SECURITIES AND EXCHANGE COMMISSION

FORM 10-K

Annual report pursuant to section 13 and 15(d)

Filing Date: **1997-03-24** | Period of Report: **1996-12-27**
SEC Accession No. 0000317771-97-000042

(HTML Version on secdatabase.com)

FILER

TELLABS INC CIK:**317771**| IRS No.: **363831568** | State of Incorp.:**DE** | Fiscal Year End: **0101** Type: **10-K** | Act: **34** | File No.: **000-09692** | Film No.: **97561751** SIC: **3661** Telephone & telegraph apparatus	Mailing Address *4951 INDIANA AVE* *LISLE IL 60532*	Business Address *4951 INDIANA AVE* *LISLE IL 60532* *7089698800*

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 27, 1996

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from N/A to N/A
Commission file number 0-9692

TELLABS, INC.
(Exact name of registrant as specified in its charter)

Delaware	36-3831568
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4951 Indiana Avenue, Lisle, Illinois	60532-1698
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (630) 378-8800

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
None	N/A

Securities registered pursuant to Section 12(g) of the Act:

Common shares, with $.01 par value
(Title of Class)

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

On February 28, 1997, 180,419,637 common shares of Tellabs, Inc., were outstanding, and the aggregate market value (based upon the closing sale price of the National Market System) of such shares held by nonaffiliates was approximately $6,326,636,000.

Documents incorporated by reference: Portions of the registrant's Annual Report to Stockholders for the fiscal year ended December 27, 1996, are incorporated by reference into Parts I and II, and portions of the

registrant's Proxy Statement dated March 14, 1997 are incorporated by reference into Part III.

PART I

ITEM I. BUSINESS

Tellabs, Inc., an Illinois corporation, began operations in 1975 and became publicly owned in 1980. During 1992, the Illinois corporation merged with and into Tellabs Operations, Inc., a wholly owned subsidiary. As a result of the merger, Tellabs Operations, Inc., became a subsidiary of Tellabs, Inc., a Delaware corporation (with its subsidiaries, unless the context indicates otherwise, "Tellabs" or the "Company"). The Company designs, manufactures, markets and services voice and data transport and network access systems that are used worldwide by public telephone companies, long-distance carriers, alternate service providers, cellular and other wireless service providers, cable operators, government agencies, utilities, and business end-users.

Products provided by the Company include digital cross-connect systems, managed digital networks, network access and wireless system products. Digital cross-connect systems include the Company's TITAN (a registered trademark of Tellabs Operations, Inc.) 5500 and 5300 series of digital cross-connect systems. Managed digital networks include the Company's Martis (a registered Finnish trademark of Tellabs Oy) DXX (a registered Finnish trademark of Tellabs Oy) integrated access and transport system (the Martis DXX system), statistical multiplexers, packet switches, and T1 multiplexers, and network management systems. Network access products include digital signal processing (DSP) products such as echo cancellers and T-coders; special service products (SSP) such as voice frequency products; and local access products such as the CABLESPAN (a registered trademark of Tellabs Operations, Inc.) system. The Company, through the acquisition of the outstanding shares of the Steinbrecher Corporation (presently known as the Tellabs Wireless Systems Division), acquired technology that will form the basis of a new wireless local loop product which is expected to be introduced during 1997 as well as the existing DataCell (a trademark of Tellabs Operations, Inc.) Mobile Data Base Station product.

The Company's products are sold in both the domestic and international marketplaces (under the Tellabs name and trademarks and under private labels) through the Company's field sales force and selected distributors to a major customer base. This base includes Regional Bell Operating Companies (RBOCs), independent telephone companies (ITCs), interexchange carriers (IXCs), local telephone administrations (PTTs), local exchange carriers (LECs), original equipment manufacturers (OEMs), cellular and other wireless service companies, cable operators, alternate service providers, system integrators, government agencies, and business end-users ranging from small businesses to Fortune 500 companies.

The availability of digital technology along with the use of microprocessors and other custom and standard very large-scale integrated (VLSI) circuitry continues to make it economically possible for the Company to expand its product lines to meet the changing customer demands and industry trends inherent in today's dynamic telecommunications environment. This expansion primarily involves the development of broad lines of service-provider-oriented networking systems that meet the ever increasing

demands for efficient, multipurpose data, video, and voice communications services.

This same availability of technology in capital equipment makes it possible for the Company to efficiently and competitively continue to produce its own products in its world class manufacturing facilities located throughout the world.

Each of the Company's manufacturing operations is registered under the ISO 9000 standard. ISO 9000 is an international set of standards developed to provide quality assurance for companies seeking to improve their quality standards and customer service.

