

**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION**

	X	
THOMAS JOHNSON, Individually and On Behalf	:	
of All Others Similarly Situated,	:	Case No. 02-CV-4356
	:	
Plaintiff,	:	Judge Amy St. Eve
	:	
vs.	:	
	:	Jury Trial Demanded
TELLABS, INC., et al.,	:	
	:	
Defendants.	:	
	:	
	X	

**DEFENDANTS’ ANSWER AND DEFENSES TO PLAINTIFFS’ SECOND
CONSOLIDATED AMENDED CLASS ACTION COMPLAINT**

Defendants, through their attorneys, for their answer and affirmative defenses to Plaintiffs’ Second Consolidated Amended Class Action Complaint (the “SAC”) state as follows. Defendants restate the allegations of the Complaint herein for the convenience of the Court and the parties, but by doing so in no way adopt or acknowledge the validity of those allegations except as specifically set forth in the answer.

CONFIDENTIAL SOURCES

Confidential sources (also referred to as “CS-__”) who provided information for Plaintiffs’ counsel’s investigation included the following:

- CS-1: Confidential Source 1 is a former Tellabs marketing manager, from several months prior to the Class Period through substantially after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-1, Defendants state CS-1 was hired on 9/5/2000 and left the Company on 4/19/2002. When CS-1 left Tellabs, CS-1’s job title was Associate Marketing Manager. Defendants deny the remaining allegations regarding CS-1.

- CS-2: Confidential Source 2 is a former Tellabs executive account manager and regional manager, from substantially prior to the Class Period through several months after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-2, Defendants state CS-2 was hired on 11/6/1995 and left the Company on 10/19/2001. When CS-2 left Tellabs, CS-2's job title was Executive Account Manager. Defendants deny the remaining allegations regarding CS-2.

- CS-3: Confidential Source 3 is a former high-level Tellabs sales executive, from many years prior to the Class Period through shortly prior to the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-3, Defendants state CS-3 was hired on 10/31/1998. When CS-3 left Tellabs, CS-3's job title was Vice President & General Manager - SBC. Defendants deny the remaining allegations regarding CS-3.

- CS-4: Confidential Source 4 is a former Tellabs shipping supervisor, from many years prior to the Class Period through shortly after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-4, Defendants state CS-4 was hired on 1/14/1985 and left the Company on 8/24/2001. When CS-4 left Tellabs, CS-4's job title was Supervisor Manufacturing. Defendants deny the remaining allegations regarding CS-4.

- CS-5: Confidential Source 5 is a former mid-level Tellabs employee involved in distribution, from well prior to the Class Period through substantially after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-5, Defendants state CS-5 was hired on 10/19/1998 and left the Company on 8/2/2002. When CS-5 left Tellabs, CS-5's job title was Electronic Associate 4. Defendants deny the remaining allegations regarding CS-5.

- CS-6: Confidential Source 6 is a former Tellabs senior business manager, from prior to the Class Period through well after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-6, Defendants state CS-6 was hired on 10/2/2000 and left the Company on 9/6/2002. When CS-6 left Tellabs, CS-6's job title was Senior Marketing Manager. Defendants deny the remaining allegations regarding CS-6.

- CS-7: Confidential Source 7 is a former Tellabs sales director, from prior to the Class Period through most of the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-7, Defendants state CS-7 was hired on 7/5/2000 and left the Company on 4/20/2001. When CS-7 left Tellabs, CS-7's job title was Regional Sales Director. Defendants deny the remaining allegations regarding CS-7.

- CS-8: Confidential Source 8 is a former Tellabs marketing manager, from well prior to the Class Period through well after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-8, Defendants state CS-8 was hired on 11/8/1999 and left the Company on 4/19/2002. When CS-8 left Tellabs, CS-8's job title was Marketing Manager. Defendants deny the remaining allegations regarding CS-8.

- CS-9: Confidential Source 9 is a former Tellabs project manager, from close to the beginning of the Class Period through after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-9, Defendants state CS-9 was hired on 1/2/2001 and left the Company on 8/24/2001. When CS-9 left Tellabs, CS-9's job title was Senior Staff Systems Specialist. Defendants deny the remaining allegations regarding CS-9.

- CS-10: Confidential Source 10 is a former Tellabs customer accounts representative, from substantially prior to the Class Period through well after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-10, Defendants state CS-10 was hired on 7/12/1999 and left the Company on 1/11/2002. When CS-10 left Tellabs, CS-10's job title was Senior Customer Account Manager. Defendants deny the remaining allegations regarding CS-10.

- CS-11: Confidential Source 11 is a former Tellabs regional sales director, from substantially prior to the Class Period through shortly after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-11, Defendants state CS-11 was hired on 11/17/1997 and left the Company on 8/24/2001. When CS-11 left Tellabs, CS-11's job title was Regional Sales Director. Defendants deny the remaining allegations regarding CS-11.

- CS-12: Confidential Source 12 is a former Tellabs installations supervisor, from the beginning of the Class Period through after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-12, Defendants state CS-12 was hired on 12/4/2000 and left the Company on 1/11/2002. When CS-12 left Tellabs, CS-12's job title was Site Supervisor I. Defendants deny the remaining allegations regarding CS-12.

- CS-13: Confidential Source 13 is a former Tellabs sales manager, from substantially prior to the Class Period through the end of the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-13, Defendants state CS-13 was hired on 9/12/1994 and left the Company on 6/8/2001. When CS-13 left Tellabs, CS-13's job title was Senior Account Manager. Defendants deny the remaining allegations regarding CS-13.

- CS-14: Confidential Source 14 is a former Tellabs materials manager, from substantially prior to the Class Period through the end of the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-14, Defendants state CS-14 was hired on 9/22/1980 and left the Company on 6/18/2001. When CS-14 left Tellabs, CS-14's job title was Manufacturing Manager. Defendants deny the remaining allegations regarding CS-14.

- CS-15: Confidential Source 15 is a former Tellabs manager in the business development area, from prior to the Class Period through after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-15, Defendants state CS-15 was hired on 6/14/1999 and left the Company on 4/19/2002. When CS-15 left Tellabs, CS-15's job title was Supplier Diversity Manager. Defendants deny the remaining allegations regarding CS-15.

- CS-16: Confidential Source 16 is a former Tellabs marketing strategy executive, from prior to the Class Period through after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-16, Defendants state CS-16 was hired on 5/17/1999 and left the Company on 9/6/2002. When CS-16 left Tellabs, CS-16's job title was Customer Manager. Defendants deny the remaining allegations regarding CS-16.

- CS-17: Confidential Source 17 is a former Tellabs market analyst, from well prior to the Class Period through shortly after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-17, Defendants state CS-17 was hired on 3/30/1998 and left the Company on 8/24/2001. When CS-17 left Tellabs, CS-17's job title was Market Analyst. Defendants deny the remaining allegations regarding CS-17.

- CS-18: Confidential Source 18 is a former high-level SALIX/Tellabs operations executive, from prior to the Class Period through the end of the Class Period.

ANSWER: Defendants are without knowledge or information sufficient to form a belief as to the truth of the allegations regarding CS-18 and therefore deny these allegations.

- CS-19: Confidential Source 19 is a former high-level Tellabs sales executive, from before the Class Period through after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-19, Defendants state CS-19 was hired on 9/1/1999 and left the Company on 10/26/2001. When CS-19 left Tellabs, CS-19's job title was Senior Vice President North American Sales. Defendants deny the remaining allegations regarding CS-19.

- CS-20: Confidential Source 20 is a former high-level Tellabs sales executive, from well before the Class Period through shortly after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-20, Defendants state CS-20 was hired on 1/12/1981 and left the Company on 8/31/2001. When CS-20 left Tellabs, CS-20's job title was Vice President of Sales. Defendants deny the remaining allegations regarding CS-20.

- CS-21: Confidential Source 21 is a former Tellabs sales director, from well before the Class Period through well after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-21, Defendants state CS-21 was hired on 4/1/1997 and left the Company on 9/6/2002. When CS-21 left Tellabs, CS-21's job title was Director of Sales. Defendants deny the remaining allegations regarding CS-21.

- CS-22: Confidential Source 22 is a former Tellabs operations manager, from shortly prior to the Class Period through after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-22, Defendants state CS-22 was hired on 12/4/2000 and left the Company on 1/11/2002. When

CS-22 left Tellabs, CS-22's job title was Operations Manager. Defendants deny the remaining allegations regarding CS-22.

- CS-23: Confidential Source 23 is a former Tellabs engineer who held a variety of management positions at Tellabs, from well prior to the Class Period through well after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-23, Defendants state CS-23 was hired on 2/1/1994 and left the Company on 4/19/2002. When CS-23 left Tellabs, CS-23's job title was Application Specialist. Defendants deny the remaining allegations regarding CS-23.

- CS-24: Confidential Source 24 is a former Tellabs senior designer, from prior to the Class Period through well after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-24, Defendants state CS-24 was hired on 2/14/2000 and left the Company on 4/19/2002. When CS-24 left Tellabs, CS-24's job title was Senior Instructional Designer. Defendants deny the remaining allegations regarding CS-24.

- CS-25: Confidential Source 25 is a former Tellabs customer manager, from prior to the Class Period through well after the Class Period.

ANSWER: Based upon information provided by Plaintiffs regarding the identity of CS-25, Defendants state CS-25 was hired on 11/27/2000 and left the Company on 4/19/2002. When CS-25 left Tellabs, CS-25's job title was Customer Manager. Defendants deny the remaining allegations regarding CS-25.

- CS-26: Confidential Source 26 is a former Tellabs team project manager for a product distributor to Tellabs, from prior to the Class Period through after the Class Period.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to the truth of the allegations regarding CS-26 and therefore deny these allegations.

- CS-27: Confidential Source 27 is a former Tellabs consultant who worked for value added resellers (“VARs”), before and throughout the Class Period. VARs are third parties that work along with Tellabs to handle customer services, including engineering site surveys, installations, and testing services, VARs also act as distributors of Tellabs’ products and provide other services.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to the truth of the allegations regarding CS-27 and therefore deny these allegations. Defendants admit that VARs are third parties that, among other things, handle customer services, including engineering site surveys, installations, and testing services, VARs also act as distributors of Tellabs’ products which they purchase, and provide other services. Defendants deny the remaining allegations in the paragraph regarding CS-27.

NATURE OF THE ACTION

1. Plaintiffs bring this securities class action on behalf of themselves and on behalf of all persons who purchased the common stock of Defendant Tellabs during the period from December 11, 2000 through June 19, 2001, inclusive (the “Class Period”).

ANSWER: Defendants admit that Plaintiffs purport to bring this putative securities class action on behalf of themselves and all persons who purchased the common stock of Defendant Tellabs during the period from December 11, 2000 through June 19, 2001 (the “Class Period”).

2. During the relevant period, Tellabs designed, manufactured, marketed, and serviced optical networking, broadband access, and voice-quality enhancement solutions. The Company also provided professional services that supported its solutions. Tellabs’ products and services were used worldwide by providers of communications services. The Company’s products were sold in the domestic and international marketplaces through the Company’s field sales force and selected distributors. The Company’s customer base included incumbent local exchange carriers, independent telephone companies, interexchange carriers, local telephone administrations, other local exchange carriers, original equipment manufacturers, cellular and other wireless service companies, cable operators, alternate service providers, competitive local exchange carriers, internet service providers, system integrators, government agencies, and business end-users. During the Class Period, Tellabs counted as customers telecommunications giants SBC Communications, Inc. (“SBC”) and Verizon Communications, Inc. (“Verizon”).

ANSWER: Defendants admit the allegations in paragraph 2, subject to the clarification that at times different products were sold in different markets.

3. By early- to mid-2000, the Internet and telecommunications sectors were contracting significantly. In the face of this dramatic slowdown and consolidation in the telecommunications sector, Defendants falsely reassured public investors, in a series of statements made during the Class Period, that Tellabs was continuing to enjoy strong demand for its products and earning record revenues. These unqualified, positive statements, for which Defendants had no reasonable basis, had the effect of artificially inflating and maintaining the trading price of Tellabs stock. At the same time they were falsely assuring the investing public concerning the Company's performance and prospects, Tellabs insiders profited by selling tens of thousands of shares of their personally-owned Tellabs common stock at artificially inflated prices, reaping proceeds of over \$8 million.

ANSWER: Defendants deny the allegations in paragraph 3.

4. In truth, and unbeknown to the investing public, by no later than the beginning of the Class Period, Tellabs' performance was being adversely affected by the same difficult telecommunications business environment that its competitors had been facing for several months. Tellabs' customers, which were telecommunications-related companies, were suffering from a severe deterioration and consolidation of their businesses. Accordingly, demand for Tellabs' products was slowing.

ANSWER: Defendants admit that some of Tellabs' customers were telecommunications-related companies. Defendants deny the remaining allegations contained in paragraph 4.

5. In addition to issuing a series of deceptive statements and inflated earnings guidance, Defendants sought to falsely assure investors as to Tellabs' performance and prospects by means of a number of deceptive practices that artificially inflated the Company's reported revenues and concealed the rapidly falling demand for the Company's key products. Such fraudulent practices included channel stuffing, which artificially boosted revenues in earlier periods at the expense of subsequent periods; phony sales; and offering customers excessive and unusual discounts, rebates, payment terms, rights of return, and other incentives that went beyond ordinary business practices, none of which were disclosed to the investing public. Channel stuffing is the deceptive business practice of building inventories of distributors and customers, before they would have purchased such products in the ordinary course, to artificially inflate sales and earnings. Stuffing the channel has the effect of robbing future quarters to boost sales in the current quarter.

ANSWER: Defendants deny the allegations in paragraph 5.

6. As a result of Defendants' deceptive conduct during the Class Period, the price of Tellabs stock climbed as high as \$67.125 per share (on February 5, 2001).

ANSWER: Defendants admit that on February 5, 2001, Tellabs' stock was at or about as high as \$67.125 per share. Defendants deny the remaining allegations in paragraph 6.

7. Defendants' efforts to obscure and conceal the truth concerning Tellabs' deteriorating sales and diminishing value continued until, at the earliest, June 19, 2001, when Tellabs finally conceded that demand for its products had collapsed, and substantially lowered its second quarter guidance, reducing expected revenues from the \$780 million to \$820 million range to only \$500 million. In response, on June 20, 2001, Tellabs common stock fell, on record volume, from a closing price of \$21.20 per share the previous day to close at \$16.04 per share --a one-day decline of more than 24%. The overall decline from the inflated Class Period high of \$67.125 per share to the low on June 20, 2001 of \$15.87 per share was more than 76%.

ANSWER: Defendants admit that on June 19, 2001, Tellabs lowered its second quarter guidance, reducing expected revenues from the \$780 million to \$820 million range to \$500 million. Defendants admit that on June 20, 2001, Tellabs common stock closed at or about \$16.04 per share. Defendants admit that on June 19, 2001, Tellabs common stock closed at or about \$21.20 per share. Defendants deny the remaining allegations in paragraph 7.

8. As a result of the foregoing, Plaintiffs and other purchasers of Tellabs common stock during the Class Period suffered substantial damages because the market price of the stock they purchased was artificially inflated by Defendants' material misrepresentations and omissions and did not reflect the true value of the stock.

ANSWER: Defendants deny the allegations in paragraph 8.

JURISDICTION AND VENUE

9. The claims asserted herein arise under and pursuant to Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934 (the "Exchange Act") [15 U.S.C. §§ 78j(b), 78t(a), and 78t-1], and Rule 10b5 promulgated thereunder by the SEC [17 C.F.R. § 240.10b-5].

ANSWER: Defendants admit that Plaintiffs purport to assert claims pursuant to Sections 10(b), 20(a), and 20A of the Securities Exchange Act of 1934 (the “Exchange Act”) [15 U.S.C. §§ 78j(b), 78t(a), and 78t-1], and Rule 10b5 promulgated thereunder by the SEC [17 C.F.R. § 240.10b-5]. Answering further, Defendants state that all of Plaintiffs’ claims based on Section 20A of the Securities Exchange Act of 1934 have been dismissed.

10. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa] and 28 U.S.C. §§ 1331 and 1337.

ANSWER: Defendants admit that this Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act [15 U.S.C. § 78aa] and 28 U.S.C. §§ 1331 and 1337.

11. Venue is proper in this District pursuant to Section 27 of the Exchange Act, and 28 U.S.C. § 1391(b). All or a substantial part of the acts charged herein, including the preparation and dissemination of materially false and misleading information, occurred in this District and Tellabs maintains its chief executive offices and principal place of business within this District.

ANSWER: Defendants admit that venue is proper in this District and that Tellabs maintains its chief executive offices and principal place of business within this District. Defendants deny the remaining allegations in paragraph 11.

12. In connection with the wrongs complained of herein, Tellabs, directly or indirectly, used the means and instrumentalities of interstate commerce, including the United States mails and interstate telephone communications, and the facilities of the national securities markets.

ANSWER: Defendants deny that they committed any wrongs and therefore deny the allegations in paragraph 12.

THE PARTIES

Plaintiffs

13. On September 27, 2002, the Court appointed Makor Issues & Rights Ltd. (“Makor”) Lead Plaintiff pursuant to 15 U.S.C. § 78(u)-4. Makor purchased Tellabs common stock at artificially inflated prices during the Class Period and was damaged thereby.

ANSWER: Defendants admit that on September 27, 2002, the Court appointed Makor Issues & Rights Ltd. (“Makor”) as Lead Plaintiff pursuant to 15 U.S.C. § 78(u)-4. Defendants deny the remaining allegations in paragraph 13.

14. Additional Plaintiffs are the following individuals who also purchased Tellabs common stock at artificially inflated prices during the Class Period and were damaged thereby:

- a. Chris Broholm
- b. Richard LeBrun
- c. David Leehey
- d. Patricia Morris

ANSWER: Defendants admit that the additional individuals listed purport to be listed as additional plaintiffs. Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations regarding these plaintiffs’ purchases, and therefore deny the same. Defendants deny the remaining allegations in paragraph 14.

15. Certifications for Plaintiffs previously were submitted to the Court.

ANSWER: Defendants admit that certifications for Plaintiffs were previously submitted to the Court.

Defendants

16. Defendant Tellabs is a Delaware corporation with its principal executive offices located at One Tellabs Center, 1415 West Diehl Road, Naperville, Illinois 60563.

ANSWER: Defendants admit the allegations in paragraph 16.

17. Defendant Michael J. Birck (“Birck”) has been a Tellabs Director since 1975 and has served as Chairman of the Board since September 18, 2000. Birck served as Tellabs’ Chief Executive Officer and President from 1975 through September 1, 2000, and was a founder of the Company. During the Class Period, while in possession of adverse undisclosed information about the Company, Birck sold 80,000 shares of common stock for \$5,183,150 in illegal insider trading proceeds.

ANSWER: Defendants admit that Birck has been a Tellabs Director since 1975 and served as Chairman of the Board since September 18, 2000. Defendants also admit that Birck was Tellabs’ Chief Executive Officer and President from 1975 through September 18, 2000. Defendants deny the remaining allegations in paragraph 17, and further state that any claims pertaining to Mr. Birck’s alleged sales of stock have previously been dismissed.

18. Defendant Brian J. Jackman (“Jackman”) has served as a Tellabs Director since 1993. He served as Tellabs’ President of Global Systems and Technology and Executive Vice President from 1998 to September 1, 2001. As President of Global Systems and Technology at Tellabs, Jackman was responsible for all product divisions worldwide.

ANSWER: Defendants admit that Jackman served as Tellabs’ President of Global Systems and Technology and Executive Vice President from 1998 to September 1, 2001. Defendants admit that Jackman was a Tellabs Director from 1993 to 2003. Defendants deny the remaining allegations in paragraph 18.

19. Defendant John C. Kohler (“Kohler”) served as Tellabs’ Senior Vice President of Global Business Operations (Global Manufacturing) from February 2000 to March 10, 2003, and was Tellabs’ Vice President of Global Manufacturing from 1992 - 2000. During the Class Period, Kohler was in charge of manufacturing, including procurement, manufacturers, repairs, returns, warehousing, the building and storage of products, and the purchase of parts. During the Class Period, while in possession of adverse undisclosed information about the Company, Kohler sold 7,500 shares of common stock for \$484,968 in illegal insider trading proceeds.

ANSWER: Defendants admit that Kohler served as Tellabs’ Senior Vice President of Global Manufacturing and then Senior Vice President of Global Business Operations during February 2000 to March 10, 2003. Defendants admit that Kohler was responsible for customer

service, manufacturing and procurement. Defendants admit that Kohler sold 7,500 shares of common stock during the class period. As to the remaining allegations, Defendants state that all claims against Kohler have been dismissed and he is no longer a party in this action, and Defendants therefore deny the remaining allegations contained in paragraph 19.

