused on growth products.

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.

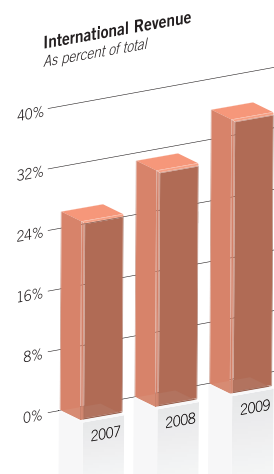
Our financial position also gives customers confidence. After 36 years in business, Tellabs has a rock-solid balance sheet with more than \$1.1 billion in cash and cash equivalents, and zero debt.

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.