Digital Cross-Connect Systems

The TITAN product family consists of software intensive digital cross-connect systems and network management platforms. These flagship products address the needs of RBOCs, PTTs, IXCs, alternate local exchange, cellular, cable, government and Fortune 500 companies. These complex transmission systems are designed to meet or exceed domestic and international telephone industry standards.

The SONET (synchronous optical network) digital cross-connect systems operate under software control and are typically used to build and control the wideband and broadband transmission infrastructure of telecommunication service providers. Telecommunication managers utilize the digital cross-connect systems to reduce cycle time while minimizing capital and operating expense. Key applications include centralized and remote testing of transmission facilities, grooming of voice, data, and video signals, automated provisioning of new services, and restoration of failed facilities. All of the TITAN systems include a feature for monitoring facility performance which enhances "process of elimination troubleshooting" in a complex network. The user can determine the early warnings of facility degradation rather than reacting to a network outage. The digital cross-connect system also converts international to domestic transmission and signaling standards. These products augment the ability of users to provide current, emerging, and future service to business and residential customers. Advanced survivable business services also utilize the TITAN products for interconnecting fiber transmission.

The TITAN systems vary in switching rate and facility interface speed. Tellabs offers the SONET TITAN 5300 series of cross-connect systems that can interface facilities at STS-1, DS3, DS1, E1, DS0, and subrate levels, and can switch them at DS0 levels and below. The systems in this series allow modular non-service affecting growth with capacities ranging from 8 to 4,000 ports.

Tellabs also offers the Company's flagship SONET TITAN 5500 system which interfaces facilities at the DS1, DS3, STS-1 and/or fiber optic OC-N levels, and cross-connects them at levels of DS1/VT1.5 and above. The TITAN 5500 is the first digital cross-connect system in the world to integrate optical (N=3,12) equipment. A single TITAN 5500 system can carry the equivalent of 700,000 simultaneous phone conversations.

In 1997, the Company plans to introduce the TITAN 5200 Broadband Node, which will extend the benefits of the wideband digital cross-connect system, such as the TITAN 5500, to small end office, point-of-presence, outside plant, and customer premise locations. This product, which is

based on technology acquired from TRANSYS Networks, Inc. in June of 1996, will interoperate with TITAN 5500 nodes on OC-3 and OC-12 rings and provide flexible bandwidth management for DS1, DS3, and other customer facilities.

Digital cross-connect system products accounted for approximately 57 percent, 49 percent, and 46 percent of 1996, 1995, and 1994 sales, respectively.

Managed Digital Networks

Since Tellabs' entry into the data communications marketplace in 1983, the Company has developed a comprehensive family of networking products to address the requirements and flexibility demanded by the users of communications services. Products within this group include the Martis DXX system and the CROSSNET (a registered trademark of Tellabs Operations, Inc.) family of network-compatible T1/E1 time division multiplexers.

The Martis DXX system is a complete managed access and transport network system designed to be used by telecommunications service providers worldwide for the delivery of business services, digital leased lines and integrated customer access. Typical business service applications include PABX networking, high speed data access, value added data services such as frame relay and X.25, and voice telephony. An additional application of the Martis DXX system is the provision of the transport infrastructure for mobile networks such as digital and analog cellular, paging, trunked mobile radio and mobile data. The Martis DXX systems are also used as general purpose backbone networks carrying the wide variety of services that may be provided by the public telecommunications service provider.

Recent enhancements to the DXX system have focused on extending the current product portfolio with new features and functions including a wider variety of access configurations and speeds as well as significant enhancements to the DXX network management system to provide advanced management options to the public telecommunications service provider. The DXX system has also been enhanced to provide high speed optical synchronous digital hierarchy (SDH) interfaces and to support cell and packet-based technologies such as frame relay and ATM planned for the future.

The CROSSNET 440, 441 and 442 products are a family of intelligent T1/E1 multiplexers that interface voice, data and video devices (up to 2.048Mbps) and multiplex them over private time division multiplexing networks. The CROSSNET 445 provides timeslot interchange and DS0/DS1 switching and is used to network 440, 441 and 442 nodes. This family of intelligent multiplexers can be provisioned (network-wide) from any one node. In addition, they can automatically provision many of the voice and data applications and have an integrated network management system that can adjust the bandwidth in 400bps increments for highly efficient use of the DS1 or fractional DS1 facility. The CROSSNET family of multiplexers provides low bit rate voice (LBRV) compression at 8 and 16 kbps in its DS0 channels and T1 trunks, enhanced analog voice capability for competing in the growing branch office multiplexer market and a variable-speed network interface (NX64) to the CROSSNET 44X for use with international networks or satellite radio channels.

These products compete in the Wide Area Network (WAN) access market. End-users buy these products through value added re-sellers, service providers and direct from the Company. The products are used to combine voice, data and video applications for transmission over T1, FT1, E1, NX56 and NX64

facilities. They provide for more efficient utilization of the bandwidth and access to dedicated services.