20. Defendant Richard C. Notebaert (“Notebaert”) served as a Tellabs Director from April 19, 2000 to June 17, 2002, and as Chief Executive Officer and President of Tellabs from September 18, 2000 to June 17, 2002.

ANSWER: Defendants admit the allegations in paragraph 20.

21. Defendant Robert W. Pullen (“Pullen”) served as Tellabs’ Senior Vice President and General Manager of Optical Networking from August 2000 to February 2, 2002, and, in that capacity, had responsibility with respect to the TITAN series products at issue in this action.

ANSWER: Defendants state that all claims against Pullen have been dismissed and he is no longer a party in this action. Answering further, Defendants admit the allegations in paragraph 21.

22. Defendant Joan E. Ryan (“Ryan”) served as Tellabs’ Executive Vice President and Chief Financial Officer from February 2, 2000 to February 7, 2003.

ANSWER: Defendants admit the allegations in paragraph 22.

23. The Individual Defendants, as senior executive officers and directors of Tellabs, were controlling persons of the Company, at all relevant times. Each exercised his power and influence to cause Tellabs to engage in the fraudulent practices complained of herein.

ANSWER: Defendants deny that Kohler or Pullen are individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 23.

24. It is appropriate to treat the Individual Defendants as a group for pleading purposes and to presume that the materially false, misleading, and incomplete information conveyed in the Company’s public filings, press releases, and other public statements, as

alleged herein, are the collective actions of the narrowly defined group of Defendants identified above. The above officers and directors of Tellabs, by virtue of their high-level positions with the Company and “hands on” management style, directly participated in the management of the Company, were directly involved in the day-to-day operations of the Company at the highest levels, and were privy to confidential proprietary information concerning the Company. Said Defendants were involved in the fraudulent activities herein alleged and were also involved in drafting, producing, reviewing, and disseminating the materially false and misleading statements and information alleged herein; were aware, or recklessly disregarded, that the materially false and misleading statements were being issued regarding the Company; and approved or ratified these statements, in violation of the federal securities laws.

ANSWER: Defendants state that the “group pleading” assertion is a legal conclusion which has previously been rejected by the courts in this case. Defendants further deny that Kohler or Pullen are individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 24.

25. As officers and directors and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and governed by the provisions of the federal securities laws, the Individual Defendants each had a duty to disseminate promptly accurate, complete, and truthful information with respect to the Company and to correct any previously-issued statements that had become materially misleading or untrue, so that the market price of the Company’s publicly-traded securities would be based upon truthful, complete, and accurate information. The Individual Defendants’ misrepresentations and omissions during the Class Period violated these specific requirements and obligations.

ANSWER: Defendants admit that Tellabs’ common stock was, and is, registered with the SEC pursuant to the Exchange Act. Defendants admit that the federal securities laws impose certain duties and obligations, which they deny have been accurately or completely characterized herein. Defendants deny the remaining allegations contained in paragraph 25. Defendants further deny that Kohler or Pullen are individual defendants in this action.

26. The Individual Defendants participated in the drafting, preparation, and/or approval of the various public statements and filings complained of herein and were aware of, or were severely reckless in disregarding, the misstatements contained therein and omissions therefrom, and were aware of, or recklessly disregarded, their materially false and misleading

nature. Because of their Board membership and executive and managerial positions with Tellabs, and “hands on” management of the Company, the Individual Defendants had access to the adverse undisclosed information about the Company and knew, or were severely reckless in not knowing, that these adverse facts rendered the positive representations made, issued, or adopted by the Company materially false and misleading.

ANSWER: Defendants state that the only statements and filings that remain at issue in this litigation, and which have not been dismissed pursuant to previous court rulings, are those set forth in the February 25, 2008 Joint Status Report filed by the parties, and the only Individual Defendant against who a primary liability claim remains is Notebaert. Defendants further deny that Kohler or Pullen are individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 26.

27. The Individual Defendants, because of their positions of control and authority as officers and directors of the Company, were able to and did control the content of the various SEC filings, press releases, and other public statements pertaining to the Company during the Class Period. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and had the ability and opportunity to prevent their issuance or cause them to be corrected. Accordingly, each of the Individual Defendants is responsible for the accuracy of the public reports, releases, and statements detailed herein and is therefore primarily liable for the misrepresentations and misleading statements contained therein.

ANSWER: Defendants admit that Birck, Notebaert, Ryan, and Jackman were officers or directors of the Company. Defendants further deny that Kohler or Pullen are individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 27.

28. Each of the Defendants is liable as a primary participant in a fraudulent scheme and course of business that operated as a fraud and deceit on purchasers of Tellabs common stock, by disseminating materially false and misleading statements and concealing material adverse facts. The scheme: (1) deceived the investing public as to the true value of Tellabs common stock; and (2) caused Plaintiffs and other members of the Class to purchase Tellabs common stock at artificially inflated prices that did not reflect its true value.

ANSWER: Defendants deny the allegations contained in paragraph 28. Answering further, Defendants deny that Kohler or Pullen are individual defendants in this action. Answering further, Defendants state that all claims for primary liability under the federal securities laws against Birck, Jackman, and Ryan have been dismissed.

29. During the Class Period, Defendants' misleading statements and activities related to Tellabs' flagship TITAN 5500 systems, and two purportedly newly-launched products, the TITAN 6500 and SALIX 7750.

ANSWER: Defendants admit that the TITAN 5500 system was Tellabs' flagship product. Defendants admit that the TITAN 6500 was a newly-launched product during the class period. Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered. To the extent an answer is required, Defendants admit that the SALIX 7750 was a newly-launched product during the class period. Defendants deny the remaining allegations contained in paragraph 29.

30. **TITAN 5500:** In 2000, optical networking systems accounted for approximately 64% of Tellabs' sales, and the TITAN 5500 -- Tellabs' principal seller in this category -- was the Company's "flagship," according to Tellabs' 2000 Form 10-K. Tellabs' 2000 Annual Report explains that its TITAN 5500 systems are "digital cross-connect systems" -- optical networking products that "help direct different types of communications traffic across wired and wireless networks." Tellabs' 2000 Annual Report describes a "digital cross-connect" as "[a] specialized high-speed data channel switch, which connects transmission paths based on network needs (rather than call by call). Digital cross-connects manage and route network traffic, and combine, consolidate and segregate signals to maximize efficiency." According to the 2000 Annual Report, features of the TITAN 5500 include access, transport, and management for fiber optic networks. Fiber optic networks are a critical part of overall voice and data communications infrastructures. Tellabs' 2000 Annual Report identified the TITAN 5500 systems as Tellabs' "core products."

ANSWER: Defendants admit the allegations contained in paragraph 30.

31. **TITAN 6500:** According to Tellabs' 2000 Annual Report, the TITAN 6500 is a new "multiservice transport switch" that "emerged from [Tellabs'] laboratories in 2000." "Multiservice" means capable of simultaneously transporting a variety of signal types.

ANSWER: Defendants admit the allegations contained in paragraph 31.

32. **SALIX 7750:** According to Tellabs' 2000 Annual Report, the SALIX 7750 ("SALIX") is a "next-generation switch" that "enables service providers to move voice traffic seamlessly onto data networks while supporting voice services such as three-way calling and messaging." Tellabs' 2000 Annual Report, describes a "next-generation switch" as one that "performs advanced data switching in addition to the same features as local central office and tandem long-distance switches."

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered. To the extent an answer is required, Defendants admit the allegations contained in paragraph 32.

33. During the Class Period, Tellabs' largest customer for its "flagship" Titan 5500, and largest customer overall was Verizon. SBC was also one of Tellabs' most significant customers. Tellabs' 2000 Form 10-K stated:

In 2000, sales to Verizon Communications, Inc. (Verizon) accounted for approximately 19.1% of consolidated net sales. In 1999, sales to SBC Communications, Inc. (SBC) and sales to Verizon accounted for approximately 11.5% and 11.0% of consolidated net sales, respectively. In 1998, sales to Verizon and SBC accounted for approximately 13.9% and 12.6% of consolidated net sales, respectively. No other customer in 2000, 1999, or 1998 accounted for more than 10% of consolidated net sales.

CS-11, CS-12, CS-14, and CS-22 confirmed that Verizon was Tellabs' largest customer for the TITAN 5500 in 2000 and 2001. Tellabs often sells its products through distributors. CS-11 confirmed that Tellabs' largest distributors, during the Class Period, were Telcobuy.com, Lexicom, and Walker Communications, Inc.

ANSWER: Defendants admit that during the period of 1998 through 2001, Verizon was one of Tellabs' customers, and admit it was Tellabs' largest customer during each of 2000 and 2001. Defendants admit that SBC was one of Tellabs' significant customers. Defendants admit that Tellabs' 2000 Form 10-K stated, in part:

In 2000, sales to Verizon Communications, Inc. (Verizon) accounted for approximately 19.1% of consolidated net sales. In 1999, sales to SBC Communications, Inc. (SBC) and sales to Verizon accounted for approximately 11.5% and 11.0% of consolidated net sales, respectively. In 1998, sales to

Verizon and SBC accounted for approximately 13.9% and 12.6% of consolidated net sales, respectively. No other customer in 2000, 1999, or 1998 accounted for more than 10% of consolidated net sales.

Defendants deny the remaining allegations contained in paragraph 33.

34. Contrary to Defendants' public representations during the Class Period, as detailed below, and unbeknown to investors, by the beginning of the Class Period, at the end of 2000, demand for Tellabs' key products, including the TITAN 5500 -- Tellabs' "best seller" -- was slowing substantially. Thus:

ANSWER: Defendants deny the allegations contained in paragraph 34.

35. A Tellabs installations supervisor, CS-12, related that, in late 2000, there was a significant reduction (roughly 25%) in orders for the TITAN 5500 from Verizon (Tellabs' largest customer). Moreover, CS-22, a former Tellabs operations manager, reported that, in January 2001, orders from Verizon significantly declined by roughly 50%, because Verizon was overloaded with TITAN 5500 products.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-12 or CS-22 made the statements attributed to them in Paragraph 35 and therefore deny these allegations. Answering further, because this paragraph does not identify the alleged baseline against which the alleged estimates of reductions in orders purports to be measured, Defendants lack sufficient knowledge or information to form a belief as to the truth of these estimates and therefore deny the same. Defendants deny the truth of the remaining statements attributed to CS-12 and CS-22 in paragraph 35.

36. According to CS-13, a Tellabs sales manager, customers in Latin America and Central America did not want the TITAN 5500.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-13 made the statements attributed to CS-13 in paragraph 36 and therefore deny these allegations. Answering further, Defendants state that the TITAN 5500 was not actively

marketed or sold in Central or Latin America. Defendants deny the truth of the remaining statements attributed to CS-13 in paragraph 36.

37. CS-14, a Tellabs materials manager who was at Tellabs throughout the Class Period, reported that orders from every single TITAN 5500 customer declined while CS-14 was at Tellabs.

ANSWER: Defendants deny that CS-14 was at Tellabs throughout the Class Period, and state that CS-14 left the Company on 6/18/2001. Defendants lack sufficient knowledge or information to form a belief as to what CS-14 reported regarding the TITAN 5500 orders and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-14 in paragraph 37.

38. CS-15, a Tellabs manager in the business development area, related that sales of Tellabs' products were declining by early 2001. CS-15 also reported that customers believed Tellabs' products to be of poor quality.

ANSWER: Defendants state that, at the time CS-15 left Tellabs, CS-15's job title was Supplier Diversity Manager. Defendants lack sufficient knowledge or information to form a belief as to whether CS-15 made the statements attributed to CS-15 in paragraph 38 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-15 in paragraph 38.

39. A former Tellabs marketing strategy executive, CS-16, reported that a study performed for Tellabs by an independent research firm, Probe Research, which cost Tellabs \$100,000, and was completed in or about early 2001, showed a steep drop in the number of T1 circuits required in the market. CS-16 explained that T1's were the main source of demand for Tellabs' TITAN 5500 systems. In or about early 2001, an internal report was prepared by Tellabs' marketing strategy department that accurately concluded that, as a result of the decline in T1's, Tellabs' revenue from the TITAN 5500 would decline by approximately \$400 million (a huge and extremely significant decline given that, in the same time frame, the TITAN 5500 accounted for approximately \$1.8 billion to \$2.0 billion of Tellabs' approximately \$3.4 billion of reported revenue in 2000 and that Tellabs had no other products to take up the slack). According to CS-16, this report was discussed at marketing strategy meetings, and was widely

circulated to at least 10 executives, including individuals who reported directly to Defendants (such as Harvey Scull, the head of the marketing strategy department, who reported directly to Defendant Birck).

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-16 made the statements attributed to CS-16 in paragraph 39 and therefore deny these allegations. Answering further, Defendants admit that Probe Research is an independent research firm and that it performed a study for Tellabs. Defendants deny the truth of the remaining statements attributed to CS-16 in paragraph 39.

40. Tellabs' internal quarterly reports -- prepared by Tellabs' finance department and viewed by CS-23 -- showed declining demand in the third and fourth quarters of 2000 for a variety of Tellabs' products, including the TITAN 5500, Tellabs' most significant product. Quarterly reports concerning the profitability of Tellabs' merchandise, which could be accessed on the Tellabs database system, showed a decline in customer demand for the TITAN 5500 in March 2001, according to CS-17.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to what was viewed by CS-23 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-23 in paragraph 40.

41. According to a former Tellabs customer manager, CS-25, Tellabs' customers were not buying as early as November 2000 and Tellabs was not busy throughout the Class Period. According to CS-25: "it got slower and slower."

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-25 made the statements attributed to CS-25 in paragraph 41 and therefore deny the allegations in paragraph 41. Answering further, Defendants deny the truth of the statements attributed to CS-25 in paragraph 41.

42. Former Tellabs marketing manager CS-1 confirmed that Tellabs had excess TITAN 5500s on hand in late 2000 / early 2001 due to lack of customer demand because Tellabs had overloaded its customers.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-1 made the statements attributed to CS-1 in paragraph 42 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-1 in paragraph 42.

43. Former Tellabs executive account manager CS-2 confirmed that, due to Verizon budget cuts, including cuts in capital expenditures and other expenditures affecting network equipment purchases from companies such as Tellabs during the fourth quarter of 2000 and throughout 2001, Verizon failed to execute millions of dollars of projected TITAN 5500 orders, including new systems, plugs, and cards.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-2 made the statements attributed to CS-2 in paragraph 43 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-2 in paragraph 43, except that Defendants admit that in 2001 Verizon failed to execute projected orders.

44. The decline in demand also was confirmed by a major distributor of parts to Tellabs. According to CS-26, a Tellabs team project manager for a product distributor to Tellabs, Tellabs suddenly stopped taking parts for its products in the beginning of 2001. The parts distributor thought Tellabs knew it was in trouble by about February 2001. By early April 2001, the distributor started having problems obtaining payment from Tellabs, resulting in a mounting debt that reached \$10 million over the next six months.

ANSWER: Defendants lack sufficient knowledge to form a belief as to whether CS-26 made the statements attributed to CS-26 in paragraph 44 or as to what the unidentified parts distributor thought or perceived and therefore deny these allegations. Because the parts distributor is not identified, Defendants lack knowledge or information sufficient to form a belief as to the truth of the other allegations pertaining to that parts distributor, and therefore deny the

same. Answering further, Defendants deny the truth of the remaining statements attributed to CS-26 in paragraph 44.

45. According to CS-1, Tellabs had “tons” of excess TITAN 5500s and other products on hundreds of racks in Tellabs’ Bollington warehouse. Some systems were there for six months to a year. Former Tellabs marketing manager CS-1 also confirmed that Tellabs had excess TITAN 5500s on hand in late 2000 / early 2001 due to lack of customer demand, resulting from Tellabs overloading its customers.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-1 made the statements attributed to CS-1 in paragraph 45 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-1 in paragraph 45.

46. As detailed below, during the Class Period, Defendants touted Tellabs’ TITAN 6500 while failing to disclose to investors that these products were not being accepted or purchased by customers, were way behind in development, were failing evaluations, had defects that would not be resolved until well after the Class Period, and were not even close to being saleable products until significantly after the Class Period. Individual Defendants were directly involved with these issues, including visiting customers to deal with the TITAN 6500’s problems. For example:

ANSWER: Defendants deny the allegations contained in paragraph 46.

47. CS-16, a former Tellabs marketing strategy executive, related that customers thought that Tellabs’ TITAN 6500 products had “too big a footprint” (took up too much space) in comparison to the amount of bandwidth capacity the products had. Customers explained that competitor Ciena’s product provided more bandwidth for the amount of floor space Tellabs’ TITAN 6500 took up. CS-16 related that Tellabs repeatedly attempted, without success, to sell its TITAN 6500 to major customers Verizon, BellSouth, and SBC.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-16 made the statements attributed to CS-16 in paragraph 47 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-16 in paragraph 47.

48. According to CS-19, a former high level Tellabs sales executive, Tellabs did not do much with the TITAN 6500, and, by October 2001, some four months after the close of the Class Period, there had been only a couple of trials in a couple of locations. According to CS-5, who was involved in Tellabs distribution, Tellabs did not make actual sales of the TITAN 6500 or even have the product in its warehouse until after mid-September 2001. Similarly, according to a former Tellabs project manager, CS-9, Tellabs played up the TITAN 6500 when it had not actually sold one yet; and the TITAN 6500 was still not a released, saleable product even two months after the end of the Class Period. Former Tellabs consultant CS-27 also confirmed that the TITAN 6500 was not approved by the RBOCs (Regional Bell Operating Companies).

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-19, CS-9 or CS-27 made the statements attributed to each of them in paragraph 48 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-19, CS-9 and CS-27 in paragraph 48.

49. CS-6 confirmed that, at least since September 2000, Sprint network traffic had been dropping, and thus demand for the TITAN 6500 product was dropping. According to CS-6, the TITAN 6500 was meant for very high bandwidth, and the customers needed to have growth to support it; consequently, Sprint decreased its orders after an initial deal that Defendants touted.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-6 made the statements attributed to CS-6 in paragraph 49 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-6 in paragraph 49.

50. In addition, according to CS-1, a former Tellabs marketing manager, senior management, including Defendant Pullen (then Senior Vice President of Product Development), was aware of TITAN 6500 production problems and that the product was failing evaluations. Moreover, as CS-1 reported, Pullen made numerous visits to TITAN 6500 customers in connection with failed evaluation problems.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-1 made the statements attributed to CS-1 in paragraph 50 and therefore deny these

allegations. Answering further, Defendants deny the truth of the statements attributed to CS-1 in paragraph 50.

51. According to former Tellabs executive account manager, CS-2, Tellabs executives got very aggressive with trying to push the TITAN 6500 (including pushing sales personnel to do everything they could to sell the product) and they just did not have a product. CS-2 never closed any sales of the TITAN 6500. CS-2 also explained that Tellabs was having a very difficult time testing the TITAN 6500; and that, in the fourth quarter of 2000 and first quarter of 2001, Tellabs product managers stated they were in the process of fixing the TITAN 6500's defects and hoped to release the product in the first quarter of 2002.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-2 made the statements attributed to CS-2 in paragraph 51 or as to whether CS-2 ever closed any sales of the TITAN 6500 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-2 in paragraph 51.

52. As CS-3, a high-level Tellabs sales executive, explained, the TITAN 6500 was almost two years late to market, which annoyed customers and resulted in Tellabs probably losing \$50 million to \$60 million of initial sales that it would have had if the product had been on time. Due to the lateness of Tellabs' product, it lost business to a French competitor, Alcatel, even though Alcatel had an inferior broadband cross-connect product, according to CS-3.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-3 made the statements attributed to CS-3 in paragraph 52 and therefore deny these allegations. Answering further, Defendants lack sufficient knowledge or information to form a belief as to whether Tellabs lost any potential sales for the TITAN 6500 to Alcatel. Defendants deny the truth of the remaining statements attributed to CS-3 in paragraph 52.

53. According to CS-3, the slow pace of development of the TITAN 6500 was evident throughout the entire development process in 1998, 1999, 2000, and 2001, and thereafter. Defendants Jackman and Pullen, who were both actively involved in product development, and other development personnel knew that the TITAN 6500 was not ready for disbursement despite Defendants' public announcements, according to CS-3. As explained by CS-3, Tellabs introduced the TITAN 6500 in 2000 prior to its being ready; however, customers

realized that the TITAN 6500 “was not even close to being ready” when they evaluated it in their labs. According to CS-3, Notebaert also knew about the TITAN 6500 problems.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-3 made the statements attributed to CS-3 in paragraph 53 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-3 in paragraph 53. Answering further, Defendants state that Pullen is not an individual defendants in this action.

54. Defendants touted a \$100 million deal with Sprint for the TITAN 6500 to foster a false impression that there was demand for the product. Defendants concealed that Sprint had made this deal only to fulfill a pre-existing financial obligation concerning a different product, and that further orders would not be forthcoming.

ANSWER: Defendants admit that on December 11, 2000, Tellabs issued a press release announcing a multiyear agreement with Sprint for the TITAN 6500 multiservice transport switch and announcing that the agreement was expected to be valued at more than \$100 million over the life of the contract. Defendants deny the remaining allegations contained in paragraph 54.

55. According to two former Tellabs marketing managers, CS-1 and CS-8, and a former Tellabs market strategy executive, CS-16, Sprint entered into the TITAN 6500 agreement to satisfy an already-existing \$100 million commitment, which arose when Sprint backed out of a previous deal to purchase Tellabs’ AN-2100 media gateway. In truth, Sprint was not planning to buy any more TITAN 6500 products from Tellabs once Sprint satisfied its pre-existing open commitment. Yet, Defendants deceptively presented the Sprint sale as an indication that there was a growing market for the TITAN 6500.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-1, CS-8, or CS-16 made the statements attributed to them in paragraph 55 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-1, CS-8, and CS-16 in paragraph 55.

56. Defendants glowingly portrayed Tellabs' supposed "launch" of its new "leading edge" SALIX technology in 2000 when, in fact, the SALIX technology was both unfinished and outmoded. The technology required massive infusions of cash and personnel to commercialize -- which Tellabs did not provide, and was in any event outmoded technology.

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered.

57. According to a high-level SALIX/Tellabs operations executive, CS-18, there were serious technical defects with the SALIX product -- and Tellabs knew from "day one" that SALIX's staff of 50 would need to be increased to at least 300 to successfully commercialize the SALIX product. However, CS-18 explained that Tellabs did not invest more money and personnel in the product (as Tellabs originally committed to do), and thus the product could not be commercialized. CS-18 explained that SALIX failed because of the downturn in the market and because the product could not be commercialized. According to CS-18, Level 3 was the only SALIX customer of significance. The same source explained that Defendant Kohler knew exactly what was being purchased by customers, because Tellabs had to buy material for the product and because Kohler attended meetings at the Level 3 customer site in Colorado and made presentations to the customer. According to CS-18, the "bottom line" was that Tellabs executives knew exactly what was going on concerning SALIX's customer. According to the same source, Tellabs executives were well aware of the customer's business potential, and had "first hand" knowledge from attending meetings at the customer's site.

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered.

58. CS-19, a former high level Tellabs sales executive, also confirmed that Level 3 was virtually the only customer for the SALIX product, and that Tellabs reversed the revenue from the one or two deals it had for the SALIX product (which were with Level 3) when Tellabs discontinued the SALIX business.

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered.

59. CS-16 reported that the SALIX technology was not suitable for the market.

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered.

60. In a “town hall” meeting in or about late April 2001 at Tellabs’ Lisle office attended by roughly 50 to 100 employees, Notebaert conceded that the SALIX technology was not current technology, and that there were other technologies that superseded it, according to CS-9, a former Tellabs project manager. CS-6 confirmed that Notebaert made the decision to kill the SALIX product.

ANSWER: Defendants state that based on this Court’s February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered.

61. Moreover, CS-6 explained that the SALIX product required “second party software” that Tellabs did not own and that the software supplier was purchased by a competitor, causing problems for Tellabs.

ANSWER: Defendants state that based on this Court’s February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered.

62. To falsely portray substantial and growing revenues and demand, Defendants knowingly engaged in undisclosed extraordinary and illegitimate sales practices and “channel stuffing” of Tellabs’ primary product, the TITAN 5500. As Defendants knew would occur, this resulted in drastically reduced sales and huge customer returns of unwanted merchandise in early 2001 and thereafter. Other illicit (and undisclosed) sales practices used by Defendants to create a false picture of robust demand included writing orders for customers for products that the customers did not want, and back-dating sales. Defendants also gave customers significant “incentives” to take merchandise, which belied Defendants’ false portrayals of strong demand for Tellabs’ products. Such incentives, which were concealed from the investing public, were excessive, unusual, and departed from ordinary business practices. Defendants’ reliance on such deceptive devices to foster an illusion of demand provide further confirmation that demand for Tellabs’ products was, in fact, declining and operated to deceive the investing public concerning the true state of Tellabs’ business.

ANSWER: Defendants state that the allegations regarding sales incentives and back-dated sales have been dismissed and therefore no answer to these allegations is required. To the extent an answer is required, Defendants deny such allegations. Defendants state that allegations regarding “channel-stuffing” (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. To

the extent an answer is required, Defendants deny such allegations. Defendants deny the remaining allegations contained in paragraph 62.

63. According to CS-3, a high-level Tellabs sales executive, Tellabs employees actually wrote purchase orders for customers for products that the customers had not ordered. Moreover, according to CS-3, Tellabs' Verizon team used channel stuffing as a strategy.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-3 made the statements attributed to CS-3 in paragraph 63 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-3 in the first sentence of paragraph 63. Defendants state that allegations regarding "channel-stuffing" (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. To the extent an answer is required, Defendants deny the remaining allegations of paragraph 63.

64. Tellabs' channel stuffing of the TITAN 5500 product in late December 2000 was of an "extraordinary" magnitude, according to CS-6, a former Tellabs senior business manager.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-6 made the statements attributed to CS-6 in paragraph 64 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-6 in paragraph 64. Defendants state that allegations regarding "channel-stuffing" (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. To the extent an answer is required, Defendants deny such allegations.

65. CS-21, a former Tellabs sales director, noted that sales of the TITAN 5500 reached a peak in 2000 (when Tellabs shipped off premises absolutely everything it could get out although nobody needed the product), then noticeably declined in early 2001, and continued to plummet through 2001.

ANSWER: Defendants admit that sales of the TITAN 5500 declined in 2001 over the prior year. Defendants lack sufficient knowledge or information to form a belief as to whether CS-21 made the statements attributed to CS-21 in paragraph 65 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-21 in paragraph 65.

66. A former Tellabs marketing manager, CS-8, also stated that Tellabs definitely channel-stuffed and loaded up distributors “big and fat” at the end of the fourth quarter 2000 (especially in December). According to CS-8, distributors were upset and later returned the inventory.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-8 made the statements attributed to CS-8 in paragraph 66 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-8 in paragraph 66. Defendants state that allegations regarding “channel-stuffing” (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. To the extent an answer is required, Defendants deny such allegations.

67. CS-6, a Tellabs senior business manager, explained that Telcobuy.com (a VARS that distributed to SBC) and Verizon were two of Tellabs’ customers victimized by channel stuffing. Channel stuffing in December 2000 involving SBC alone amounted to roughly \$20 million in revenue. According to CS-6, Tellabs paid VARS, including Telcobuy.com, a certain percentage, 5% or 10%, to hold inventory, an abnormal practice in the industry. Telcobuy wanted to return the product because it realized that it could not sell the product to SBC and that Tellabs had jammed Telcobuy. A lot of the inventory, approximately \$10 to \$15 million, came back in 2001. CS-6 also reported that Tellabs’ executives approved this channel stuffing; that Defendant Notebaert worked directly with Tellabs’ sales personnel to channel stuff SBC; and that Tellabs’ chief financial officer, Defendant Ryan, also knew about the channel stuffing.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-6 made the statements attributed to CS-6 in paragraph 67 and therefore deny these allegations. Defendants admit that TelcoBuy was a value-added reseller that sold to SBC. Answering further, Defendants deny the truth of the remaining statements attributed to CS-6 in paragraph 67. Defendants state that allegations regarding “channel-stuffing” (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. To the extent an answer is required, Defendants deny such allegations.

68. Similarly, a former Tellabs customer service accounts representative, CS-10, stated that Tellabs sent customers product (especially the TITAN 5500) that the customers (including Lexcom, Verizons, and Telcobuy) did not want. According to CS-10, the customers returned the TITAN 5500 merchandise as soon as it showed up at their door. CS-10 also reported that often the customer’s site was not ready for product; yet Tellabs delivered the product anyway to make its revenue numbers. This customer service representative (CS-10) also reported processing millions of dollars of returns from customers of unwanted product, mostly the TITAN 5500. CS-10 also stated that returns were so heavy during January and February 2001 that Tellabs had to lease extra storage space to accommodate all the returns; returns in January, February, and March 2001 were in the millions of dollars. Verizon and Telcobuy were heavily returning product, according to CS-10.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-10 made the statements attributed to CS-10 in paragraph 68 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-10 in paragraph 68.

69. According to another former Tellabs marketing manager, CS-1, Tellabs got “creative” to make the numbers at the end of the fourth quarter of 2000 and early 2001, including offering customers discounts of as much as 10% to 20% and other incentives (which were not disclosed to the investing public), shipping to distributors (including shipping the TITAN 5500 to distributor Lexcom in early 2001) without having agreement by the ultimate customer to purchase the product, as is customary in the industry, which resulted in returns the subsequent quarter.

ANSWER: Defendants state that the allegations regarding discounts and other incentives have been dismissed and that therefore no answer is required. Defendants further state that allegations regarding “channel-stuffing” (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. To the extent an answer is required, Defendants lack sufficient knowledge or information to form a belief as to whether CS-1 made the statements attributed to CS-1 in paragraph 69 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-1 in paragraph 69.

70. In addition, according to CS-1, Defendants also engaged in improper practices to meet earnings expectations, such as backdating sales for the TITAN 5500 -- pulling sales to larger customers such as SBC and Sprint from the first quarter 2001 into the fourth quarter of 2000 to make the numbers.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-1 made the statements attributed to CS-1 in paragraph 71 and therefore deny these allegations. Defendants state that the allegations regarding backdating of sales have previously been dismissed, and therefore no answer is required. To the extent an answer is required, Defendants deny the truth of any such allegations. Answering further, Defendants deny the truth of the remaining statements attributed to CS-1 in paragraph 71.

71. According to CS-3, a high-level Tellabs sales executive, Verizon unsuccessfully tried to return a lot of product. Verizon’s Chairman Charles Lee even called Tellabs to complain about channel stuffing. As CS-3 also maintains, Tellabs distributors Telcobuy.com and Lexcom were also victimized by Tellabs’ channel stuffing. According to CS-3, Telcobuy.com tried to return product to Tellabs during late 1999 through late 2000. Tellabs offered Telcobuy very generous credit terms (90 days net) -- much more than normal (30 days net) -- to induce Telcobuy to keep the products. Tellabs also gave Telcobuy additional discount incentives to buy TITAN 5500 plugs in late 1999 through late 2000.

ANSWER: Defendants state that allegations regarding “generous credit terms” and “discount incentives” have been dismissed and therefore no answer is required. To the extent an answer is required, Defendants lack sufficient knowledge or information to form a belief as to whether CS-3 made the statements attributed to CS-3 in paragraph 71 and therefore deny these allegations. Answering further, Defendants deny the truth of the statements attributed to CS-3 in paragraph 71. Defendants state that allegations regarding “channel-stuffing” (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. To the extent an answer is required, Defendants deny such allegations.

72. CS-5, who was involved in Tellabs distribution, confirmed that Tellabs sent customers an extraordinarily tremendous amount of product during the last 6 weeks of the fourth quarter of 2000, requiring Tellabs distribution employees to work 16 hours a day, seven days a week, and the Company still needed more distribution help. CS-4, a Tellabs shipping supervisor, also confirmed that at the end of each quarter, particularly the fourth quarter of 2000, Tellabs distribution personnel worked double shifts to push out product, from 6:00 a.m. until 12:00 midnight. But as soon as the first quarter of 2001 hit, Tellabs did not have orders, there was no more work, and Tellabs distribution employees were told to go home early, according to CS-5.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-5 or CS-4 made the statements attributed to them in paragraph 72 and therefore deny such allegations. Defendants admit that Tellabs sold and shipped a large amount of product during the last 6 weeks of the fourth quarter of 2000 and that certain employees worked overtime to complete the shipments. Defendants deny the truth of the remaining statements attributed to CS-5 and CS-4 in paragraph 72.

73. On December 11, 2000, the first day of the Class Period, Defendants issued a press release announcing a multi-year sales agreement with Sprint for the TITAN 6500. The press release stated:

Tellabs today announced a multiyear agreement with Sprint for the TITAN 6500 multiservice transport switch, which will help the carrier manage exponential growth of broadband traffic while lowering its costs. The agreement is expected to be valued at more than \$100 million over the life of the contract.

* * *

The TITAN 6500 system is available now. [Emphasis added.]

ANSWER: Defendants admit that on December 11, 2000, Tellabs issued a press release.

Defendants state that the December 11, 2000 press release contains the language quoted in part, but must be read in its entirety.

74. Defendants' representations regarding the TITAN 6500 and the Sprint deal in the press release quoted in the previous paragraph were materially false and misleading in that:

- a. in truth, the TITAN 6500 was not then currently available;
- b. production of the TITAN 6500 was far behind schedule and the product was not ready for release;
- c. the TITAN 6500 was failing customer lab evaluations;
- d. the TITAN 6500 was inferior to comparable products offered by Tellabs' competitors; and
- e. Sprint's purchase of the TITAN 6500 was merely to satisfy a pre-existing purchase obligation that arose when Sprint canceled another product purchase, and would not result in continued sales.

ANSWER: Defendants deny the allegations contained in paragraph 74 and its subparts

a. through e.

75. Also, on December 11, 2000, Defendants held a conference with analysts in New York City.

ANSWER: Defendants admit that on December 11, 2000, Tellabs held an analyst conference in New York City.

76. Robert W. Baird & Co., Inc. ("Baird") issued a summary of Defendants' December 11, 2000 analysts' conference in a December 12, 2000 "Research Note," which reported the following:

- * The most significant announcements of the conference were the availability of [Tellabs'] TITAN 6700 optical switch, its first purchase order for the TITAN

6100, and the announcement of a multi-year \$100+ million contract with Sprint for the TITAN 6500. They expect this revenue to be accrued linearly over the next four years.

- * Tellabs also reiterated its confidence in the telecom-spending environment and reconfirmed consensus growth forecasts for Q4 [2000] and 2001.
- * New CEO Richard Notebaert presented first during the conference and outlined the tremendous opportunity for Tellabs in international markets, as well as the expected continuing growth of the TITAN 5500, as well as its new optical-networking and next-generation switching initiatives.
- * Tellabs believes that these new optical-networking platforms expand its addressable market by nearly sevenfold to \$20+ billion by 2003.
- * Tellabs also outlined its outlook for its Salix next-generation soft-switching platforms where the addressed market is expected to grow to over \$1 billion by 2003 and accelerate to \$24 billion in 2008.
- * Tellabs also reiterated its growth forecast of 30% in revenue and EPS for 2001.
- * Consequently, as a result of these new and developing product initiatives and Tellabs expanding addressable markets, we expect Tellabs to maintain an above-average growth rate for at least the next 2 to 3 years.

Baird thereupon reiterated its “strong buy” rating on the Company’s stock.

ANSWER: Defendants state that the December 12, 2000 “Research Note” issue by Robert W. Baird & Co., Inc. (“Board”) contains the language quoted in part but must be read in its entirety.

77. Other securities analysts following Tellabs common stock also reported on Defendants’ positive representations at the December 11, 2000 conference:

a. UBS Warburg issued a report describing Defendants’ fourth quarter 2000 projections:

Tellabs maintained its guidance for 4Q of 2000 and all of 2001. In doing so, the company indicated that demand for its TITAN 5500 product line remains solid in 4Q and there is visibility for at least two years (if not more) of ongoing good growth for this product.

Estimating sales growth of about 30% in 2001, UBS reiterated its “buy” rating on the Company’s stock.

b. A Morgan Stanley report focused on the new line of products announced by Tellabs and Defendant Notebaert's assertion that there was "strong demand for Tellabs' products despite capital expenditure fears by the carriers." Morgan Stanley forecasted that new product sales would contribute about \$30 million of revenue in 2000 and at least \$100 million in 2001, raised its price targets to \$75, and maintained its "outperform" rating on the Company's stock.

c. Merrill Lynch's report on Tellabs' December 11, 2000 analyst meeting characterized the meeting as "upbeat," and stated that Tellabs "Management reiterated its forecast for 30% top and bottom line growth for 2001" and that Tellabs' "cash engine, the TITAN 5500, is still humming away." The Merrill Lynch report also stated: "[T]he strength of the TITAN 5500 gives us reasonable visibility into the near term outlook, even despite some of the industry concerns on capital spending."

d. ABN AMRO, Inc. ("ABN") reported Defendant Pullen's comment that the "TITAN 5500 remains the workhorse of the group and is expected to see strong growth for the next 2-3 years." (Emphasis added.) Relying on Defendants' statements, ABN raised its price target and earnings per share and reiterating its "buy" rating on the Company's stock.

e. Robinson-Humphrey's report on Defendants' December 11, 2000 conference stated:

Tellabs' softswitch has also taken a jump start, with six trials currently underway at a handful of customers. Management indicated that the trials are progressing well, especially at one large customer. . . .

(Emphasis added.) Robinson-Humphrey also reiterated its "buy" rating on Tellabs stock based on the Defendants' assurances regarding the TITAN 5500 and the SALIX product lines.

ANSWER: Defendants admit that the reports issued by UBS Warburg, Morgan Stanley, Merrill Lynch, ABN AMRO, Inc., and Robinson Humphrey referred in subparagraphs a. through e. contained in part the quoted statements attributed to them, but state that these reports must be read in their entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs mischaracterize these research analyst reports or add comments not present in the reports.

78. On January 22, 2001, the day before Tellabs was to announce its fourth quarter 2000 earnings results, citing its high degree of confidence in the demand for Tellabs' existing and emerging products, and reflecting Defendants' guidance, Lehman Brothers issued a favorable research report forecasting 2001 revenues of \$4.368 billion, an increase of 30%, and earnings per share of \$2.25, an increase of 32%.

ANSWER: Defendants admit that a Lehman Brothers analyst issued a research report on or about January 22, 2001, the day before an expected Tellabs' earnings announcement, which

contained the forecasts cited and mentioned its high degree of confidence in demand. Defendants deny the remaining allegations in this paragraph.

79. These and other positive analysts' reports issued during the Class Period confirm that the market was, in fact, misled by Defendants' false and misleading representations and that those representations were material.

ANSWER: Defendants deny the allegations contained in paragraph 79.

80. Defendants' positive representations at the December 11, 2000 analyst conference, as reported by conference attendees, as set forth above, were each materially false and misleading for the reasons set forth in paragraph 74 above and for the following additional reasons, among others:

a. in truth, Tellabs was experiencing a substantial decline in the demand for its TITAN 5500 products;

b. in an effort to conceal the declining demand for the TITAN 5500, Defendants were engaging in illegitimate sales practices and a "channel stuffing" scheme, whereby the Company was:

- (1) over-supplying customers with unwanted products by "stuffing" distribution channels;
- (2) writing orders for products the customers did not want;
- (3) improperly backdating orders; and
- (4) capturing revenue from subsequent quarters by offering unusual and extraordinary discounts and incentives to customers to entice them into purchasing products during fourth-quarter 2000;

c. These deceptive sales and "channel stuffing" practices, which were designed to foster a false illusion of demand, resulted in Tellabs' customers being over-inventoried with TITAN 5500 products and caused them to decrease orders for those products in the future;

d. because of an already contracting market for telecommunications products, customers were reducing and would continue to reduce their orders for Tellabs products, including the TITAN 5500, throughout 2001;

e. the SALIX technology could not be commercialized and was already outdated and superceded; and

f. in light of the foregoing, Defendants' forecasts of revenue and earnings growth lacked any reasonable basis and were contradicted by adverse facts known to Defendants.

ANSWER: Defendants incorporate by reference their answer to Paragraph 74 above.

Defendants state that the allegations regarding discounts, incentives and "channel-stuffing"

(other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to these allegations is required. Defendants further state that all allegations regarding SALIX have been dismissed and therefore no answer to these allegations is required. Defendants deny the remaining allegations contained in paragraph 80 and its subparts.

81. On January 23, 2001, Defendants issued a press release announcing Tellabs' financial results for the fourth quarter of 2000:

Strength in Tellabs' core business drove record sales and earnings in the fourth quarter of 2000. Fourth-quarter 2000 sales totaled \$1,018 million, up 42% from \$716 million in 1999. . . .

Fourth-quarter net income was \$232 million, up 41% from \$165 million a year ago, and diluted earnings per share rose to 56 cents, up 44% from 39 cents a year ago, before one-time items. Including one-time items, fourth-quarter net income was \$238 million and diluted earnings per share were 57 cents.