Although the CROSSNET product line serves a maturing market that is migrating to newer technologies such as frame relay and ATM, there continue to be significant opportunities for the traditional CROSSNET multiplexers in both the domestic and international markets.

Managed digital networks accounted for approximately 28 percent, 28 percent, and 27 percent, of 1996, 1995, and 1994 sales, respectively.

Network Access Systems

Network access products are primarily modular in design and can be used either individually or in complex systems and assemblies. The three areas making up network access products are DSP products, SSP products, and local access products. The products are designed to meet telephone industry standards, and, in many applications, they directly interface with customer premises equipment. These products enhance the ability of LECs, PTTs, IXCs, wireless, private networks, alternate service providers and cable providers to provide current, emerging, and future services to their business customers through innovative products and systems that provide more cost-effective provisioning of existing basic services. In order to continue to grow this product area, state-of-the-art technology will be deployed and value-added content will be provided.

DSP products primarily address the needs of cellular companies, LECs, and IXCs, both domestically and internationally. Such products include the Company's echo cancellation (or control) and voice compression products. The echo control products primary function is to provide voice quality enhancements such as the removal of irritating feedback (from one's own voice) that occurs on virtually all long distance connections and many wireless connections. The voice compression product (T-Coder) doubles the capacity of digital transmission facilities used for voice and data services. This product has great economic appeal to cellular companies, IXCs, and end-users who want to double T1 or E1 capacity without incurring the cost of a new facility. These DSP products have benefited from the growth of the markets that these products address.

SSP products provide transmission and signaling conversion between the central office and the customers' terminal equipment. These products include: line amplifiers that compensate for loss and distortion in voice and analog data transmission applications; terminating devices that provide conversion between 4 wire transmission facilities and 2 wire local lines; signaling equipment and systems that convert station on-hook/off-hook, dialing and ringing information to signaling formats compatible with transmission over metallic voice channels; and loop treatment equipment typically used to extend the distance from a central office at which a telephone functions satisfactorily. The Company also designs, manufactures and sells a line of voice conferencing and alerting systems and a series of products with remote alignment and diagnostic maintenance capabilities.

The Company's CABLESPAN 2300 system is a local access product developed between the Company and Advanced Fibre Communications, Inc. (AFC), designed to address the emerging cable and alternate service provider markets. The CABLESPAN 2300 "Universal Telephony Distribution System" is a next-generation, multiple services delivery system that allows cable television (CATV) providers, alternate access carriers (ALTs), and

competitive access providers (CAPs) to build flexible communication networks that support the integrated delivery of video, voice, data and information services. The product provides maximum application flexibility through its ability to support a wide variety of network topologies, interface with various forms of transmission media and provide the modularity required to support both residential and business customers. The CABLESPAN system can be managed either directly from an integral interface that provides local and remote management or from a PC-based stand-alone Element Management System (EMS) that allows the management of multiple CABLESPAN systems and supports multiple network operators while interfacing with other operational support systems.

Network access products accounted for approximately 15 percent, 21 percent, and 26 percent of 1996, 1995, and 1994 sales, respectively.

Wireless Systems Division

In April 1996, the Company acquired all of the outstanding shares of Steinbrecher Corporation. This acquisition formed the basis of a new division within the Company, the Tellabs Wireless Systems Division (Wireless Systems Division).

Steinbrecher, through over 20 years of performing subcontractor activities, primarily in military projects, had gained unique insights in the development of sophisticated radio frequency (RF) designs. The new Wireless Systems Division is engaged in the completion of a software programmable wideband digital base station (base station) which was initiated prior to the Company's acquisition of Steinbrecher. This base station product will be used in conjunction with the Company's other products such as the TITAN digital cross-connects, Martis DXX system and echo cancellers to expand the product portfolio offered to the wireless marketplace as well as to allow the Company to provide more comprehensive wireless solutions.

The Company's intention is for the Wireless Systems Division to pursue two markets. The first target market is wireless local loop - a new market for wireless technology which uses radio technology to provide residential and small business with telephony services. This type of sophisticated radio is proving to be a very economical alternative to the traditional method of installing buried copper wires to provide these same services. The Company believes that the primary addressable markets for this wideband wireless local loop technology will be in the Asia/Pacific and Latin America regions.

The second marketplace for this technology lies in providing microcell solutions using this same wideband base station. The market for this technology is primarily in developed areas of the world (including the United States) where cellular or PCS wireless networks are being built out. The systems' small form factor and lower initial price allow it to be a very effective tool to provide RF coverage in harder to cover areas such as indoor and underlay applications or interleaving larger macrocells where focused RF coverage is required. In addition, the system can also be used to provide targeted increased capacity for higher congestion areas such as busy airports or downtown areas where not enough simultaneous users can be supported within the current macrocellular approach.