* * *

"To keep up with robust growth in communications traffic, customers are buying more and more Tellabs equipment-fueling our records results and our first \$1 billion quarter," said Richard C. Notebaert, Tellabs chief executive officer and president. "Customers are embracing the five new products we launched last year, opening new opportunities for Tellabs to grow."

(Emphasis added.) With respect to the Company's optical networking division, the press release stated in pertinent part as follows:

Optical Networking -- For the fourth quarter of 2000, sales of optical networking products [including the TITAN 5500] amounted to \$641 million, up 49% over a year ago. In 2000, the Tellabs optical networking group shipped more than 14 million DS1-equivalent ports.

During the quarter, Tellabs' shipped its first TITAN 6100 and TITAN 6500 systems for customer deployment. In December, Tellabs announced that it would supply the TITAN 6500 system to Sprint under the terms of a \$100 million multiyear agreement.

(Emphasis added.)

ANSWER: Defendants admit that on January 23, 2001, Tellabs issued a press release, which contained in part, and without emphasis, the language quoted but which must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs mischaracterize or incompletely quote the January 23, 2001 press release.

82. On the same day, January 23, 2001, Defendants, including Notebaert, Ryan, and Jackman, held a conference call with analysts to discuss Tellabs' fourth quarter 2000 results. Notebaert stated:

This was a great quarter and fitting end to a wonderful year. Tellabs not only achieved record sales and profits in the fourth quarter [of 2000], we also set the stage for sustained growth with the successful launches of several products, many of those long anticipated. First let me hit some of the highlights from our fourth quarter. For the first time ever we had sales of over \$1 billion. I mean it's just fantastic. All of us at Tellabs are still buzzing about that. It's a great accomplishment for us. Customers are embracing our products. We announced a \$100 million plus agreement with Sprint for the 6500. Our first customer success with this new product. We shipped our first TITAN 6500 and our first TITAN 6100 in the fourth quarter. [Emphasis added.]

ANSWER: Defendants admit that an analyst conference call occurred on January 23, 2001, and that many of the statements above were made by Notebaert. Defendants deny the allegations in this paragraph to the extent Plaintiffs misquote what was said during the January 23, 2001 conference call.

83. During the same conference call, Defendant Joan Ryan stated:

Now, heading into 2001, we have constructed our forecast by balancing overall economic conditions against direct input from our customers about the products we sell. All indications are that Tellabs will continue to sustain our strong record of growth. [Emphasis added.]

ANSWER: Defendants admit that during the analyst conference the foregoing statements were among those made by Ms. Ryan. Defendants deny the allegations in this paragraph to the extent Plaintiffs selectively quote what was said during the January 23, 2001 conference call, the transcript of which must be read in its entirety.

84. During the same call, in response to questions seeking updates on the TITAN 6500, Defendant Notebaert also stated:

On the 6500, demand for that product is exceeding our expectations and I'm just gonna say a word and pass it to Brian. We had spent and we'll meet again tonight, a large amount of time working on our ability to create or manufacture enough product to meet customer demand. Demand is just, is huge for this product. [Emphasis added.]

Notebaert further asserted that "[i]t's not all tied to Sprint although Sprint is obviously the earliest and most visible customer."

ANSWER: Defendants state that the quotations attributed to Notebaert are not entirely accurate, and that the transcript of the conference call must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs misquote or incompletely quote what was said during the January 23, 2001 conference call.

85. In addition, on the same day, in an interview with Eric Schatzker from the Bloomberg News, on the *Bloomberg Forum*, Defendant Notebaert falsely asserted that Tellabs was not being seriously affected by the slowing telecommunications economy:

Schatzker: Okay, let's talk about your fourth quarter earnings. Came in line with expectations, earnings of 56 cents a share, and I think the big story here, really, is that's that a bit of a relief to a lot of investors who'd expected, who were fearful that the numbers might miss forecast given all the concerns about a slowdown in telecommunications spending, and I guess they'd also have to be encouraged by a reiteration or a confirmation of your outlook for 2001, which includes growth and earnings per share, and revenue of more than 30%. Why is it that you guys seem to be holding up so well, when some of the other companies that hope to take your business away, are faltering?

Notebaert: Well, I think it goes back to our customers. I mean, everything starts with your customer. What Tellabs has is a targeted product set that meets a customer need. And the customer's business is growing in units, in traffic, and so our product helps them be more efficient, helps them in its scalability, and it really provides them a path to future converged networks. And that's recognized by the customer, and they showed that again this quarter, and I'm a little surprised at the performance of our stock the last few weeks, because last quarter, this quarter, we've been solid, and we feel very, very good about the robust growth we're experiencing. (Emphasis added.)

* * *

Schatzker: Sure. Actually, that leads me to another question, which is, we've heard over the last couple of weeks some companies in the same business you're in, or at least a similar business, companies like ABC Telecom, Nortel even, talk about how the slowing US economy was affecting their outlook and prompting them to pare back their 2001 forecast. How come that isn't really affecting you guys?

Notebaert: You know, the folks at Nortel, John Rothman and his team, have never invited me into their boardroom. So it would be inappropriate for me to comment about them, or about ABC.

Schatzker: Okay, fair enough, we can change it then, why don't you think you guys are, your company is feeling a pinch at all because of any slowdown that we might be seeing, or perceiving in the US economy?

Notebaert: I think it goes back to where I started. When you've got a product set that really creates efficiency, scalability, it leads the way to tomorrow's converged networks, but what you end up with is sustained growth. What would really -- the only thing that would really change, really adversely affect a company like Tellabs, with its outstanding set, is if in fact the utilization of the network, of the Internet, in other words, people stop communicating either computer to computer with data, or by a voice . . .

ANSWER: Defendants admit that Notebaert participated in a January 23, 2001 interview with Eric Schatzker of Bloomberg Forum. Defendants deny that Notebaert's statements were false and deny the allegations in this paragraph to the extent Plaintiffs misquote or incompletely quote the January 23, 2001 Bloomberg Forum interview with Eric Schatzker.

86. Defendants' January 23, 2001 representations, as set forth in the foregoing paragraphs, were each materially false and misleading for the reasons set forth in ¶¶ 74 and 80 above, and for the following additional reasons, among others:

- a. Tellabs' reported financial results for the fourth quarter and full year-2000 were the result of deceptive sales practices, including false and backdated orders and channel stuffing, and could not be sustained;
- b. a market research study performed by Defendants and an outside research firm was accurately forecasting a significant additional drop in TITAN 5500 sales;
- c. Tellabs was experiencing massive product returns; and
- d. contrary to Defendants' claims, direct input from Tellabs' customers indicated that Tellabs could not sustain strong growth.

ANSWER: Defendants state that no statements from January 23, 2001, other than those reporting fourth quarter 2000 financial results are among those that remain at issue in this case,

as set forth in February 25, 2008 Joint Status Report filed by the parties. Further answering, Defendants incorporate by reference their answer to Paragraphs 74 and 80 above. Defendants deny the allegations contained in paragraph 86 and its sub-parts.

87. Following these positive announcements, securities analysts following Tellabs again issued highly positive reports based on Defendants' guidance and representations. For example:

- a. On January 23, 2001, Merrill Lynch reiterated its "long term buy" rating.
- b. That same day, Robinson-Humphrey also reiterated its "buy" rating, noting that "management had upheld year-end guidance for 2001, relieving many investors apprehensions."
- c. On January 24, 2001, Morgan Stanley issued a report reiterating its "outperform" rating and establishing a new price target of \$90 (up from its previous price target of \$75) for Tellabs' shares. Noting that the Optical Networking group sales grew 49% to \$641 million, up from the \$429 million in fourth-quarter 1999, and that "sales of the TITAN products continued to fuel growth" (emphasis added), Morgan Stanley adjusted its 2001 revenue estimate to \$4.4 billion, up from its previous \$4.3 billion estimate and revenue growth greater than 30%.
- d. Deutsche Banc also issued a report on January 24, 2001, raising its 2001 estimates from \$4.21 billion to \$4.37 billion and maintaining its "buy" recommendation on Tellabs stock.

ANSWER: Defendants admit that the reports referenced in sub-parts a. through d. were issued and in part contained the material referenced in sub-parts a. through d. Defendants deny the remaining allegations in this paragraph.

88. The following week, on January 30, 2001, Defendants issued another press release, announcing "a new suite of softswitches, the SALIX 7600 softswitch control suite, which helps carriers increase revenue by building low-cost networks that deliver innovative new services quickly." The press release stated:

"Tellabs is committed to delivering new next-generation switching solutions that will prepare the world's communications networks for tomorrow," said Brian Jackman, president of Global Systems and Technology at Tellabs. "The SALIX 7600 suite brings together voice and data technologies to create a set of telepacket service applications that can help carriers grow profitably."

The SALIX 7600 suite is the latest addition to the award-winning SALIX 7000 series of products, which includes the SALIX 7700 gateway service switches and the SALIX 7400 integrated management suite. With the new SALIX 7600 suite, Tellabs has redefined the softswitch market and can now offer integrated, comprehensive solutions to all carriers. [Emphasis added.]

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed as not stating a claim and thus do not need to be answered.

89. Defendants' positive representations concerning the SALIX 7600 suite were materially false and misleading in that, among other things, the SALIX technology could not be commercialized and already was outdated and superceded.

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed as not stating a claim and thus do not need to be answered.

90. On February 14, 2001, Defendants issued Tellabs' year 2000 Annual Report. The letter to stockholders contained therein, which was signed by Defendants Notebaert and Birck, stated:

Dear Fellow Stockholders:

Tellabs' growth is robust. In 2000 we exceeded our targets of 30% growth in sales and earnings for the fifth consecutive year. Sales rose 46% to \$3.4 billion. Earnings per share increased 33% to \$1.75. Our results set new records across the board, as you can see on the facing page.

* * *

Our markets and products hold significant potential for sustained growth.

Communications traffic is growing -- that's no surprise. But you may be surprised to hear that most telephone calls and Internet sessions in the United States now flow through Tellabs equipment. That's how ubiquitous our products have become, because we bring customers exactly the solutions they need. Looking through the eyes of our customers, Tellabs is ideally positioned in three high-growth markets -- optical networking, broadband access and next-generation switching. Industry analysts forecast that these markets will grow sevenfold by 2003.

* * *

Our core business is performing well, which reflects customers' needs to handle traffic growth, add new services and migrate to future technologies without stranding assets. For example, sales of our TITAN 5500 digital cross-connect systems soared 56% in 2000, our third consecutive year of accelerating growth.

* * *

The new TITAN 6500 multiservice transport switch emerged from our laboratories in 2000, and customers are embracing it. Sprint, for example, announced a multiyear agreement for more than \$100 million. And we're just getting started.

In all, we launched five major new products last year -- the TITAN 6100 optical transport system, the FOCUS 6200 dense wavelength division multiplexer, the TITAN 6500 multiservice transport switch, the VERITY 3000 voice-quality enhancement series and the SALIX 7750 next-generation switch. All around Tellabs, you hear employees buzzing with excitement as they talk to customers about the potential of these products and how they will lead the way to tomorrow's converged networks.

* * *

Tellabs' best is yet to come.

(Emphasis added.)

ANSWER: Defendants admit that on February 14, 2001, Tellabs issued its year 2000 annual report. Defendants admit that the year 2000 annual report contained statements quoted in this paragraph but state that the document must be read in its entirety. Defendants deny the allegations in this paragraph to the extent that Plaintiffs incompletely quote Tellabs' year 2000 annual report.

91. Defendants Birck and Notebaert answered investors' frequently asked questions in the Annual Report, including the following:

Q. Your core business is built on the TITAN 5500 -- are you worried that this product has peaked?

A. No. In 2000, TITAN 5500 revenues grew 56%, its best year so far. Although we introduced this product nearly 10 years ago, it's still going strong because we keep adding new capabilities so it can do more and more for our customers. For example, last year we introduced a new TITAN 5500 system with 50% more capacity -- enough to handle 1 million simultaneous Internet sessions. Now customers want an even larger TITAN 5500 system. That's why we believe there are many years of life ahead for this highly successful product.

Q. How are you doing with introducing new products?

A. . . . The new SALIX 7750 next-generation switch positions Tellabs in a new category where we see a lot of opportunities. . . .

(Emphasis added.)

ANSWER: Defendants admit that the year 2000 annual report contained the quoted statements but state that the annual report must be read in its entirety. Defendants deny the allegations in this paragraph to the extent that Plaintiffs incompletely quote Tellabs' year 2000 annual report.

92. Tellabs' 2000 Annual Report also contained a list of "reasons to invest in Tellabs," including:

High growth markets -- As demand for communications expands, the telecom equipment market is growing 20% to 25% as year. Tellabs is focused on attacking three market segments that offer major growth potential -- and we're delivering the right products to meet customer needs in these market segments.

Optical networking: Analysts foresee the pure optical segment soaring from \$810 million in 2000 to \$6 billion in 2003, as communications companies carry more and more traffic through fiber optic networks. To tap this growth, we offer a range of end-to-end solutions in our TITAN and FOCUS series that can handle everything from a single voice circuit to a wavelength of light.

Next-generation switching: Analysts forecast growth from \$76 million in 2000 to \$1.2 billion in 2003. Next-generation switches offer communications companies a way to add new services quickly and incorporate new levels of efficiency into communications networks. Our new SALIX next-generation switches have built an enviable track record in this fledgling market.

(Emphasis added.)

ANSWER: Defendants admit that the year 2000 annual report contained the quoted statements but state that the annual report must be read in its entirety. Defendants deny the allegations in this paragraph to the extent that Plaintiffs incompletely quote Tellabs' year 2000 annual report.

93. Tellabs' 2000 Annual Report also discussed Tellabs' strategies:

We're building on our robust core business.

We see strong growth in our core business as we help customers meet increasing demand for bandwidth. Our core business is the foundation of our strong relationships with major customers, who rely on Tellabs to help them migrate to the networks of the future.

* * *

We successfully launched five new products in 2000.

For 26 years, Tellabs has focused on changing leading-edge technology into solutions that are viable for our customers. Our aim is to be a focused attacker that brings best-in-class products to market. We're furthering that aim with five major new products we began selling last year -- the TITAN 6100 optical transport system, the TITAN 6500 multiservice transport switch, the FOCUS 6200 dense wavelength division multiplexer, the SALIX 7750 next-generation switch and the VERITY 3000 voice-quality enhancement series -- which complement our core products.

(Emphasis added.)

ANSWER: Defendants admit that the year 2000 annual report contained the quoted statements but state that the annual report must be read in its entirety. Defendants deny the allegations in this paragraph to the extent that Plaintiffs incompletely quote Tellabs' year 2000 annual report.

94. In addition, Tellabs' 2000 Annual Report contained a "Management Statement of Financial Responsibility" signed by Defendants Birck, Notebaert and Ryan, that declared:

The financial statements of Tellabs, Inc., and Subsidiaries have been prepared under the direction of management in conformity with generally accepted accounting principles. In the opinion of management, the financial statements set forth a fair presentation of the consolidated financial condition of Tellabs, Inc., and Subsidiaries at December 29, 2000, and December 31, 1999, and the consolidated results of its operations for the years ended December 29, 2000, December 31, 1999, and January 1, 1999.

The Company maintains accounting systems and related internal controls which, in the opinion of management, provide reasonable assurances that transactions are executed in accordance with management's authorization, that financial statements are prepared in accordance with generally accepted accounting principles, and that assets are properly accounted for and safeguarded.

ANSWER: Defendants admit that the year 2000 annual report contained the quoted statements but state that the annual report must be read in its entirety. Defendants deny the allegations in this paragraph to the extent that Plaintiffs incompletely quote Tellabs' year 2000 annual report.

95. Defendants' positive representations in the 2000 Annual Report, as set forth in the preceding paragraphs, were each materially false and misleading for the reasons set forth in ¶¶ 74, 80 and 86 above. In addition, the assertion in "Management Statement of Financial Responsibility," which was signed by Defendants Birck, Notebaert, and Ryan, that Tellabs' financials were fairly presented and conformed with GAAP was materially false and misleading in that the Company's financials were not fairly presented and did not conform with GAAP. Among other things, Defendants wrote fictitious orders and recorded revenues for sales customers never agreed to.

ANSWER: Defendants incorporate by reference their answers to Paragraphs 74, 80, and 86. Defendants deny the allegations contained in paragraph 95. Further answering, Defendants state that the only alleged misrepresentations that remain at issue are those identified in the February 25, 2008 Joint Status Report filed by the parties.

96. Defendants' positive announcements in December 2000 and January and mid-February 2001 had their desired effect -- the price of Tellabs common stock rose from a low of \$58.4375 per share on December 11, 2000 to a Class Period high of \$67.125 per share on February 5, 2001. It was during this period that three Individual Defendants sold personally-owned Tellabs common stock for proceeds of over \$5.75 million:

- a. On February 2, 2001, Defendant Kohler sold 7,500 shares of Tellabs stock at \$64.66 per share, receiving proceeds of \$484,000;
- b. Between February 1, 2001 and February 6, 2001, Defendant Birck sold 80,000 shares of Tellabs common stock at prices ranging from \$64.25 to \$65.38 per share, receiving proceeds of \$5,180,000; and
- c. On February 15, 2001, Defendant Kozik sold 3,220 shares of Tellabs common stock for proceeds of \$187,000.

ANSWER: Defendants admit that the price of Tellabs common stock was at or about \$58.4375 per share on December 11, 2000 and at or about \$67.125 per share on February 5, 2001. Defendants deny that Kozik is a defendant in this action and therefore state that no answer

to subpart c. is required. Defendants further state that all claims based on Kohler's or Birck's alleged trading in Tellabs stock have been dismissed and therefore no answer is required. To the extent an answer is required, Defendants admit the statements in subpart a. through c. Defendants deny the remaining allegations contained in paragraph 96.

97. Based upon the financial information and positive statements reported by Defendants, analysts maintained their buy recommendations for Tellabs stock. On February 21, 2001, Lehman Brothers analyst S.D. Levy, in response to disappointing results reported by Tellabs' competitor Nortel, explained why Lehman Brothers remained comfortable reiterating its "strong buy" rating on Tellabs:

Halfway into the first quarter, Tellabs' revenues visibility remains as strong as when it ended the year with record order backlog. We have spoken with multiple members of the management team in the past few days and each one said that after scrubbing the forecasts yet again, there was no change to its near- or long-term outlook.

(Emphasis added.)

ANSWER: Defendants admit that the statements quoted above, without emphasis, were contained in a report made by Lehman Brothers analyst S.D. Levy on February 21, 2001. Defendants lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations, including the truth of the second sentence of the quoted materials, and therefore deny the same.

98. Similarly, one week later, on February 28, 2001, in response to a decline in stock price due to industry trends, Lehman Brothers issued a favorable report on Tellabs, again reiterating its "strong buy" rating:

The bottom line then is that we do not believe the fundamental situation for Tellabs has changed and not do we believe is it likely to get any worse because of the functionality of its products. New customer announcements should get the stock moving in the right direction and negative sentiment is unwarranted.

Tellabs remains our number one investment idea.

ANSWER: Defendants admit that the statements quoted in this paragraph were made in a report issued by a Lehman Brothers' analyst on or about February 28, 2001, which must be

read in its entirety. Defendants lack knowledge or information sufficient to form a belief as to the truth of what the Lehman Brothers analyst believed, and therefore deny the remaining allegations of this paragraph.

99. Less than two weeks later, on March 7, 2001, Defendants issued a press release slightly modifying their previous guidance for the first quarter and full year 2001 and falsely reassuring the investing public that customer acceptance and demand for the TITAN 6500 remained strong and that the Company continued to expect 30% growth. The release stated in part:

Tellabs announced today that it is lowering its revenue and earnings per share expectations for the first quarter 2001. Tellabs projects first quarter sales in the range of \$830 million to \$865 million, compared with prior guidance of \$865 million to \$890 million. The company projects earnings per share in the range of 35 cents to 38 cents, compared with prior guidance of 39 cents per share.

The new guidance stems from continuing below-trend growth in Tellabs' CABLESPAN® business. In addition, the company is unable to recognize revenue from shipments of its new TITAN® 6500 system in the first quarter as originally anticipated, but expects to recognize revenue from shipments of its new TITAN® 6500 system revenues in the second quarter. Growth in Tellabs' core optical networking business remains strong.

* * *

“Given the strong acceptance of the new TITAN 6500, we continue to target 30 percent growth in revenue and earnings for the year,” said Richard C. Notebaert, Tellabs president and CEO. “Demand for our new products is strong, and I am confident we have the right set of solutions to help our customers build tomorrow’s converged networks.” [Emphasis added.]

ANSWER: Defendants admit that on March 7, 2001, Tellabs issued a press release which contained the above quoted statements, without emphasis. Defendants deny that any statements in the March 7, 2001 press release were false or misleading, and deny the remaining allegations of this paragraph.

100. The next day, on March 8, 2001, Defendants, including participants Notebaert, Ryan, and Jackman, held a conference call with analysts. Defendants again reassured investors that Tellabs was not experiencing the same negative effects of the industry slow-down as its competitors, and that its core business remained strong. For example, Defendant Notebaert opened the discussion by stating:

Let me start by saying that our business is quite healthy; in fact, most of the fundamental trends that we talked about on our January call are intact. That is, and let me be a little more detailed, demand for our core optical products, or our core networking products remains strong. . . . Interest in and demand for the 6500 continues to grow. . . . We continue to ship the 6100 and 6500 through the first quarter. We are satisfying very strong demand and growing customer demand. We are as confident as ever -- that may be an understatement -- about the 6500. . . . To put this into a bit more perspective, we still expect revenue and EPS growth for the quarter to exceed 30%. . . . In summary, demand for our products remains strong and there will be optimism around the new products that we've introduced. Tellabs will meet the adjusted revenue and earnings targets. . . .

(Emphasis added.)

ANSWER: Defendants admit that a conference call with analysts was held on March 8, 2001. Defendants state that the alleged quotations from the conference call are not entirely accurate and that the transcript for the March 8, 2001 analyst conference call speaks for itself and must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs misquote or incompletely quote from the transcript for the March 8, 2001 analyst conference call. Defendants deny that any statements made during the March 8, 2001 analyst conference call were false or misleading.

101. In response to a question posed by an analyst at UBS Warburg regarding the TITAN 6500 and why revenues were not recognized, Defendant Jackman stated:

There's nothing in the revenue recognition issue that should be construed to imply that the testing and the customer's acceptance of these systems are having difficulty.

(Emphasis added.)

ANSWER: Defendants state that the alleged quotation from the conference call is not entirely accurate and that the transcript for the March 8, 2001 analyst conference call speaks for itself and must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs misquote or incompletely quote from the transcript for the March 8, 2001 analyst conference call.

102. Similarly, in response to a question posed by an analyst from Deutsche Bank as to whether Tellabs was experiencing “any weakness there at all” as to TITAN 5500, Defendant Notebaert stated:

No, we’re not. We’re still seeing that product continue to maintain its growth rate; it’s still experiencing strong acceptance. We’re in the process of installing . . . a large number of frames that we shipped in the fourth quarter and business continues to grow as usual.

(Emphasis added.)

ANSWER: Defendants state that the alleged quotation from the conference call is not entirely accurate and that the transcript for the March 8, 2001 analyst conference call speaks for itself and must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs misquote or incompletely quote from the transcript for the March 8, 2001 analyst conference call.

103. Further, when asked if the Company had any concerns related to the lowered expectations of its competitors Nortel and Cisco, Defendant Notebaert falsely asserted that the Company was not experiencing the same adverse effects as its competitors:

we haven’t gotten any indication, I haven’t gotten any indication from any of our major clients, major customers, of a downturn in the segment we’re in. . . .

(Emphasis added.)

ANSWER: Defendants state that the alleged quotation from the conference call is not entirely accurate and that the transcript for the March 8, 2001 analyst conference call speaks for itself and must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs misquote or incompletely quote from the transcript for the March 8, 2001 analyst conference call. Defendants further deny that any statements made were false.

104. Defendants’ positive representations and assurances in the March 7 press release and the March 8 conference call set forth above, were materially false and misleading for the reasons set forth in ¶¶ 74, 80 and 86 above.

ANSWER: Defendants incorporate by reference their answers to Paragraphs 74, 80, and 86. Defendants deny the allegations contained in paragraph 104.

105. As a result of Defendants' positive assurances, securities analysts following the Company issued favorable reports and maintained their buy recommendations. For example, on March 8, 2001:

a. Deutsche Banc maintained its "buy" rating on Tellabs stock, noting that TITAN 5500 sales continue to be strong.

b. UBS Warburg reported that the Company would recognize revenue from the TITAN 6500 in the second quarter and maintained its "buy" rating on Tellabs stock.

c. Robinson-Humphrey issued a report maintaining its "buy" rating, stating that it believed Tellabs' core growth drivers were strong and that the TITAN 6500 had met strong market acceptance.

d. Similarly, reiterating its "strong buy" recommendation, Baird noted that the delay in recognizing revenue from the TITAN 6500 "does not in any way reflect lack of acceptance of the new product (TITAN 6500)."

ANSWER: Defendants state that the analyst reports referenced in subparts a. through d. of paragraph 105 speak for themselves and must be read in their entirety. Defendants deny the allegations contained in this paragraph to the extent Plaintiffs mischaracterize or selectively quote from the analyst reports referenced in subparts a. through d. Defendants deny the remaining allegations in paragraph 105.

106. Defendants' strong representations regarding the TITAN 5500 and 6500 products sent Tellabs common stock up from a low of \$44.625 on March 7, 2001 to a high of \$49.50 on March 8, 2001.

ANSWER: Defendants admit that Tellabs common stock was at or about \$44.625 on March 7, 2001 and was at or about \$49.50 on March 8, 2001. Defendants deny the remaining allegations contained in paragraph 106.

107. On March 29, 2001, Defendants filed with the SEC Tellabs' 10-K for the fiscal year ended December 29, 2000, which was signed by, among others, Defendants Birck, Notebaert, Ryan, and Jackman. In the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," Defendants falsely represented:

2000 Highlights

The Company achieved record levels in sales (\$3,387.4 million), net earnings (\$730.8 million) and earnings per share (\$1.75) -- putting it on track to meet its objective of \$6 billion in annual revenues by the year 2003.

* * *

Results of Operations 2000 vs. 1999

Sales for 2000 totaled \$3,328.6 million, an increase of 43.3% over 1999 sales of \$2,322.4 million. The growth in overall sales was primarily attributable to increased sales of optical networking products. Sales of optical networking products were \$2,107.9 million in 2000, a 54.1% increase compared to \$1,367.5 million in 1999. The growth in optical networking product sales was a result of continued strong demand for the Company's TITAN 5500/5500S and TITAN 532L digital cross-connect systems.

Tellabs views next-generation switching as a future growth area for the Company. Leading that growth will be the Company's SALIX 7000 family of next-generation switching products. . . .

* * *

Outlook

Tellabs expects continued strong sales growth in 2001. Sales growth within the United States will continue to be driven by optical networking product sales. . . . From a product standpoint, the Company expects that the TITAN 6500 MTS and TITAN 6100 OTS will contribute to overall sales growth in 2001. . . .

(Emphasis added.)

ANSWER: Defendants admit that on March 29, 2001 Tellabs filed its 10-K with the SEC. Defendants admit that the 10-K contained statements quoted in this paragraph but state that the document must be read in its entirety. Defendants deny that the 10-K contains false representations. Defendants also deny the allegations contained in this paragraph to the extent plaintiffs incompletely quote from Tellabs' 10-K.

108. Tellabs' 2000 Form 10-K also favorably discussed its SALIX technology:

In February 2000 the Company acquired SALIX Technologies, Inc., strengthening the Company's ability to deliver next-generation converged network solutions. The SALIX 7000 family of next-generation switches features cost-effective voice to data network migration by integrating circuit switching

into ATM and IP broadband infrastructures. . . . The SALIX next-generation switches enable service providers to seamlessly move voice traffic onto data networks while supporting voice services. This family of switches places the Company in a high-growth market and new category, offering companies a way to rapidly create new services and increase efficiency in communications networks. A major product that was introduced in the year 2000 was the SALIX 7750 next-generation switch.

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered.

109. In addition Tellabs' 2000 Form 10-K discussed the "strong demand" for the TITAN 5500 and growth prospects for the SALIX:

Results of Operations 2000 vs. 1999

Sales for 2000 totaled \$3,328.6 million, an increase of 43.3% over 1999 sales of \$2,322.4 million. The growth in overall sales was primarily attributable to increased sales of optical networking products [the family of products that includes TITAN 5500 as its core product]. Sales of optical networking products were \$2,107.9 million in 2000, a 54.1% increase compared to \$1,367.5 million in 1999. The growth in optical networking product sales was a result of continued strong demand for the Company's TITAN 5500/5500S and TITAN 532L digital cross-connect systems. During 2000, Tellabs added two new products to its optical networking products portfolio, the previously mentioned TITAN 6500 MTS, and the TITAN 6100 OTS. . . . Next-generation switching product sales fell to \$191.4 million in 2000, a 28.4% decrease compared to \$267.5 million in 1999. The decrease in next-generation switching product sales was primarily attributable to lower sales of the Company's digital echo cancellers. In spite of the overall decline in sales, Tellabs views next-generation switching as a future growth area for the Company. Leading that growth will be the Company's SALIX 7000 family of next-generation switching products, which began field trials in the fourth quarter of 2000 with a Bell operating company. [Emphasis added.]

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered. Defendants admit that the 10-K contained in part statements quoted in this paragraph, without emphasis, but state that the document must be read in its entirety. Defendants also deny the allegations contained in this paragraph to the extent plaintiffs incompletely quote from Tellabs' 10-K.

110. Defendants' positive representations in the 2000 10-K concerning the purported success of the TITAN 5500 and the prospects for the SALIX and Defendants' expectations of strong growth, as set forth in the preceding paragraphs, were materially false and misleading for the reasons set forth in ¶¶ 74, 80, and 86 above.

ANSWER: Defendants incorporate by reference their answers to paragraphs 74, 80, and

86. Defendants deny the allegations contained in paragraph 110.

111. In addition, the 2000 10-K was materially false and misleading in that Defendants failed to describe known trends and uncertainties that had, and that Defendants reasonably expected would have a material impact on net sales, revenues, and income from continuing operations, as required by Item 303 of SEC Regulation S-K.

ANSWER: Defendants deny the allegations contained in paragraph 111.

112. a. Moreover, Defendants' recording of revenues related to fictitious orders and sales that customers never agreed to was materially false and misleading and violated GAAP. See FASB Statements of Concepts ("Concepts") No. 5, 83-84 (recognition of revenue should occur only where two fundamental conditions are satisfied: (i) the revenue has been earned; and (ii) the amount is collectible); SEC Staff Accounting Bulletin ("SAB") No. 101 (reiterating Concepts No. 5 and requiring a contractual sale arrangement).

b. Furthermore, the 2000 10-K contained a representation that the financial statements therein:

present fairly, in all material respects, the consolidated financial position of Tellabs, Inc., and Subsidiaries at December 29, 2000 and December 31, 1999, the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2000 in conformity with accounting principles generally accepted in the United States.

Such representation was materially false and misleading for the reasons set forth in the above subparagraph.

ANSWER: Defendants admit that the 2000 10-K contained the statements quoted in subpart b. Defendants deny the remaining allegations in paragraph 112 and its subparts.

113. On April 6, 2001, Defendants issued a press release modifying their first-quarter guidance once more, projecting first-quarter 2001 sales of \$772 million compared with earlier guidance of revenues in the range of \$830 million to \$865 million. The press release stated in part:

The revised guidance stems from reduced and deferred spending by major communications carriers late in the quarter. Tellabs is aggressively managing its costs and aligning its products to help carriers meet the demand for bandwidth, lower their operating costs and generate new revenue.

ANSWER: Defendants admit the allegations of paragraph 113.

114. The same day, Defendants, including participants Notebaert and Ryan, held a conference call with analysts. Defendant Notebaert stated:

In just the last few weeks, however, we experienced a more controlled order of flow from our larger customers than we had originally anticipated. Clearly the environment has result[ed] in near-term caution in the pace at which customers are deploying equipment. Our customers are exercising a high degree of prudence over every dollar spent. Let me balance this a bit and say that everything we hear from the customers indicates that our in-user demand for services continues to grow. [Emphasis added.]

ANSWER: Defendants admit that on April 6, 2001, Tellabs held a conference call with analysts. Defendants state that the alleged quotations from the conference call are not entirely accurate and that the transcript of the April 6, 2001 analyst call speaks for itself and must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs inaccurately or incompletely quote from the transcript of the April 6, 2001 analyst conference call.

115. Defendant Ryan stated:

As we indicated in the press release issued this morning, we see first quarter revenue of approximately \$772 million, which represents a 21% year-over-year growth in overall revenue. Full diluted earnings per share of 29 cents, which represents 12% year-over-year growth from a major product line perspective. We see revenues of \$482 million in optical networking, which represents 22% year-over-year growth, . . . As Dick indicated, we are well positioned to manage through these challenging times. Showing 21% cap line growth in this kind of environment is a real sign of the value Tellabs brings to its customers. [Emphasis added.]

ANSWER: Defendants admit that the transcript of the April 6, 2001 analyst call contained the quoted statement but state that the transcript must be read in its entirety.

Defendants deny the allegations in this paragraph to the extent Plaintiffs incompletely quote from the transcript of the April 6, 2001 analyst conference call.

116. In response to a question about the TITAN 5500, Defendant Notebaert stated:

We had about \$83 million in TITAN 5500 business. . . . And in the last 2 ½ weeks or so of the quarter - the last 2 weeks of the quarter - what happened was customers called and said “look we don’t want to cancel the order, we want the equipment. Could you put it into the next quarter.” So we got pushed out into the next quarter, which I would tell you was surprising. . . . We don’t normally have those pushed forward, especially on Titan 5500. The good news there is the orders weren’t cancelled, it was just do it after the end of the quarter. [Emphasis added.]

ANSWER: Defendants state that the alleged quotations from the conference call are not entirely accurate and that the transcript of the April 6, 2001 analyst call speaks for itself and must be read in its entirety. Defendants further deny the allegations in this paragraph to the extent Plaintiffs inaccurately or incompletely quote from the transcript of the April 6, 2001 analyst conference call.

117. When an analyst asked, in conjunction with the testing of the TITAN 6500, “Are we still on track to recognize that [TITAN 6500] revenue in the second quarter?” Defendant Notebaert responded: “The answer is yes.” Notebaert also asserted:

. . . . the 6500 is showing strength. . . . we should hit our full manufacturing capacity in May or June to accommodate the demand we are seeing. Everything we can build, we are building and shipping. The demand is very strong and I don’t know what else I can say about that other than it is a very bright spot for us. Looks good. [Emphasis added.]

ANSWER: Defendants state that the alleged quotations from the conference call are not entirely accurate and that the transcript of the April 6, 2001 analyst call speaks for itself and must be read in its entirety. Defendants deny the allegations in this paragraph to the extent Plaintiffs inaccurately or incompletely quote from the transcript of the April 6, 2001 analyst conference call.

118. An April 6, 2001 W.R. Hambrecht analyst report issued after the conference call echoed Defendant Notebaert's false explanation:

Management blamed the shortfall on a deferral of orders for its flagship TITAN 5500 digital cross-connect late in the quarter. More specifically, management noted that in the last two weeks, large carrier customers pushed out \$83 million in orders for the 5500 to the second quarter, which would account for essentially all of the revenue shortfall. [Emphasis added.]

ANSWER: Defendants admit that W.R. Hambrecht's April 6, 2001 analyst report contains the quoted statements. Defendants deny that any explanation by Notebaert was "false."

119. Defendants' positive statements made in the April 6, 2001 press release and during the subsequent conference call, as set forth in the above paragraphs, were materially false and misleading for the reasons set forth in ¶¶ 74, 80 and 86 above, and for the following additional reasons, among others:

a. the projection of first quarter revenues lacked a reasonable basis and was contradicted by adverse facts known to Defendants including a severe and continuing collapse in demand for Tellabs' products.

b. contrary to Defendants' false explanation of a temporary deferral of orders, the Company's decrease in revenues was not due to recent "near term" deferred spending by communications carriers late in the quarter. Rather, as detailed above, the decrease in sales was caused by long-term decreased demand for Tellabs' products and Defendants' aggressive and improper sales and "channel stuffing" activities during fourth quarter 2000 which Defendants knew, or recklessly disregarded, would adversely affect sales of its TITAN 5500 in the future, and by the other adverse factors described herein.

ANSWER: Defendants incorporate by reference their answers to paragraphs 74, 80 and 86 and deny the allegations contained in paragraph 119 and its subparts.

120. Based on Defendants' positive representations, analysts continued to maintain the "buy" recommendations for Tellabs. For example, on April 6, 2001:

a. Salomon Smith Barney, although lowering its full-year 2001 revenue number to \$3.99 billion from \$4.15 billion, reiterated its "outperform" rating.

b. Lehman Brothers reiterated its "strong buy" rating, stating;

Nonetheless, we continue to believe that end-user demand for bandwidth is the ultimate driving factor for digital cross-connect system sales, and all signs suggest this metric continues to grow. Further, we believe TITAN 5500 system pricing is holding up well. Tellabs' new product launches continue on track for revenues in the June quarter, as the company is shipping all the

TITAN 6500 systems it can manufacture, with full-volume production expected in May or June.

c. Robinson-Humphrey reiterated its “buy” rating on Tellabs stock, stating that “we expect TITAN revenue and the installed base to remain robust in coming years.”

d. Wit SoundView reiterated its “buy” rating, noting that “the order book still looks strong for the company’s core products.”

e. Baird also reiterated its “strong buy” rating, reporting that “if the \$83 million in sales (for the TITAN 5500) were not deferred to future quarters, Tellabs would have easily met the previous quarterly revised estimates” and “if demand remains strong. . . it is possible that Tellabs could recover the entire amount of the deferrals in Q2 and come close to meeting original estimates for the year.”

ANSWER: Defendants state that the analyst reports referenced in subparagraphs a. through e. speak for themselves and must be read in their entirety. Defendants deny the allegations in this paragraph and its subparts to the extent Plaintiffs mischaracterize or incompletely quote from the analyst reports referenced in subparagraphs a. through e. Defendants deny the remaining allegations contained in paragraph 120.

121. Less than two weeks later, on April 18, 2001, Defendants issued a press release announcing Tellabs’ financial results for the first quarter ending March 31, 2001. The Company modified revenue projections for the full year from \$3.99 billion to within the range of \$3.6 billion to \$3.7 billion, and announced that it was exiting the SALIX product line, just 14 months after its purchase of SALIX for \$300 million. The press release stated in part:

In light of reduced and deferred spending by major communications carriers, Tellabs will realign its cost structure with its current expectations for lower revenue growth. The company will further reduce discretionary spending, eliminate salary increases this year, institute a pay-cut for all corporate officers, align manufacturing capability with demand expectations, and terminate the SALIX next-generation-switching product effort.

* * *

“These actions are unfortunate because they affect a lot of talented people,” said Tellabs President and CEO Richard C. Notebaert. “By paring back our efforts in next-generation switching, we are aligning with our customers’ priorities and strengthening our initiatives in high-growth areas such as optical networking. Despite the current challenges, I am as confident as ever in Tellabs’ long-term prospects and our ability to deliver strong revenue and earnings growth in the future.”

(Emphasis added.)

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed and thus do not need to be answered. Defendants admit that on April 18, 2001, Tellabs issued a press release that in part contained the quoted statements.

122. Defendants' representations and projections concerning the Company's prospects and 2001 revenues, as set forth in the preceding paragraph, were materially false and misleading and lacked a reasonable basis for the reasons set forth in ¶¶ 74, 80, 86 and 119 above.

ANSWER: Defendants incorporate by reference their answers to paragraphs 74, 80, 86 and 119 and deny the allegations contained in paragraph 122.

123. Based on Defendants' continued, and unfounded, assurances regarding the Company's performance, analysts again maintained the "buy" recommendations for Tellabs. For example, on April 18, 2001:

a. Morgan Stanley reiterated its "outperform" rating on Tellabs, noting that the Company's sales "increased to \$772 million (consistent with recently revised guidance), up 21% year over year from \$640 million in 1Q00."

b. Lehman Brothers reiterated its "strong buy" rating on the Company stating:

Looking at product specific forecasts, we are forecasting combined sales for the TITAN 6500 and 6100 system of \$175 million in 2001 and \$340 million in 2000, and continue to expect initial sales of both in the second quarter with a stronger revenues ramp for the 6500 than for the 6100. Our new estimates also project TITAN 5500 sales of \$1.95 billion 2001 and \$2.145 billion in 2002.

c. Robinson-Humphrey reiterated its "buy" rating, noting that "optical networking (TITAN) revenue was up 22% year-over-year to \$482 million, with strong sales of Tellabs flagship TITAN 5500."

d. Baird maintained its "strong buy" rating, stating that "Tellabs forecasts for the remainder of the year includes sequential improvement in the 5500 as well as contribution from the new 6000 series."