The Company expects to begin field trials of both the wireless local loop and base station products during 1997.

The DataCell Mobile Data Base Station, Steinbrecher's commercially available product acquired in the acquisition, is used by 800 MHz AMPs cellular companies to provide wireless packet services. The market for this product is primarily in the United States and Latin America.

MARKETING

Sales are generated through the Company's direct sales organization and selected distributors. The United States sales group consists of approximately 77 direct sales personnel, and additional sales agents and sales support personnel located throughout the United States. The International sales group consists of approximately 50 direct sales personnel, and additional sales agents and sales support personnel in Canada, Latin America, South America, Europe, the Middle East, Africa, Asia and Australia.

The United States sales organization conducts its activities from the corporate headquarters and six regional or district offices. The International sales organization conducts its activities from the corporate headquarters and twenty-five regional offices. The regional offices are generally staffed by a regional sales manager, system sales engineers, and additional personnel as required.

Direct orders through the Company's field sales organization accounted for approximately 89 percent of 1996 sales.

The Company has national account managers to coordinate sales activities for its major customer groups, and product managers to coordinate the marketing activities for each major product area.

The United States sales organization uses a vertical markets approach for the sales of its products. As a result, large accounts such as RBOCs, IXCs, Wireless, Alternate Service Providers, and General Market Customers are serviced by teams to better represent both product and service offerings. The International sales organization is structured to support activities on a regional basis.

The Company has arrangements with a number of distributors of telecommunications equipment, both in the United States and internationally, some of whom maintain inventories of the Company's products to facilitate prompt delivery. These distributors provide information on the Company's products through their catalogs and through trade show demonstrations. The Company's field sales force also assists these distributors with regular calls to them and their customers. Distributors, as a group, accounted for approximately 11 percent of 1996 sales. No single distributor accounted for more than 10 percent of 1996 sales.

CUSTOMER SERVICE

The Company maintains a worldwide customer service organization focused on providing its customers high quality technical and administrative product support. To ensure global support, Tellabs has five worldwide logistic centers (Lisle, Illinois; Shannon, Ireland; Mississauga, Canada; Espoo, Finland; and Hong Kong).

The Company's customer service organization supports its customers with a wide range of services that include application engineering and support,

installation, service agreements, on-site training, product repair (warranty administration), on-site maintenance, third party maintenance, consultation, logistics management, and 24-hour technical support via telephone and the Internet.

The Company's technical support organization consists of unique and highly-trained teams that focus on customer support of the TITAN 5500 and 5300 series, CROSSNET 44X and 33X, CABLESPAN, Voice Frequency and Martis DXX product lines. All teams utilize a problem tracking system to capture, collect and report on a number of data points specific to product performance and overall customer profiles. The technical support teams also utilize a call director system to track the status of customers' calls until completion.

The Company provides product warranties for periods ranging from one to five years for the repair or replacement of customer premises-located modules and systems found to be faulty due to defective material. Tellabs has an expedited replacement service that is used to immediately provide the customer with needed module replacements in response to a time-critical service outage.

CUSTOMERS

Sales to customer groups as a percentage of total sales were approximately as follows:

	1996	1995	1994
Bell Operating Companies	28%	28%	26%
Independent Telephone Companies	7%	5%	7%
Interexchange Carriers	18%	16%	16%
Corporate America, OEMs, Governmental Agencies, Cellular Companies, Utility and Railroad Companies, Alternate Service Providers, and System Integrators	14%	14%	17%
Foreign Sales			
Canada	3%	4%	4%
International	30%	33%	30%

TOTAL	100%	100%	100%

At December 27, 1996, and December 29, 1995, backlogs were approximately $118 million and $84 million, respectively. All of the December 27, 1996, backlog is expected to be shipped in 1997. The Company considers backlog to be an indicator, but not the sole predictor, of future sales.

COMPETITION

The Company's products are sold in global markets and compete on the following key factors: responsiveness to customer needs, product features, customer-oriented planning, price, performance, reliability, breadth of product line, technical documentation, and prompt delivery.

The digital cross-connect systems compete principally with Lucent Technologies, Alcatel and DSC Communications Corporation (DSC). The managed digital network products compete in two areas. The principal competition for the multiplexers are Newbridge Networks Corporation, General DataComm Industries Inc., Premisys, and Timeplex, Inc. The major

competitors of the managed access and transport systems are Newbridge Networks Corporation, Nokia Telecommunications, and Network Equipment Technologies.

The network access products currently compete in four product areas: special services, echo cancellers, transcoders, and local access products. The principal competitors in the special services market are Teltrend and Westell. The leading competitors in the echo canceller market are Coherent Communications, DSC and Ditech. The major competitors in the transcoder market are DSC and Aydin. The local access competitors are Nortel, Motorola, Scientific Atlanta and ADC Telecommunications, Inc.

The Company's wireless local loop systems compete against products manufactured by Ericsson, Hughes, Lucent Technologies, Motorola, Nortel and Qualcomm, while competition for the microcellular systems is principally from Allen Telecom, Ericsson, Lucent Technologies, Motorola, Nortel and Panasonic.

RESEARCH AND DEVELOPMENT

The telecommunications industry continues to be characterized by rapid technological change. Historically, the technology of this industry had been mainly analog, characterized by signals continuous in time with information contained in the frequency and amplitude of the signals. The industry has rapidly shifted toward digital technology in which information is coded in discrete pulses. The Company's current product development effort is directed almost entirely toward designing new products utilizing digital, fiber optic and ATM technology. The Company has also focused much of its research and development efforts on large system software development and associated processes.

Many products used in network access system applications are well-suited to the use of digital implementation techniques, including utilization of microprocessors and other VLSI devices. The Company's ability to combine analog and digital technologies has been an important ingredient in its product development. The Company currently manufactures a number of products using microprocessor control circuitry which make extensive use of microprocessors and complex system software. The Company is also actively developing products which utilize high speed fiber optic technologies to provide higher performance transmission characteristics in today's telecommunication networks. The Company is continually updating its research and development capabilities through the addition of new computer-aided design (CAD) and computer-aided software engineering (CASE) tools, which assist in electronic, mechanical, and software design. Use of such tools is imperative as the Company seeks to respond to industry and customer demands for intelligent digital systems and networking products with capabilities for automated remote maintenance and provisioning.

During 1996, the Company made two research and development-oriented acquisitions designed at advancing and expanding the Company's existing product portfolios and performance capabilities. In the first, the acquisition of Steinbrecher Corporation in April 1996, the Company expanded its product offerings to include wireless communications infrastructure products and systems for use in cellular and other wireless networks in order to create a comprehensive wireless network offering from the Company. In the second acquisition, the Company acquired the broadband access product line of TRANSYS Networks Inc in June 1996. The move was designed to provide the Company with broadband access and transport

technology that would complement the technology that already exists in its TITAN line of SONET-based digital cross-connect systems.

In early January, 1997, the Company acquired wave-length division multiplexing and optical networking technology from IBM's Thomas J. Watson Research Center which included rights to or ownership of several patents and patent applications and will compliment the Company's transport and access product portfolio. Under the terms of the agreement, the Research Center's optical network development team joined the Company.

The Company is also involved in product-oriented alliances. In December 1996, the Company and AFC, a Petaluma, California-based provider of next-generation digital loop carrier equipment, terminated the joint venture agreement signed in April 1994, and entered into a licensing agreement for the development, manufacturing, and marketing of the CABLESPAN product.

These acquisitions and alliances allow the Company access to technology that is important to the future of its products. In addition, to ensure that the technologies the Company uses reflect the most recent industry developments and to increase the Company's ability to develop new technologies, the Company conducts research at its laboratories in Mishawaka, Indiana; Burlington, Massachusetts; Espoo and Oulu, Finland; and Shannon, Ireland.

Research and development expenses were $107.3 million in 1996, $81.9 million in 1995, and $64.8 million in 1994. (The 1996 research and development expense does not reflect the $74.7 million one-time charge for acquired research and development taken in conjunction with the Steinbrecher acquisition.) The Company plans to spend approximately $150 million on research and development in 1997. These expenditures reflect the Company's commitment to the enhancement of existing products and development of new products designed to satisfy the needs of communications service providers worldwide.

MANUFACTURING AND EMPLOYEES

The Company assembles its products from standard components and from fabricated parts which are manufactured by others to the Company's specifications. Such purchased items represented approximately 74 percent of cost of sales in 1996.

Most purchased items are standard commercial components available from a number of suppliers with only a few items procured from a single-source vendor. Management believes that alternate sources could be developed for those parts and components of proprietary design and those available only from single or limited sources. However, future shortages could result in production delays that could adversely affect the Company's business.

As part of the manufacturing process, hazardous waste materials that are present are handled and disposed of in compliance with all Federal, State and local provisions. These waste materials and their disposal have no significant impact on either the Company's production process or its earnings or capital expenditures.

At December 27, 1996, the Company had 3,418 employees, of which 732 were employed in the sales, sales support and marketing area, 997 in product development, 1,385 in manufacturing, and 304 in administration. The

Company considers its employee relations to be good. It is not a party to any collective bargaining agreement.