ANSWER: Defendants state that the analyst reports referenced in subparagraphs a. through d. speak for themselves and must be read in their entirety. Defendants deny the allegations in this paragraph and its subparts to the extent Plaintiffs mischaracterize or

selectively quote from the analyst reports referenced in subparagraphs a. through d. Defendants deny the remaining allegations contained in paragraph 123

124. On May 8, 2001, Defendants filed with the SEC Tellabs' Form 10-Q for the quarterly period ended March 30, 2001, which stated in part:

Tellabs achieved record first quarter 2001 sales of \$772.1 million, 22.3% higher than last year's restated first quarter results. This marks the 39th consecutive quarter in which sales for the current quarter surpassed prior-year levels.

* * *

The 12.4% growth in product sales resulted from higher optical networking product sales, which continued to be driven by sales of the Company's TITAN® 5500/5500S and TITAN 532L systems. Sales of optical networking products totaled \$481.6 million compared to \$393.4 million in the first quarter of 2000.

ANSWER: Defendants admit that on May 8, 2001, Tellabs filed with the SEC its form 10-Q for the period ending March 30, 2001 which in part contained the quoted statements.

125. The positive statements in the 10-Q concerning the TITAN 5500 and the Company's performance, as set forth in the preceding paragraph, were materially false and misleading for the reasons set forth in ¶¶ 74, 80, 86 and 119 above.

ANSWER: Defendants incorporate by reference their answers to paragraphs 74, 80, 86 and 119 and deny the allegations contained in paragraph 125. Further answering, Defendants state that these statements are not among those that remain at issue in this litigation following court rulings, as set forth in the February 25, 2008 Joint Status Report filed by the parties.

126. The 10-Q also was materially false and misleading in that Defendants failed to disclose known trends and uncertainties that had, and that Defendants reasonably expected would have a material impact on net sales, revenues, and income from continuing operations, as required by Item 303 of SEC Regulation S-K.

ANSWER: Defendants deny the allegations contained in paragraph 126.

127. Defendants' baseless reassurances were successful in that Tellabs stock rose from a low of \$31.90 per share on April 9, 2001 to a high of \$38.24 per share on May 10, 2001.

ANSWER: Defendants admit that on April 9, 2001, Tellabs stock was at or about \$31.90 per share. Defendants also admit that on May 10, 2001, Tellabs stock was at or about \$38.24 per share. Defendants deny the remaining allegations contained in paragraph 127.

128. Subsequently, on May 31, 2001, Tellabs issued a press release announcing that it would be taking \$262 million in restructuring charges in the second quarter of 2001. According to the press release, the charges consisted of the following:

\$93 million related to Tellabs' exit from the SALIX next-generation switching business, including a \$34 million inventory write-off. The remainder stems from facility closures and related fixed assets, excess purchase commitments, as well as employee-related costs from a workforce reduction.

\$40 million for consolidation of other excess facilities, employee-related costs and fixed-asset charges that are designed to align Tellabs' resources with demand.

\$129 million in other inventory-related charges, which includes a \$46 million reserve for excess purchase commitments. The bulk of the inventory-related charge is for CABLESPAN products, and relates to recently reduced demand and residential service unit inventory that will be superceded by new, upgraded units later this year. The balance covers excess raw materials inventory and excess purchase commitments for other products.

ANSWER: Defendants admit that on May 31, 2001, Tellabs issued a press release announcing \$262 million in restructuring and other charges, which were described as quoted above. Defendants deny the remaining allegations in this paragraph.

129. Then, on June 5, 2001, Defendants issued a press release announcing that Tellabs was introducing an enhanced software package for the TITAN 6500 to facilitate international communications. The press release stated in part:

"Tellabs is enhancing our broadband networking systems to help service providers capitalize on the global business opportunities of today and tomorrow," said Robert Pullen, senior vice president and general manager of Tellabs' Optical Networking Group. "Our TITAN 6500 system is the industry's only carrier-class transport system that uses the most innovative cell-based switching fabric with electrical and optical capabilities for converged services."

ANSWER: Defendants admit that on June 5, 2001, Tellabs issued a press release containing the language quoted in this paragraph. Defendants deny the remaining allegations of this paragraph.

130. The representation concerning the TITAN 6500, as set forth in the preceding paragraph, was materially false and misleading for the reasons set forth in ¶ 74 above.

ANSWER: Defendants deny the allegations contained in paragraph 130 and, further answering, state that this is not among the statements that remain at issue in this litigation, as set forth in the February 25, 2008 Joint Status Report.

131. After the close of trading on June 19, 2001, the last day of the Class Period, Tellabs issued a press release announcing substantially revised second quarter guidance, dramatically reducing projected revenues from the \$780 million to \$820 million range to \$500 million, and projected earnings per share from \$.29 to breakeven (before restructuring and other charges). Tellabs provided the following explanation:

The dramatic changes affecting the landscape of the telecommunications marketplace have continued to impact Tellabs. Service providers are temporarily able to meet increased customer demand for bandwidth by reallocating capacity within their networks and are only buying equipment to meet the immediate needs of their customers. “While we continue to see caution from our customers in the pace of equipment deployment, our market position remains intact, and we are focused on ensuring the most profitable path through the current environment,” said Tellabs President and CEO Richard C. Notebaert. “I remain confident that Tellabs has the right people, products and strategies to meet the needs of our customers and deliver future growth.”

ANSWER: Defendants admit that on June 19, 2001 Tellabs issued a press release containing in part the quoted language.

132. At a conference call with analysts following the news release, Defendants, including conference participants Notebaert, Ryan, and Jackman, finally admitted that Tellabs’ severe revenue shortfall was due almost entirely to a massive reduction in optical networking sales (i.e., the TITAN 5500 series). Ryan admitted that Tellabs expected to realize “only about \$210 million in optical networking revenues” in the second quarter, and characterized this as a “material shift in revenue mix across our product group.”

ANSWER: Defendants admit that in the June 19, 2001 conference call with analysts, Defendants did not indicate that the revised second quarter projections were in any way due to the level of TITAN 6500 sales. Defendants state that the transcript of the June 19, 2001 analyst conference call speaks for itself and must be read in its entirety. Defendants deny the allegations

in this paragraph to the extent Plaintiffs mischaracterize or incompletely quote from the transcript of the June 19, 2001 analyst conference. Defendants deny the remaining allegations contained in paragraph 132.

133. On “The Bloomberg Forum,” the same day, Tellabs’ Notebaert also admitted that, with regard to customers, Tellabs was seeing a decline “across the board,” and that the steepest drop off in revenue related to the TITAN 5500.

ANSWER: Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations in this paragraph, and therefore deny the same

134. A June 20, 2001 report by W.R. Hambrecht explained:

Tellabs indicated no real change in demand for high-bandwidth end-user services at its carrier customers, an assertion supported by yesterday’s commentary by Qwest and first quarter major carrier results in general. This suggests a more product-specific dynamic at work, with carriers working off excess TITAN 5500 inventories and not ordering products so far in advance. [Emphasis added.]

ANSWER: Defendants admit that the June 20, 2001 report by W.R. Hambrecht referred to in paragraph 134 contained the quoted language but state that the document must be read in its entirety.

135. In response to the Company’s announcement, Tellabs common stock fell from a closing price of \$21.20 per share on June 19, 2001 to a closing price on June 20, 2001 of \$16.04 per share -- a one-day decline of more than 24% per share (a \$5.16 per share loss). The decline from the Class Period high of \$67.125 (on February 5, 2001) to the June 20, 2001 low of \$15.87 per share was more than 75%.

ANSWER: Defendants admit on June 19, 2001, Tellabs common stock was at or about \$21.20 per share. Defendants also admit that on June 20, 2001, Tellabs common stock closed at or about \$16.04 per share. Defendants further admit that on February 5, 2001, Tellabs stock price was \$67.125 and that on June 20, 2001, the price per share hit \$15.87. Defendants lack

knowledge or information sufficient to form a belief as to the truth of the remaining allegations contained in paragraph 135, and therefore deny the same.

136. As noted in a June 19, 2001 article titled “Tellabs Plays Mini-Nortel with Steep Shortfall” appearing in TheStreet.com: “While it was not a total surprise on Wall Street that Tellabs was having a bad quarter, the size of its shortfall came as a big shock. ‘Mind-numbing,’ as one New York hedge fund manager put it.”

ANSWER: Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations contained in paragraph 136, and therefore deny the same.

137. The extraordinary loss per share was the greatest percentage decline in the history of Tellabs stock. Trading volume on June 20, 2001 in reaction to Defendants’ June 19, 2001 announcement was an extraordinary 35,992,300 shares -- the largest volume during or since the Class Period, and five times the average daily volume during the Class Period.

ANSWER: Defendants admit that trading volume on June 20, 2001 was at or about 35,992,300 shares. Defendants deny the remaining allegations in paragraph 137.

138. In stark contrast to the more than 24% decline in the trading price of Tellabs shares from June 19 to June 20, the S&P 500 rose 1% and the NASDAQ (where Tellabs shares trade) rose 2% over the same one-day period. The decline in Tellabs’ share price was 24 times the mere 1% negative movement in the industry during the same one-day period (based on the movement of the Dow Jones Communications Technology Group, or “DJUSCT,” which Tellabs identifies as its peer group in its proxy statements). Moreover, over the one-month period following the Class Period (June 19 - July 19, 2001) Tellabs shares fell more than 24% (\$21.20 to \$16.07) while the DJUSCT peer group index rose 8%. Over the two-month period from May 21, 2001 to July 19, 2001, Tellabs’ stock price fell more than 61% (from \$41.97 to \$16.07) while the DJUSCT peer group index fell only 26%.

ANSWER: Defendants admit that the trading price of Tellabs shares declined from June 19, 2001 to June 20, 2001. Defendants also admit that the price of Tellabs shares declined during the period from June 19 to July 19, 2001. Defendants admit that Tellabs’ stock price on May 21, 2001 was at or about \$41.97 and that its stock price on June 19, 2001 was at or about \$16.07. Defendants lack knowledge or information sufficient to form a belief as to the truth

about the allegations concerning the S&P, the NASDAQ, the DJUSCT and therefore deny those allegations. Defendants deny the remaining allegations contained in paragraph 138.

139. The price of Tellabs stock has never recovered. By September 28, 2001, Tellabs' share price fell to just \$9.88. During the more than two years since the end of the Class Period, Tellabs shares have continued to trade below \$20.

ANSWER: Defendants admit that on September 28, 2001 Tellabs' share price was at or about \$9.88, and admit, on information and belief, that in the two years after June 19, 2001 Tellabs common stock continued to trade below \$20 per share. Defendants deny the remaining allegations contained in paragraph 139.

140. On August 22, 2001, Tellabs announced that it was reducing its workforce by 1,000 employees (a 12% reduction), closing two facilities, and further cutting operating expenses.

ANSWER: Defendants admit the allegations contained in paragraph 140.

141. Ultimately, Tellabs admitted that Defendants were well aware that customer demand fell by at least early 2001. Birck and Notebaert's letter to shareholders in Tellabs' 2001 Annual Report, dated January 22, 2002, stated:

Early in 2001, as our customers reduced capital spending and expressed caution about the future, Tellabs began a deep process of self-examination. We faced difficult decisions, the most onerous being our need to match capacity and expenses with demand to preserve profitability. [Emphasis added.]

Making a company smaller is painful. In April 2001 we began a series of layoffs, a process that continues through March 2002, reducing our worldwide workforce by about 27% to around 6,700 people. We closed manufacturing plants in Ireland and Texas, consolidated product development and other functions from 30 facilities into 20, and cut expenses dramatically.

ANSWER: Defendants admit that Birck and Notebaert had a letter to shareholders in Tellabs' 2001 Annual Report, dated January 22, 2002, which contained in part the language quoted. Defendants deny the remaining allegations in paragraph 141.

142. For the second quarter ended June 29, 2001, Tellabs ultimately reported net sales attributable to products of only \$407,701,000 and a net loss of \$174,702,000 as compared to net sales attributable to products of \$716,596,000 and net earnings of \$157,128,000 during the second quarter of 2000 -- a drop of more than 43% in net sales attributable to products and more than 211% in net earnings. For the six months ended June 29, 2001, Tellabs reported net sales attributable to products of \$1,075,088,000 and a net loss of \$52,195,000 as compared to net sales attributable to products of \$1,310,597,000 and net earnings of \$248,478,000 for the first half of 2000 -- a drop of about 18% in net sales attributable to products and more than 120% in net earnings. For the full year 2001, Tellabs reported net sales of \$2,199,700,000 and a net loss of \$182,000,000 as compared to net sales of \$3,387,400,000 and net earnings of \$730,800,000 for 2000 -- a decline of more than 35% in net sales and about 125% in net earnings. Tellabs also reported a net loss of \$313,100,000 for 2002.

ANSWER: Defendants admit the allegations contained in paragraph 142.

143. As described herein, during the Class Period, Defendants made or caused to be made a series of materially false or misleading statements about Tellabs' business, operations, performance, products, and prospects, as detailed herein. These material misstatements and omissions had the effect of creating in the market an unrealistically positive assessment of Tellabs and its prospects and operations, thus causing the Company's common stock to be overvalued and artificially inflated during the Class Period. Plaintiffs and other members of the Class purchased Tellabs common stock relying upon the integrity of the market price of Tellabs common stock and market information relating to Tellabs, as well as reliance presumed by a material omission, and have been damaged thereby.

ANSWER: Defendants deny the allegations contained in paragraph 143.

144. Individual Defendants and other Tellabs insiders benefited personally and directly from the artificial inflation of Tellabs stock by selling a total of almost 150,000 shares of Tellabs stock from their personal holdings for proceeds of more than \$8,000,000, as set forth below:

Defendant Birck made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds
02/01/2001	25,000	\$64.25	\$1,606,250.00
02/02/2001	25,000	\$65.00	\$1,625,000.00
02/05/2001	25,000	\$65.00	\$1,625,000.00
02/06/2001	5,000	\$65.3775	\$326,887.50
Totals	80,000		\$5,183,137.50

Defendant Kohler made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
02/02/2001	7,500	\$64.6625	\$484,968.75		
Totals	7,500		\$484,968.75	\$18,750.00	\$466,218.75

Defendant Kozik made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
02/15/2001	3,220	\$58.3125	\$187,766.25		
Totals	3,220		\$187,766.25	\$19,983.00	\$167,783.25

J. Thomas Gruenwald, Senior Vice President and General Manager - Broadband Access Group, made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
01/31/2001	1,500	\$62.1875	\$93,281.25		
Totals	1,500		\$93,281.25	\$12,563.00	\$80,718.25

William F. Souders, a Director, made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
04/20/2001	7,450	\$35.01	\$260,824.50		
04/20/2001	8,550	\$35.00	\$299,250.00		
Totals	16,000		\$560,074.50	\$331,500.00	\$228,574.50

Peter A. Guglielmi, a Director, made the following sales during the Class Period:

Date	Number of Shares Sold	Price Per Share	Proceeds	Cost of Exercising Options to Purchase	Net Profit
05/03/2001	5,000	\$39.10	\$195,500.00		
05/03/2001	5,000	\$39.15	\$195,750.00		
05/03/2001	5,000	\$39.50	\$197,500.00		
05/03/2001	5,000	\$39.80	\$199,000.00		
05/03/2001	10,000	\$39.00	\$390,000.00		
05/03/2001	10,000	\$39.30	\$393,000.00		
Totals	40,000		\$1,570,750.00	\$30,628.00	\$1,540,122.00

GRAND TOTALS	148,220		\$8,079,978.25		
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ANSWER: Defendants state that all claims based on alleged insider trading have been dismissed and therefore no answer is required. To the extent that an answer is required, Defendants admit that Birck, Kohler, Kozik, Gruenwald, Souders, and Guglielmi sold Tellabs shares as referenced above. Defendants deny that Kohler and Kozik are individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 144.

145. Individual Defendants' and other insiders' sales of Tellabs shares were highly suspicious and unusual in that, among other things:

- a. The amounts of the sales were massive, both in dollar terms and in terms of the numbers of shares sold;
- b. The timing of the sales by different insiders was coordinated. Over one approximately two-week period during the Class Period, which coincided with the Class Period high, at least four insiders (insider Gruenwald, and Individual Defendants Birck, Kohler, and Kozik) sold a total of 92,220 shares for proceeds of \$5,949,153.75. Over another two-week period, two other insiders (Souders and Guglielmi) sold a total of 56,000 shares for proceeds of \$2,030,825;
- c. None of the above insiders purchased any shares of Tellabs stock during the Class Period (other than, in certain cases, as indicated above, exercising options to purchase shares, at prices substantially below the market price, that were then immediately sold for a substantial profit);
- d. During the six months before and after the Class Period, four of the six insiders referred to above did not sell any shares of Tellabs stock;
- e. The insiders' sales occurred within days of Defendants' public statements complained of herein, as detailed above.

ANSWER: Defendants state that all claims based on alleged insider trading have been dismissed and therefore no answer is required. To the extent that an answer is required, Defendants deny the allegations contained in paragraph 145 and its sub-parts. Answering further, defendants deny that Kohler and Kozik are individual defendants in this action.

146. By reason of their sales of Tellabs stock during the Class Period, as set forth above, while in possession of non-public material adverse information concerning the Company, Defendants had a duty to make full disclosure of such information.

ANSWER: Defendants state that the allegations contained in paragraph 146 state a legal conclusion to which no answer is needed. Answering further, Defendants state that all claims based on alleged insider trading have been dismissed.

147. Defendants acted with scienter in that Defendants knew or recklessly disregarded that they issued or disseminated or acquiesced in the issuance or dissemination of public documents and statements that were materially false and misleading, as set forth herein. The Individual Defendants, by virtue of their receipt of information reflecting the truth regarding Tellabs, their control over and receipt of Tellabs' materially false and misleading misstatements, and their associations with the Company which made them privy to confidential proprietary information concerning the Company, were active, culpable, and primary participants in the fraudulent scheme alleged herein. The Individual Defendants knew or recklessly disregarded the materially false and misleading nature of the information they caused to be disseminated to the investing public.

ANSWER: Defendants deny the allegations contained in paragraph 147. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

148. Defendants also knew or recklessly disregarded that the misleading statements and omissions complained of herein would adversely affect the integrity of the market for the Company's common stock and would cause the price of the Company's common stock to be artificially inflated. Defendants acted knowingly or in such a reckless manner as to constitute a fraud and deceit upon Plaintiffs and other members of the Class.

ANSWER: Defendants deny the allegations contained in paragraph 148. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

149. In addition to the foregoing and other facts alleged herein, the following facts provide compelling evidence that Defendants acted with actual knowledge, or, at the very least, with extreme recklessness.

ANSWER: Defendants deny the allegations contained in paragraph 149. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

150. Defendants had a powerful motive to inflate the price of Tellabs' stock. As detailed above, Individual Defendants, and other Tellabs insiders, benefited personally from the artificial inflation of Tellabs stock by selling a total of approximately 150,000 shares of Tellabs stock from their personal holdings for proceeds of over \$8 million. As detailed above, these sales were highly suspicious and unusual, and were timed to take maximum advantage of Defendants' false and misleading statements about Tellabs' business, performance, products, and prospects.

ANSWER: Defendants deny the allegations contained in paragraph 150. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman, and all claims of insider trading have been dismissed. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

151. Defendants had the opportunity to commit the fraud alleged. As the top officers and directors of Tellabs, the Individual Defendants controlled the dissemination of, and could thereby falsify, information about Tellabs' business, performance, products, and prospects that reached the investing public and affected the price of Tellabs stock. The Individual Defendants controlled the content of Tellabs' press releases, corporate reports, SEC filings, and other public statements, which were created, reviewed, and approved by them.

ANSWER: Defendants admit that Notebaert, Birck, Ryan, and Jackman were officers or directors of Tellabs during the class period. Answering further, Defendants state that Plaintiffs'

claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 151.

152. The Individual Defendants were senior executive officers and directors of Tellabs and were intimately involved with and had direct responsibility with respect to important issues affecting the Company's business, operations, products, performance, and prospects.

ANSWER: Defendants admit that Notebaert, Birck, Ryan, and Jackman were officers or directors of Tellabs during the class period. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action. Defendants admit that Notebaert, Birck, Ryan, and Jackman had various responsibilities and duties with respect to various important issues. Defendants deny the remaining allegations contained in paragraph 152.

153. Defendants were kept informed on an ongoing basis by a variety of means, including reports, meetings, and participation in discussions with respect to the serious problems affecting the Company's business, products, performance, and prospects. For example:

a. According to Confidential Sources, including CS-9, CS-15, and CS-24, top Tellabs executives, including Defendants Birck and Notebaert, conducted or were otherwise present at monthly "town hall" meetings of Company employees during the Class Period to discuss the Company's business and performance, including a meeting in or about late April 2001 at Tellabs' Lisle office attended by approximately 50 to 100 employees at which, among other things, Notebaert commented that the SALIX technology was not current and was superseded by other technologies. According to CS-15, Defendant Ryan made quarterly presentations with respect to Tellabs' financial position at the "town hall" meetings.

b. Tellabs' executives gathered and reviewed Tellabs' business at monthly and quarterly meetings at Tellabs' Illinois headquarters, according to CS-19. At those meetings, the executives reviewed all aspects of the business, including finance, operations, and sales, CS-20 also confirmed that Tellabs' executives had frequent meetings to address the Company's tactical and strategic issues.

c. In early February 2001, Defendant Notebaert attended a meeting with approximately 24 SALIX and Tellabs employees regarding the SALIX product line, according to CS-7.

d. Tellabs' finance department prepared quarterly status reports concerning the profitability of Tellabs' products, according to CS-17. People who had access to the Tellabs' database system -- SAP Business Warehouse -- could obtain copies of the reports, according to CS-17. CS-17 also revealed that these reports showed a decline in customer demand for the TITAN 5500 by March 2001.

e. As related by CS-20, Tellabs executives had computer access to daily reports concerning Tellabs' daily product bookings and revenue, through Tellabs' financial system. According to CS-20, Defendant Kohler, looked at these reports, and Defendant Jackman also reviewed these reports on approximately a weekly basis.

f. According to CS-7, Tellabs management viewed weekly and monthly reports concerning a variety of issues, including the status of product development. As CS-7, a former Tellabs sales director, further related, Tellabs' sales personnel wrote up weekly sales projection reports, weekly reports on field trials, and customer maintenance reports, which updated trial status.

g. According to CS-21, a sales director, Defendant Notebaert and other Tellabs' executives had telephone calls every day and stayed on top of everything. In addition, according to CS-21, the top executives had weekly revenue calls, after which the Senior Vice Presidents would have a discussion with Defendant Notebaert. The same source explained that the revenue calls happened early in the morning, lasted about an hour, and primarily concerned how Tellabs would "make its numbers."

ANSWER: Defendants admit that Tellabs had monthly "town hall" meetings. Defendants also admit that Defendants Birck and Notebaert attended some of these "town hall" meetings. Defendants admit that from time to time Defendant Ryan made quarterly presentations regarding Tellabs' finances at these "town hall" meetings. Defendants admit that Tellabs' executives would meet to discuss the finances and operations of the Company. Defendants further admit that Tellabs' finance department prepared quarterly reports. Defendants admit that certain Tellabs' executives had computer access to certain reports concerning Tellabs' product bookings and revenue. Defendants admit that Tellabs' sales personnel wrote up reports forecasting sales and tracking field trials and customer maintenance. With respect to sub-part c., Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed as not stating a claim and thus do not

need to be answered. To the extent an answer is required, Defendants deny the allegations in sub-part c. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 153 and its sub-parts.

154. According to CS-15, a Tellabs business development manager, Notebaert and Birck and other Tellabs executives had direct knowledge of Tellabs' business activities and customer relationships. According to CS-15, Notebaert and Birck had their "hands on the pulse of everything" that happened at Tellabs. They worked very closely with the sales teams and other personnel. They spent a great deal of time on the telephone and in lots of meetings with Tellabs' sales teams. Birck and Notebaert knew the status of each product, how it was working, if the product was selling, and to whom from speaking with sales people; from "town hall" meetings at 7:30 and 9:30 in the morning at which the entire Company heard presentations as to what was going on with different products; and from briefings from sales people as to what the customers wanted and were buying.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-15 made the statements attributed to CS-15 in paragraph 154 and therefore deny those allegations. Defendants admit that Notebaert, Birck, and other Tellabs executives had knowledge of certain of Tellabs' business activities and customer relationships. Defendants admit Notebaert and Birck worked with the sales teams and other personnel from time to time. Defendants admit that Tellabs held "town hall" meetings from time to time. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 154.

155. CS-24 noted that Tellabs' executives and directors were "hands on" and knew everything, including the product development cycles, everyday happenings of the Company, and customer expectations.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-24 made the statements attributed to CS-24 in paragraph 155 and therefore deny those allegations. Defendants deny the truth of the statements attributed to CS-24 in paragraph 155. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

156. CS-6, a former Tellabs senior business manager, reported that Tellabs' executives approved the TITAN 5500 / SBC channel stuffing; that Defendant Notebaert worked directly with Tellabs' sales personnel on SBC channel stuffing; that Tellabs' chief financial officer, Defendant Ryan, also knew about the channel stuffing; and that Notebaert reviewed the SALIX product line and obtained data from different sources within the Company as to the progress of the SALIX product, and made the decision to kill the SALIX product. High-level former Tellabs sales executive CS-3 also confirmed that senior management, including Notebaert, unquestionably knew about the channel stuffing activity relating to the TITAN 5500, and that senior management, including Notebaert, pushed and prodded the Company's sales personnel.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-6 made the statements attributed to CS-6 in paragraph 156 and therefore deny those allegations. Defendants deny the truth of the statements attributed to CS-6 in paragraph 156. Answering further, Defendants state that allegations regarding "channel-stuffing" (other than allegations regarding the shipment of unordered product to customers) have been dismissed and therefore no answer to such allegations is required. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been

dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

157. As CS-16 reported, prior to Notebaert's appointment as Tellabs' CEO, Jackman and Birck ran the Company, and all information flowed up to them. As the head of Tellabs' "Product House," it was Jackman's responsibility to know what the market was doing so that he could invest in the right products to meet the market. According to CS-24, Defendant Ryan had direct knowledge of Tellabs' financial activities.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-16 and CS-24 made the statements attributed to them in paragraph 157 and therefore deny those allegations. Defendants admit that, during the putative Class Period, Ryan had knowledge of certain of Tellabs' financial activities. Defendants otherwise deny the truth of statements attributed to CS-24 in paragraph 157. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Defendants Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

158. According to CS-19, a high-level Tellabs sales executive, Kohler was a sales-oriented person, and Jackman ran the whole product side of Tellabs' business. Jackman reported directly to Birck.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-19 made the statements attributed to CS-19 in paragraph 158 and therefore deny those allegations. Defendants deny the truth of statements attributed to CS-19 in paragraph 158. Answering further, Defendants state that Plaintiffs' claim under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder has been dismissed as to Jackman. Answering further, Defendants state that Kohler is not an individual defendant in this action.

159. In addition, according to CS-1, senior management, including Defendant Robert Pullen, was aware of the TITAN 6500 production problems and that the product was failing evaluations. Moreover, as CS-1 reported, Pullen made numerous visits to TITAN 6500 customers regarding such failed evaluation problems.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-1 made the statements attributed to CS-1 in paragraph 159 and therefore deny those allegations. Defendants deny the truth of statements attributed to CS-1 in paragraph 159. Answering further, Defendants state that Plaintiffs' claim under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder has been dismissed as to Pullen.

160. The products at issue in this action, especially the TITAN 5500, were critical to the Company's overall performance and prospects during the relevant time. For example, the Company's 2000 10-K described the TITAN 5500 as the Company's "flagship" product, and the 2000 Annual Report identified the TITAN 5500 systems as the Company's "core products."

ANSWER: Defendants state that sales of the TITAN 5500 were important to the Company's overall performance and prospects during the Class Period. Defendants admit the allegations of the second sentence of paragraph 160. Defendants deny the remaining allegations contained in paragraph 160.

161. The customers at issue in this action, including Verizon and SBC, were critical to the Company's business. For example, in 2000, sales to Verizon, Tellabs' largest customer, accounted for more than 19% of consolidated net sales. No other customer accounted for more than 10% of consolidated net sales that year. The importance of Tellabs' relationships with such key customers as Verizon and SBC compels a strong inference that, as the top executive officers and directors of Tellabs, Defendants knew about significant problems and other matters affecting those relationships.

ANSWER: Defendants admit that sales to Verizon accounted for approximately 19.1% of Tellabs' consolidated net sales in 2000. Defendants admit that no other customer accounted

for more than 10% of consolidated net sales that year. Defendants deny the remaining allegations contained in paragraph 161.

162. The transactions that are described herein were in dollar terms large and were highly important to the Company's performance and prospects.

ANSWER: Defendants state that the allegations in this paragraph are so vague as to render an answer by Defendants impossible, and on that basis Defendants deny the allegations contained in paragraph 162.

163. The problems affecting the Company's products and performance were of such a nature and severity, as specified above, as to compel an inference of knowledge on the part of Defendants.

ANSWER: Defendants deny the allegations contained in paragraph 163. Answering further, Defendants state that Plaintiffs' claims under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Pullen and Kohler are not individual defendants in this action.

164. During the Class Period, Defendants had direct communications with Tellabs' customers. For example, according to CS-15, Defendant Kohler was one of the Tellabs executives who frequently attended quarterly meetings with senior level people at Verizon, AT&T, and other Tellabs' customers. As a result of such meetings, CS 15 reported, Tellabs management knew how much the customer was buying, how much the customer planned to buy, and whether the customer was going to cut pricing.

ANSWER: Defendants deny the allegations contained in paragraph 164. Defendants lack sufficient knowledge to form a belief as to whether CS-15 made the statements attributed to CS-15 in paragraph 164 and therefore deny those allegations. Other than admitting that various Defendants had various communications with customers, and that Kohler from time to time met with certain customers, Defendants deny the truth of statements attributed to CS-15 in paragraph 164. Answering further, Defendants state that Plaintiffs' claim under Section 10(b) of the

Exchange Act and Rule 10b-5 thereunder has been dismissed as to Jackman. Answering further, Defendants state that Kohler is not an individual defendant in this action.

165. CS-18, a former high-level SALIX / Tellabs executive, reported that Kohler knew of the problems with the SALIX and visited SALIX customer Level 3 at Level 3's Colorado site. CS-18 also reported that Kohler was knowledgeable concerning the progress of the SALIX because Kohler had to purchase materials for the product.

ANSWER: Defendants state that based on this Court's February 19, 2004 opinion, allegations concerning SALIX were dismissed as not stating a claim and thus do not need to be answered.

166. CS-11, a Tellabs regional sales director, confirmed that Notebaert had knowledge of the sales problems.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-11 made the statements attributed to CS-11 in paragraph 166 and therefore deny those allegations. Defendants deny the truth of statements attributed to CS-11 in paragraph 166.

167. CS-16, a former Tellabs marketing strategy executive, reported that Tellabs did extensive market research, and had a budget for market research of approximately \$400,000 to \$500,000 per annum through the beginning of the Class Period. This included \$100,000 paid to an independent research firm for the data on T1 circuits in early 2001 that indicated that Tellabs' TITAN 5500 revenues were about to significantly decline.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-16 made the statements attributed to CS-16 in paragraph 167 and therefore deny those allegations. Defendants admit that Tellabs did market research. Defendants deny the truth of the remaining statements attributed to CS-16 in paragraph 167.

168. CS-15 reported that Tellabs management needed to keep apprised of, and did keep apprised of, customer purchases and buying plans so that Tellabs and its customers could comply with federal regulations and Federal Communications Commission supplier diversity

requirements. Quarterly reports described exactly what customers purchased and how much of the purchases was attributable to minority suppliers.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-15 made the statements attributed to CS-15 in paragraph 168 and therefore deny those allegations. Defendants admit that Tellabs complied with all applicable federal regulations and requirements. Defendants deny the truth of the remaining statements attributed to CS-15 in paragraph 168.

169. According to CS-16, the people working in Tellabs' mergers and acquisitions group would gather market data and market research, and speak with various companies in the field that were acquisition targets, and feed all this information to the head of the mergers and acquisitions group, Harvey Scull. In turn, Scull had conversations with Tellabs executive management, including Defendant Birck.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-16 made the statements attributed to CS-16 in paragraph 169 and therefore deny those allegations. Defendants admit that Harvey Scull was the head of Tellabs' mergers and acquisitions group. Defendants admit that Scull had conversations with members of Tellabs' executive management, including Birck. Defendants deny the truth of the remaining statements attributed to CS-16 in paragraph 169. Answering further, Defendants state that Plaintiffs' claim under Section 10(b) of the Exchange Act and Rule 10b-5 thereunder has been dismissed as to Birck.

170. Defendants' knowledge was also evidenced by layoffs and Tellabs' cutting of projects. In April 2001, Tellabs began a process of laying off approximately 27% of its workforce. In addition, according to CS-9, information circulated throughout the Company in March 2001 that capital expenditures were going to be cut because sales were insufficient, and, just after the end of the Class Period, Tellabs did indeed cut all sorts of capital expense projects, including a \$3 million project with which CS-9 was involved.

ANSWER: Defendants admit that in April 2001, Tellabs laid off part of its workforce and capital expenditures were reduced. Defendants lack sufficient knowledge to form a belief as to whether CS-9 made the statements attributed to CS-9 in paragraph 170 and therefore deny those allegations. Defendants admit that in March 2001 Tellabs planned to cut certain capital expenditures. Defendants admit that after June 19, 2001, Tellabs cut some capital expense projects. Defendants lack sufficient knowledge or information to form a belief as to the assertion attributed to CS-9 that Tellabs cut a \$3 million project with which CS-9 was involved and therefore deny those allegations. Defendants deny the remaining allegations contained in paragraph 170.

171. According to CS-3, the problems slowing the development of the TITAN 6500 were evident throughout the entire development process in 1998, 1999, 2000, and 2001, and thereafter. Defendants Jackman and Pullen and development personnel knew that the TITAN 6500 was not ready for deployment despite Tellabs' public announcements, according to CS-3. As explained by CS-3, Tellabs introduced the TITAN 6500, prior to its being ready, in 2000; however, customers realized that the TITAN 6500 "was not even close to being ready" when they put the TITAN 6500 in their labs. According to CS-3, Notebaert also knew about this problem.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to whether CS-3 made the statements attributed to CS-3 in paragraph 171 and therefore deny those allegations. Defendants deny the truth of statements attributed to CS-3 in paragraph 171. Answering further, Defendants state that Pullen is not an individual defendant in this action.

172. In the Company's 2001 Annual Report, Defendants effectively admitted that, by early 2001, they knew of the serious customer demand problems adversely affecting the Company's prospects. The Annual Report states: "Early in 2001, as our customers reduced capital spending and expressed caution about the future, Tellabs began a deep process of self-examination."

ANSWER: Defendants admit that the quoted statement appeared in the Company's 2001 Annual Report. Defendants deny the remaining allegations contained in paragraph 172.

173. Plaintiffs bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of all persons who purchased shares of Tellabs common stock during the Class Period (the “Class”) and who were damaged thereby, Plaintiffs Broholm, LeBrun, Leehey, and Morris, also bring the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of the following subclasses:

a. Plaintiffs LeBrun and Leehey bring the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of a subclass (“LeBrun-Leehey Subclass”) consisting of all Class members who purchased Tellabs common stock contemporaneously with sales of Tellabs common stock by Defendants Birck and Kohler on February 2, 2001.

b. Plaintiff Broholm brings the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of a subclass (“Broholm Subclass”) consisting of all Class members who purchased Tellabs common stock contemporaneously with sales of Tellabs common stock by Defendant Birck on February 5, 2001.

c. Plaintiff Morris brings the claims asserted herein pursuant to Section 20A of the Exchange Act on behalf of a subclass (“Morris Subclass”) consisting of all Class members who purchased Tellabs common stock contemporaneously with sales of Tellabs common stock by Defendant Birck on February 6, 2001.

ANSWER: Defendants admit that Plaintiffs purports to bring this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of all persons who purchased shares of Tellabs common stock during the Class Period. Defendants admit that Plaintiffs LeBrun, Leehey, Broholm, and Morris purport to bring claims pursuant to Section 20A of the Exchange Act on behalf of the subclasses described in 173(a), 173(b), and 173(c), but note that the claims of these purported subclasses have been dismissed. Defendants deny that this matter may be certified as a class action. Defendants deny the remaining allegations contained in paragraph 173.

174. Excluded from the Class are Defendants; the subsidiaries and affiliates of the Company; the officers and directors of the Company and its subsidiaries and affiliates; members of the immediate families of the Individual Defendants; the legal representatives, heirs, successors, or assigns of any excluded person; and any entity in which any excluded person has or had a controlling interest.

ANSWER: Defendants admit only that Plaintiffs purport to define those excluded from the putative Class as set forth in paragraph 174. Defendants deny that this matter may be certified as a class action.

175. The members of the Class are so numerous that joinder of all members is impracticable. While the exact number of Class members is unknown to Plaintiffs at this time and can only be ascertained through appropriate discovery, Plaintiffs believe that there are thousands of members in the proposed Class. Throughout the Class Period, Tellabs common shares were actively traded on the NASDAQ National Market and there were approximately 188 million shares of Tellabs common stock issued and outstanding. Members of the Class may be identified from records maintained by Tellabs or its transfer agent, and may be notified of the pendency of this action by mail and publication, using forms of notice similar to those customarily used in securities class actions.

ANSWER: Defendants admit that Tellabs common shares were traded on the NASDAQ National Market. Defendants lack sufficient knowledge or information to form a belief as to the remaining allegations of the second and fourth sentences in this paragraph and therefore deny those allegations. Defendants deny the remaining allegations in paragraph 175.

176. Plaintiffs' claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by Defendants' wrongful conduct in violation of federal securities laws complained of herein.

ANSWER: Defendants deny the allegations contained in paragraph 176.

177. Plaintiffs will fairly and adequately protect the interests of the members of the Class. Plaintiffs do not have any interests that conflict with the interests of other Class Members and have retained counsel competent and experienced in class actions and securities litigation.

ANSWER: Defendants lack sufficient knowledge to form a belief as to the allegations contained in paragraph 177, and therefore deny these allegations.

178. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual Class members. Among the questions of law and fact common to the Class are:

- a. whether the federal securities laws were violated by Defendants' acts and omissions as alleged herein;
- b. whether Defendants participated in and pursued the common course of conduct complained of herein;
- c. whether statements made by Defendants to the investing public during the Class Period misrepresented and/or omitted to disclose material facts about the Company;

d. whether the market price for Tellabs common stock during the Class Period was artificially inflated due to the material misrepresentations and failures to correct the material misrepresentations complained of herein; and

e. whether the members of the Class have sustained damages and the proper measure of damages.

ANSWER: Defendants deny the allegations contained in paragraph 178 including its subparts a. through e.

179. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy because joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it virtually impossible for many members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

ANSWER: Defendants deny the allegations contained in paragraph 179.

180. At all relevant times, the market for Tellabs common stock was an efficient market for the following reasons, among others:

- Tellabs common stock met the requirements for listing, and was listed and actively traded on the NASDAQ, a highly efficient and automated market;
- As a regulated issuer, Tellabs filed periodic public reports with the SEC and the NASDAQ;
- Tellabs regularly communicated with public investors through established market communication mechanisms, including regular dissemination of press releases on the national circuits of major newswire services and other wide-ranging public disclosures, such as communications with the financial press, securities analysts and other similar reporting services;
- Tellabs was followed by securities analysts employed by major brokerage firms who wrote reports which were distributed to the sales force and customers of their respective brokerage firms. Each of these reports was publicly available and entered the public marketplace, in part, through Tellabs' dissemination. Among the brokerage firms that issued research reports on Tellabs during the Class Period were Morgan Stanley Dean Witter & Co. ("Morgan Stanley"), Lehman Brothers, Inc. ("Lehman Bros."), Merrill Lynch Capital Markets ("Merrill Lynch"), UBS Warburg, LLC ("UBS Warburg"), and W.R. Hambrecht & Co. ("W.R. Hambrecht").

ANSWER: Defendants admit that Tellabs common stock met the requirements for listing, and was listed and actively traded on the NASDAQ, an automated market. Defendants

admit the allegations contained in the bottom three bulleted paragraphs within paragraph 180, other than the allegation in the last bulleted paragraph regarding Tellabs' "dissemination," which Defendants deny. Defendants lack knowledge or information sufficient to form a belief as to the truth of the remaining allegations in paragraph 180, and therefore deny the same.

181. As a result, the market for Tellabs common stock promptly digested current information regarding Tellabs from all publicly available sources and reflected such information in Tellabs' stock price. Under these circumstances, all purchasers of Tellabs shares during the Class Period suffered similar injury through their purchase of Tellabs shares at artificially inflated prices and a presumption of reliance applies. Further, Plaintiffs are entitled to and will rely on the presumption of reliance doctrine based on the material omissions alleged herein.

ANSWER: Defendants lack sufficient knowledge to form a belief as to the allegations in the first sentence of paragraph 181 and therefore deny these allegations. Defendants deny the remaining allegations contained in paragraph 181.

182. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The specific statements pleaded herein are not "forward-looking statements" and were not identified as "forward-looking statements" when made. Nor was it stated with respect to any of the statements forming the basis of this Complaint that actual results "could differ materially from those projected." To the extent there were any forward-looking statements, there were no meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in the purportedly forward-looking statements. Alternatively, to the extent that the statutory safe harbor does apply to any forward-looking statements pleaded herein, Defendants are liable for those false forward-looking statements because at the time each of those forward-looking statements were made, the particular speaker knew that the particular forward-looking statements was false, and/or the forward-looking statement was authorized and/or approved by an executive officer of Tellabs who knew that those statements were false when made.