TRADEMARKS, PATENTS AND COPYRIGHTS

The Company has various trade and service marks, both registered and unregistered, in the U.S. and in numerous foreign countries (collectively, Marks). All of these Marks are important in that they differentiate the Company's products and services within the industry through brand name recognition. Current Marks of the Company include TELLABS, MARTIS, 310

Datavoice System, ACSYS, ALTA, AN2100, ASC, ATM to the Core, CABLESPAN, CLEARCALL, CROSSNET, DATACELL, DATAPLEXER, DXX, DYNAMIC SIGNAL TRANSFER, ESQ, EXPRESSPAN, FLASHLOAD, FLEXWARE, MINICELL, NAVIGATING CHANGE, NMCS 2500, PARAMIXER, PORTSPAN, RADAR, RA SERIES, SELECT SOLUTIONS, SONET TO THE CORE, T-CODER, TELEMARK, TITAN, TURNING YOUR COPPER INTO GOLD, UNLOCK THE GOLD IN YOUR NETWORK, VANTAGE POINT, WE PUT THE WIRE IN WIRELESS, YOUR NETWORKING PARTNER, 331 XPLEXER, and the Company's logos. The Company is not aware of any factor which would affect its ability to utilize any of its major trademarks.

The Company currently holds 25 U.S. and 3 Canadian patents. The Company has also developed certain proprietary, confidential hardware designs and software programs. The Company owns various rights, which are protectable under copyright and trade secret laws, in such designs and programs.

The Company believes that trademarks, patents, copyrights and trade secrets are important to its business.

BUSINESS SEGMENT AND GEOGRAPHICAL INFORMATION

The Company operates in one business segment. Information with respect to the Company's operations in its two geographical areas for the fiscal years ended December 27, 1996, December 29, 1995 and December 30, 1994, is set forth in Note I on page 32 of the registrant's Annual Report to Stockholders and is incorporated herein by reference.

ITEM 2. PROPERTIES

The Company's corporate headquarters is located on 18-1/2 acres of Company-owned land approximately 30 miles west of Chicago in Lisle, Illinois. Located on this property are three buildings. The first is a 65,000 square foot building that functions as the Company's headquarters and houses a portion of the Digital Systems division's marketing and engineering personnel. The second is a 103,000 square foot building which houses customer service, research and development and administrative functions. The third building is a 54,000 square foot building utilized by the majority of the Digital Systems division's engineering operations.

The Company also owns 50 acres of land in Bolingbrook, Illinois (near Lisle) where a 230,000 square foot manufacturing, engineering and office building was completed and occupied in July 1993. During 1996, the Company began construction of a new 308,000 square foot addition to this facility. Construction of the addition is expected to be completed by mid-1997 at a cost of approximately $33,000,000. The new addition will provide for necessary manufacturing capacity expansion as well as allowing additional space for expansion of the sales and administrative functions.

The Company also owns approximately 75 acres of land in Round Rock, Texas, and approximately 2.6 acres of land in Mississauga, Ontario, Canada. The Texas property includes a recently expanded 125,000-square foot manufacturing facility. The Canadian property includes a 20,000-square foot office/warehousing building. The Company also owns three office/manufacturing facilities in Espoo, Finland used as follows: a 52,000-square foot building which is currently being used for engineering, marketing, and administrative offices; a 42,000-square foot production facility; and a 35,000-square foot office building, which is currently used for engineering offices. In addition, approximately 12 acres of land were purchased in April, 1996 in Espoo for the construction of a new 150,000-square foot production and engineering facility scheduled for completion in December 1997. Also existing on this property is a 100,000-square foot building (currently leased to a third party).

The Company leases additional facilities at the following locations: Lisle, Illinois (training); Naperville, Illinois (sales); Mishawaka, Indiana (research); Costa Mesa, California (sales); Littleton, Colorado (sales); Atlanta, Georgia (sales); Rockville, Maryland (sales); St. Louis, Missouri (sales); Irving, Texas (sales); White Plains, New York (customer service); and two buildings (90,000 square feet) in Burlington, Massachusetts for sales, research, production and administration. Some of the Company's international subsidiaries also lease space for their operations, including: a 56,000-square foot sales, research and production facility and a 5,000-square foot administrative facility in County Clare, Ireland; 40,000 square feet in Espoo, Finland for administration and engineering, and 15,000 square feet for production; and 12,000 square feet in Oulu, Finland for research and development.

The Company owns substantially all the equipment used in its business. The Company believes that its facilities are adequate for the level of production anticipated in 1997, and that suitable additional space and equipment will be available to accommodate expansion as needed.

ITEM 3. LEGAL PROCEEDINGS

The Company is not involved in any material litigation.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Except for historical information, the matters discussed or incorporated by reference in Part I of this report may include forward-looking statements that involve risks and uncertainties that may affect the Company's actual results and cause actual results to differ materially from those in the forward-looking statements. The foregoing discussion should be read in conjunction with the financial statements and related notes and management's discussion and analysis included in the Company's Annual Report and incorporated in this report by reference in Part II, Items 7 and 8 herein.

EXECUTIVE OFFICERS OF THE REGISTRANT

NAMES AND BUSINESS EXPERIENCE	YEAR OF BIRTH	CURRENT POSITION
Michael J. Birck President, Chief Executive Officer and Director, Tellabs, Inc. since 1975.	1938	President, Chief Executive Officer and Director, Tellabs, Inc.
Peter A. Guglielmi President, Tellabs International, Inc. and Director, Tellabs, Inc. since 1993; Executive Vice President, Chief Financial Officer and Treasurer, Tellabs, Inc. since 1990; Secretary, Tellabs, Inc. 1988 to 1993.	1942	President, Tellabs International, Inc., Executive Vice President, Chief Financial Officer, Treasurer and Director, Tellabs, Inc., and Tellabs Operations, Inc.
Brian J. Jackman President, Tellabs Operations, Inc. and Director, Tellabs, Inc. since 1993; Executive Vice President, Tellabs, Inc. since 1990.	1941	President, Tellabs Operations, Inc, Executive Vice President and Director, Tellabs, Inc.
Charles C. Cooney Vice President, Sales and Service, Tellabs Operations, Inc. since 1992; Vice President, Sales, Tellabs, Inc., 1979 to 1992.	1941	Vice President, Sales and Service, Tellabs Operations, Inc.
Carol Coghlan Gavin Vice President and General Counsel, Tellabs Operations, Inc. since 1992; Secretary, Tellabs, Inc., since 1993; General Counsel, Tellabs, Inc., 1988 to 1992.	1956	Vice President, General Counsel and Secretary, Tellabs Operations, Inc., Secretary, Tellabs, Inc.
Jon C. Grimes Vice President and General Manager, Network Access Systems Division, Tellabs Operations, Inc. since 1992; Vice President and General Manager,	1947	Vice President and General Manager, Network Access Systems Division, Tellabs Operations, Inc.

Network Products Division, Tellabs Inc., 1989 to 1992.		
J. Thomas Gruenwald Vice President, Strategic Resources, Tellabs Operations, Inc. since 1995; Director, Engineering, Tellabs Operations, Inc. 1992 to 1995.	1948	Vice President, Strategic Resources, Tellabs Operations, Inc.
Jukka Harju Vice President and General Manager, Tellabs Oy and Vice President, Tellabs International, Inc. since 1996; Managing Director, Martis Oy 1994 to 1996.	1956	Vice President and General Manager, Tellabs Oy; Vice President, Tellabs International, Inc.

J. Peter Johnson Vice President, Finance and Treasury, Assistant Secretary and Controller, Tellabs Operations, Inc. since 1992; Vice President, Finance and Treasury, Assistant Secretary and Controller, Tellabs, Inc., 1990 to 1992.	1949	Vice President, Finance and Treasury, Assistant Secretary and Controller, Tellabs, Inc., and Tellabs Operations, Inc.
John C. Kohler Vice President, Manufacturing, Tellabs Operations, Inc. since 1993; Vice President, Product Support Services, Tellabs, Inc., 1989 to 1993.	1952	Vice President, Manufacturing, Tellabs Operations, Inc.
Harvey R. Scull Vice President, Advanced Business Development, Tellabs Operations, Inc. since 1993; Director, New Business Development, Tellabs, Inc., 1989 to 1993.	1949	Vice President, Advanced Business Development, Tellabs Operations, Inc.
Richard T. Taylor Vice President and General Manager, Digital Systems Division, Tellabs Operations, Inc. since 1993; Director of Marketing and Product Development, Digital Systems Division, Tellabs Inc., 1989 to 1993.	1948	Vice President and General Manager, Digital Systems Division, Tellabs Operations, Inc.
Nicholas J. Williams Vice President and General Manager, The Americas, Tellabs International, Inc. since 1993; Vice President and	1947	Vice President and General Manager, The Americas, Tellabs International, Inc.

General Manager, Advanced Technology
Products, AT&T Paradyne Corporation,
1992 to 1993.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The sections entitled "Common Stock Market Data" on pages 1 and 38 of the Company's Annual Report to Stockholders for the year ended December 27, 1996 (the "Annual Report") are incorporated herein by reference. They are also included in Exhibit 13, as filed with the SEC. See discussion referred to in Item 7 below for dividend information.