ANSWER: Defendants deny the allegations contained in paragraph 182.

183. As described herein, among other wrongful conduct, Defendants used communications with securities analysts to promote the Company and to artificially inflate the price of Tellabs common stock during the Class Period.

ANSWER: Defendants deny the allegations contained in paragraph 183.

184. In writing their reports, these analysts relied in substantial part upon information provided by the Company, public statements and reports of the Company, information provided to them privately by the Company (including by the Individual Defendants) and assurances by the Company and the Individual Defendants that information in the analysts' reports did not materially vary from the Company's internal knowledge of its operations and prospects.

ANSWER: Defendants lack sufficient knowledge or information to form a belief as to the allegations contained in paragraph 184 regarding what various analysts relied upon, and therefore deny those allegations. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action. Defendants deny the remaining allegations of this paragraph.

185. Defendants used their communications with analysts to assure them that their analysis and estimates of Tellabs' financial condition, performance, prospects, and business were accurate and repeatedly advised securities analysts that the Company was not adversely affected by a weakened economy and that revenues and earnings would continue to increase.

ANSWER: Defendants admit that they communicated with analysts. Defendants deny the remaining allegations contained in paragraph 185.

186. Prior to and during the Class Period, it was the Company's practice to have its top officers and key members of its management team communicate regularly with securities analysts to discuss, among other things, the Company's operating results and anticipated revenues and to provide detailed "guidance" to these analysts with respect to the Company's business and anticipated revenues and earnings. These communications included, but were not limited to, conference calls, meetings and analyst briefings where the Defendants discussed relevant aspects of the Company's operations and financial prospects. Additionally, Tellabs' representatives also attended "conferences" sponsored by different organizations throughout the Class Period and sponsored "conference calls" with securities analysts and institutional investors in connection with releases of earnings announcements and other major corporate events during which they promoted the Company's stock by disseminating materially false and misleading information about the Company.

ANSWER: Defendants admit that certain members of Tellabs' management communicated with certain securities analysts on certain occasions. Defendants admit that Tellabs held conference calls with analysts. Defendants deny the remaining allegations contained in paragraph 186.

187. The Individual Defendants knew that, by participating in these regular and periodic direct communications with analysts, the Company would disseminate information to the investment community and that investors and the market would rely and act upon such information (i.e., make purchases of the Company's securities). The Individual Defendants had these communications with analysts in order to cause or encourage them to issue favorable reports concerning Tellabs -- which the analysts did -- and Defendants used these communications to falsely present the financial condition, performance, business, and operations of Tellabs to the marketplace in an artificially and falsely favorable light in order to artificially inflate the market price for Tellabs common stock. Despite their duty to do so, the Individual Defendants failed to correct these communications of which they were the sources or which they had caused or facilitated during the Class Period.

ANSWER: Defendants deny the allegations contained in paragraph 187. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action, and no analyst reports are among the statements that remain at issue in this litigation, as described in the parties' February 25, 2008 Joint Status Report.

188. The investment community, and, in turn, investors, relied and acted upon the information contained in these written analyst reports that repeatedly recommended that investors purchase Tellabs common stock. The Company and the Individual Defendants manipulated and inflated the market price of Tellabs stock by falsely presenting to analysts, through regular meetings and during both telephonic and written communications, the financial condition, earnings and revenues of the Company and by failing to disclose the true adverse facts about the Company that were known only to them.

ANSWER: Defendants lack sufficient knowledge to form a belief as to the allegations in the first sentence of paragraph 188 and therefore deny those allegations. Defendants deny the remaining allegations contained in paragraph 188. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action, and no analyst reports are among

the statements that remain at issue in this litigation, as described in the parties' February 25, 2008 Joint Status Report.

COUNT I

189. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

ANSWER: Defendants incorporate and restate each and every answer contained above as if fully set forth herein. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

190. During the Class Period, Defendants carried out a plan, scheme and course of conduct which was intended to and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiffs and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of Tellabs' securities; and (iii) cause Plaintiffs and other members of the Class to purchase Tellabs' securities at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, Defendants, and each of them, took the actions set forth herein.

ANSWER: Defendants deny the allegations contained in paragraph 190. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

191. Defendants: (a) employed devices, schemes, and artifices to defraud; (b) made untrue statements of material fact and omitted to state material facts necessary to make the statements not misleading; and (c) engaged in acts, practices, and a course of business that operated as a fraud and deceit upon the purchasers of the Company's securities in an effort to maintain artificially high market prices for Tellabs' securities in violation of Section 10(b) of the Exchange Act and Rule 10b-5. All Defendants are sued as primary participants in the wrongful and illegal conduct charged herein. The Individual Defendants also are sued as controlling persons as alleged below.

ANSWER: Defendants deny the allegations contained in paragraph 191. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

192. In addition to the duties of full disclosure imposed on Defendants as a result of their making of affirmative statements and reports, or participation in the making of affirmative statements and reports to the investing public, Defendants had a duty to promptly disseminate truthful information that would be material to investors in compliance with the integrated disclosure provisions of the SEC as embodied in SEC Regulation S-X (17 C.F.R. Sections 210.01 et seq.) and Regulation S-K (17 C.F.R. Sections 229.10 et seq.) and other SEC regulations, including accurate and truthful information with respect to the Company's operations, financial condition and earnings so that the market price of the Company's securities would be based on truthful, complete and accurate information.

ANSWER: Defendants state that the allegations contained in paragraph 192 state a legal conclusion to which no answer is needed. To the extent an answer is required, Defendants deny the allegations contained in paragraph 192. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

193. Tellabs and the Individual Defendants, individually and in concert, directly and indirectly, by the use of the means and instrumentalities of interstate commerce and of the mails, engaged and participated in a continuous course of conduct to conceal adverse material information about the business, operations, performance and prospects of Tellabs as specified herein.

ANSWER: Defendants deny the allegations contained in paragraph 193. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5

have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

194. These Defendants employed devices, schemes and artifices to defraud, while in possession of material adverse non-public information and engaged in acts, practices, and a course of conduct as alleged herein in an effort to assure investors of Tellabs' value and performance and continued substantial growth, which included the making of, or the participation in the making of, untrue statements of material facts and omitting to state material facts necessary in order to make the statements made about Tellabs and its business, operations, performance, and prospects in the light of the circumstances under which they were made, not misleading, as set forth more particularly herein, and engaged in transactions, practices and a course of business which operated as a fraud and deceit upon the purchasers of Tellabs' securities during the Class Period.

ANSWER: Defendants deny the allegations contained in paragraph 194. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

195. Defendants had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and to disclose such facts, even though such facts were available to them. Defendants' material misrepresentations and omissions were done knowingly or recklessly and for the purpose and effect of concealing Tellabs' operating condition and future business prospects from the investing public and supporting the artificially inflated price of its securities, As demonstrated by Defendants' overstatements and misstatements of the Company's business, operations, performance, and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the misrepresentations and omissions alleged, were reckless in failing to obtain such knowledge by deliberately refraining from taking those steps necessary to discover whether those statements were false or misleading.

ANSWER: Defendants deny the allegations contained in paragraph 195. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

196. As a result of the dissemination of the materially false and misleading information and failure to disclose material facts, as set forth above, the market price of Tellabs' securities was artificially inflated during the Class Period, in ignorance of the fact that market prices of Tellabs' publicly-traded securities were artificially inflated, and relying directly or indirectly on the false and misleading statements made by Defendants, or upon the integrity of the market in which the securities trade, or the absence of material adverse information that was known to or recklessly disregarded by Defendants but not disclosed in public statements by Defendants during the Class Period, Plaintiffs and the other members of the Class purchased Tellabs securities during the Class Period at artificially high prices and were damaged thereby.

ANSWER: Defendants deny the allegations contained in paragraph 196. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

197. At the time of said misrepresentations and omissions, Plaintiffs and other members of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiffs and other members of the Class and the marketplace known of the true financial condition and business prospects of Tellabs, which were not disclosed by Defendants, Plaintiffs and other members of the Class would not have purchased their Tellabs securities, or, if they had purchased such securities during the Class Period, they would not have done so at the artificially inflated prices that they paid.

ANSWER: Defendants deny that Tellabs or Notebaert made any misrepresentations or omissions during the class period or that Tellabs' stock was artificially inflated during the class period. Defendants lack knowledge or information sufficient to form a belief as to the truth of the allegations regarding what plaintiffs or putative members of the class knew or believed, and therefore deny the same. Defendants deny the remaining allegations in paragraph 197. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

198. By virtue of the foregoing, Defendants have violated Section 10(b) of the Exchange Act, and Rule 10b-5 promulgated thereunder.

ANSWER: Defendants deny the allegations in paragraph 198. Answering further, Defendants state that the claims under Section 10(b) of the Exchange Act and Rule 10b-5 have been dismissed as to Birck, Ryan, and Jackman. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

199. As a direct and proximate result of Defendants' wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

ANSWER: Defendants deny the allegations in paragraph 198.

COUNT II

200. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

ANSWER: Defendants incorporate and restate each and every answer contained above as if fully set forth herein.

201. The Individual Defendants acted as controlling persons of Tellabs within the meaning of Section 20(a) of the Exchange Act as alleged herein. By virtue, among other things, of their high-level positions, their ownership of Company shares, and their participation in and awareness of the Company's operations and intimate knowledge of the statements filed by the Company with the SEC and disseminated to the investing public, the Individual Defendants had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements that Plaintiffs contend are false and misleading. The Individual Defendants were provided with or had unlimited access to copies of the Company's reports, press releases, public filings, and other statements alleged by Plaintiffs to be materially false and misleading prior to or shortly after these statements were issued and had the ability to prevent the issuance of the statements or to cause the statements to be corrected.

ANSWER: Defendants state that whether Individual Defendants acted as controlling persons under Section 20(a) of the Exchange Act is a legal conclusion to which no answer is

required. To the extent an answer is required, Defendants deny that the Individual Defendants acted as controlling persons under Section 20(a) of the Exchange Act. Defendants admit that the Individual Defendants were Tellabs' executives, with varying degrees of participation (or lack thereof) in various Company decisions, and with access to press releases or public filing of the Company. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 201.

202. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control and influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

ANSWER: Defendants deny that the non-specific allegations of this paragraph regarding "involvement" set forth an accurate or complete description of the duties, responsibilities or degree of involvement of all the Individual Defendants in the range of Company operations, and therefore deny the same. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action. Defendants deny the remaining allegations contained in paragraph 202.

203. As set forth above, Tellabs and the Individual Defendants each violated Section 10(b) and Rule 10b-5 by their acts and omissions as alleged in this Complaint. By virtue of their positions each as controlling persons, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act. As a direct and proximate result of Tellabs' and the Individual Defendants' wrongful conduct, Plaintiffs and other members of the Class suffered damages in connection with their purchases of the Company's securities during the Class Period.

ANSWER: Defendants deny the allegations contained in paragraph 203. Answering further, Defendants state that Kohler and Pullen are not individual defendants in this action.

COUNT III

204. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

ANSWER: Defendants incorporate and restate each and every answer contained above as if fully set forth herein.

205. This Claim is brought by Plaintiffs LeBrun and Leehey on behalf of the LeBrun-Leehey Subclass against Defendants Birck and Kohler. Plaintiffs LeBrun and Leehey and each of the other members of the LeBrun-Leehey Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendants Birck and Kohler on February 2, 2001.

ANSWER: Count III has been dismissed as to Defendant Kohler by this Court's February 19, 2004 opinion. Count III has been dismissed as to Defendant Birck by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 205.

206. By virtue of their positions as senior insiders of Tellabs, Individual Defendants Birck and Kohler were in possession of material, non-public information about Tellabs at the time they sold their own Tellabs stock to Plaintiffs LeBrun and Leehey and the other members of the LeBrun-Leehey Subclass at artificially inflated prices.

ANSWER: Count III has been dismissed as to Defendant Kohler by this Court's February 19, 2004 opinion. Count III has been dismissed as to Defendant Birck by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 206.

207. By virtue of their participation in the scheme to defraud investors described herein, and their sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendants Birck and Kohler violated the Exchange Act and applicable rules and regulations thereunder.

ANSWER: Count III has been dismissed as to Defendant Kohler by this Court's February 19, 2004 opinion. Count III has been dismissed as to Defendant Birck by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 207.

208. Plaintiffs LeBrun and Leehey and all other members of the LeBrun-Leehey Subclass who purchased shares of Tellabs stock contemporaneously with the February 2, 2001 sales of Tellabs stock by Individual Defendants Birck and Kohler: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

ANSWER: Count III has been dismissed as to Defendant Kohler by this Court's February 19, 2004 opinion. Count III has been dismissed as to Defendant Birck by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 208.

209. Individual Defendants Birck and Kohler are required to account for all such stock sales and to disgorge their profits and ill-gotten gains.

ANSWER: Count III has been dismissed as to Defendant Kohler by this Court's February 19, 2004 opinion. Count III has been dismissed as to Defendant Birck by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 209.

COUNT IV

210. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

ANSWER: Defendants incorporate and restate each and every answer contained above as if fully set forth herein.

211. This Claim is brought by Plaintiff Broholm on behalf of the Broholm Subclass against Defendant Birck. Plaintiff Broholm and each of the other members of the Broholm Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Birck on February 5, 2001.

ANSWER: Count IV has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 217.

212. By virtue of his position as a senior insider of Tellabs, Individual Defendant Birck was in possession of material, non-public information about Tellabs at the time he sold his own Tellabs stock to Plaintiff Broholm and the other members of the Broholm Subclass at artificially inflated prices.

ANSWER: Count IV has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 212.

213. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendant Birck violated the Exchange Act and applicable rules and regulations thereunder.

ANSWER: Count IV has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 213.

214. Plaintiff Broholm and all other members of the Broholm Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by Individual Defendant Birck: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

ANSWER: Count IV has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 214.

215. Individual Defendant Birck is required to account for all such stock sales and to disgorge his profits and ill-gotten gains.

ANSWER: Count IV has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 215.

COUNT V

216. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

ANSWER: Defendants incorporate and restate each and every answer contained above as if fully set forth herein.

217. This Claim is brought by Plaintiff Morris on behalf of the Morris Subclass against Defendant Birck. Plaintiff Morris and each of the other members of the Morris Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Birck on February 6, 2001.

ANSWER: Count V has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 217.

218. By virtue of his position as a senior insider of Tellabs, Individual Defendant Birck was in possession of material, non-public information about Tellabs at the time he sold his own Tellabs stock to Plaintiff Morris and the other members of the Morris Subclass at artificially inflated prices.

ANSWER: Count V has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 218.

219. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the

Company, as detailed herein, Individual Defendant Birck violated the Exchange Act and applicable rules and regulations thereunder.

ANSWER: Count V has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 219.

220. Plaintiff Morris and all other members of the Morris Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by Individual Defendant Birck: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

ANSWER: Count V has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 220.

221. Individual Defendant Birck is required to account for all such stock sales and to disgorge his profits and ill-gotten gains.

ANSWER: Count V has been dismissed by this Courts' May 22, 2008 opinion. Since this claim is no longer operative, Defendants do not need to answer paragraph 221.

COUNT VI

222. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

ANSWER: Defendants incorporate and restate each and every answer contained above as if fully set forth herein.

223. This Claim is brought by Plaintiff Heaton on behalf of the Heaton Subclass against Defendant Kozik, Plaintiff Heaton and each of the other members of the Heaton Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Kozik on February 15, 2001.

ANSWER: Count VI has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 217.

224. By virtue of her position as a senior insider of Tellabs, Individual Defendant Kozik was in possession of material, non-public information about Tellabs at the time she sold her own Tellabs stock to Plaintiff Heaton and the other members of the Heaton Subclass at artificially inflated prices.

ANSWER: Count VI has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 224.

225. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendant Kozik violated the Exchange Act and applicable rules and regulations thereunder.

ANSWER: Count VI has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 225.

226. Plaintiff Heaton and all other members of the Heaton Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by Individual Defendant Kozik: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

ANSWER: Count VI has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 226.

227. Individual Defendant Kozik is required to account for all such stock sales and to disgorge her profits and ill-gotten gains.

ANSWER: Count VI has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 227.

COUNT VII

228. Plaintiffs repeat and reallege each and every allegation contained above as if fully set forth herein.

ANSWER: Defendants incorporate and restate each and every answer contained above as if fully set forth herein.

229. This Claim is brought by Plaintiff Mackay on behalf of the Mackay Subclass against Defendant Gruenwald. Plaintiff Mackay and each of the other members of the Mackay Subclass purchased Tellabs common stock contemporaneously with sales of Tellabs stock by Defendant Gruenwald on January 31, 2001.

ANSWER: Count VII has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 217.

230. By virtue of his position as a senior insider of Tellabs, Individual Defendant Gruenwald was in possession of material, non-public information about Tellabs at the time he sold his own Tellabs stock to Plaintiff Mackay and the other members of the Mackay Subclass at artificially inflated prices.

ANSWER: Count VII has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 230.

231. By virtue of his participation in the scheme to defraud investors described herein, and his sales of stock while in possession of material, non-public adverse information about the Company, as detailed herein, Individual Defendant Gruenwald violated the Exchange Act and applicable rules and regulations thereunder.

ANSWER: Count VII has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 231.

232. Plaintiff Mackay and all other members of the Mackay Subclass who purchased shares of Tellabs stock contemporaneously with the sales of Tellabs stock by this Individual Defendant: (1) have suffered substantial damages in that they paid artificially inflated prices for Tellabs stock as a result of the violations of §§ 10(b) and 20(a) and Rule 10b-5 herein described; and (2) would not have purchased Tellabs stock at the prices they paid, or at all, if they had been aware that the market prices had been artificially inflated by Defendants' false and misleading statements.

ANSWER: Count VII has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 232.

233. Individual Defendant Gruenwald is required to account for all such stock sales and to disgorge his profits and ill-gotten gains.

ANSWER: Count VII has been dismissed by this Court's February 19, 2004 opinion because Plaintiffs inadvertently named an unnamed defendant. Since this claim is no longer operative, Defendants do not need to answer the allegations contained in paragraph 233.

WHEREFORE, Plaintiffs pray for relief and judgment, as follows:

- a. Determining that this action is a proper class action under Rule 23 of the Federal Rules of Civil Procedure and certifying Plaintiffs as representatives of the Class and Sub-Classes defined herein;
- b. Awarding compensatory damages in favor of Plaintiffs and other Class members against all Defendants, jointly and severally, for all damages sustained as a result of Defendants' wrongdoing, including, but not limited to, the Individual Defendants' insider trading, in an amount to be determined at trial, including interest thereon;

- c. Awarding Plaintiffs and the Class their costs and expenses incurred in this action, including counsel fees and expert fees;
- d. Awarding pre-judgment and post-judgment interest as allowed by law; and
- e. Such other and further relief as the Court may deem just and proper.

ANSWER: Defendants deny that Plaintiffs are entitled to a judgment in their favor or to any of the relief they request.

SEPARATE DEFENSES

1. Defendant Richard Notebaert is entitled to judgment on the Section 20(a) control person liability claim against him because he acted in good faith and did not directly or indirectly induce the act or acts constituting the violation or cause of action.

2. Defendant Michael Birck is entitled to judgment on the Section 20(a) control person liability claim against him because he acted in good faith and did not directly or indirectly induce the act or acts constituting the violation or cause of action.

3. Defendant Brian Jackman is entitled to judgment on the Section 20(a) control person liability claim against him because he acted in good faith and did not directly or indirectly induce the act or acts constituting the violation or cause of action.

4. Defendant Joan Ryan is entitled to judgment on the Section 20(a) control person liability claim against her because she acted in good faith and did not directly or indirectly induce the act or acts constituting the violation or cause of action.

WHEREFORE, Defendants respectfully request that judgment be entered in their favor and against Plaintiffs, that Plaintiffs recover nothing under the Second Amended Class Action Complaint, that the Second Amended Class Action Complaint be dismissed with prejudice, that a class not be certified, and that the Court award Defendants such other and further relief as is just.

Dated: June 17, 2008

Respectfully submitted,

/s/ Melanie E. Walker

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CERTIFICATE OF SERVICE

I, Melanie E. Walker, one of defendants' attorneys, hereby certify that on June 17, 2008, service of the *Defendants' Answer and Defenses to Plaintiffs' Second Consolidated Amended Class Action Complaint* was accomplished pursuant to ECF as to Filing Users and in compliance with LR 5.5 as to any party who is not a Filing User or represented by a Filing User.

/s/ Melanie E. Walker

Melanie E. Walker