ITEM 6. SELECTED FINANCIAL DATA

The section entitled "Five-Year Summary of Selected Financial Data" on the page preceeding page 1 of the Annual Report is incorporated herein by reference. It is also included in Exhibit 13, as filed with the SEC.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The section entitled "Management's Discussion and Analysis" on Pages 34 to 36 of the Annual Report is incorporated herein by reference. It is also included in Exhibit 13, as filed with the SEC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Report of Independent Certified Public Accountants and the Consolidated Financial Statements and Notes thereto on pages 19 through 33 of the Annual Report are incorporated herein by reference. They are also included in Exhibit 13, as filed with the SEC.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The information required is incorporated herein by reference to the section entitled "Selection of Auditors" in the registrant's Proxy Statement (the "Proxy Statement") dated March 14, 1997 and the Company's Current Report on Form 8-K filed on or about August 21, 1996.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required, except for information relating to the executive officers of the registrant which appears at the end of Part I above, is incorporated herein by reference to the section entitled "Election of Directors" in the registrant's Proxy Statement (the "Proxy Statement") dated March 14, 1997.

ITEM 11. EXECUTIVE COMPENSATION

The section entitled "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The section entitled "Security Ownership of Management and Certain Other Beneficial Owners" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section entitled "Executive Compensation" in the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. Financial Statements:

The following Consolidated Financial Statements of Tellabs, Inc., and

Subsidiaries, included in registrant's Annual Report to Stockholders for the year ended December 27, 1996, were previously incorporated by reference in Item 8:

Report of Independent Certified Public Accountants

Consolidated Balance Sheets: December 27, 1996 and December 29, 1995

Consolidated Statements of Earnings: Years ended December 27, 1996, December 29, 1995 and December 30, 1994

Consolidated Statements of Stockholders' Equity: Years ended December 27, 1996, December 29, 1995, and December 30, 1994

Consolidated Statements of Cash Flows: Years ended December 27, 1996, December 29, 1995 and December 30, 1994

Notes to Consolidated Financial Statements

2. Financial Statement Schedules:

The following Consolidated Financial Statement Schedules of Tellabs, Inc., and Subsidiaries are included herein pursuant to Item 14(d):

Report of Independent Certified Public Accountants on Schedules

Schedule II   Valuation and Qualifying Accounts and Reserves

Schedules not included have been omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or Notes thereto.

(b) The Registrant filed a report on Form 8-K on October 31, 1996, with respect to the declaration of a two-for-one stock split payable in the form of a 100 percent dividend on November 15, 1996, to stockholders of record on October 31, 1996.

(c) Exhibits:

3.1 Restated Certificate of Incorporation 5/

3.2 Amended and Restated By-Laws, as amended 3/

4. Upon request of the Securities and Exchange Commission, registrant hereby agrees to furnish to the Commission copies of instruments (not filed) defining the rights of holders of long-term debt of the Company. (This undertaking is in lieu of a separate exhibit.)

10.1 Tellabs, Inc. Deferred Compensation Plan, as amended and its related trust 6/

10.2 1981 Incentive Stock Option Plan, as amended and restated 1/

10.3 1984 Incentive Stock Option Plan, as amended and restated 1/

Exhibits: (Continued)

10.4 1986 Non-Qualified Stock Option Plan, as amended and restated 1/
10.5 1987 Stock Option Plan for Non-Employee Corporate Directors, as amended and restated 1/
10.6 1989 Stock Option Plan, as amended and restated 1/
10.7 Employee Quality Stock Award Program 2/
10.8 Form of Employment Agreement 3/
10.9 1991 Stock Option Plan, as amended and restated 1/
10.10 Description of Split-Dollar Insurance Arrangement with the Michael J. Birck Irrevocable Trust 3/
10.11 1994 Stock Option Plan 4/
10.12 Tellabs, Inc. Stock Bonus Plan for Former Employees of Steinbrecher Corporation 8/
10.13 Tellabs, Inc. Stock Bonus Plan for Former Employees of TRANSYS Networks Inc.
10.14 Tellabs, Inc. Stock Bonus Plan for Former Employees of International Business Machines Corporation
13. Annual Report to Stockholders
16. Letter Re: Change in Certifying Accountant 7/
21. Subsidiaries of the Registrant
23. Consent of Independent Certified Public Accountants
27. Financial Data Schedule

Exhibits 10.1 through 10.14 are management contracts or compensatory plans or arrangements required to be filed as an Exhibit to this Form 10-K pursuant to Item 14(c) hereof.

(d) Schedules: See Item 14(a)2 above.

1/ Incorporated by reference from Tellabs, Inc. Post-effective Amendment No. 1 on Form S-8 to Form S-4 filed on or about June 29, 1992 (File No. 33-45788).
2/ Incorporated by reference from Tellabs, Inc. Form 10-Q Quarterly Report for the quarter ended April 1, 1988 (File No. 0-9692).
3/ Incorporated by reference from Tellabs, Inc. Form 10-K Annual Report for the year ended January 1, 1993 (File No. 0-9692).
4/ Incorporated by reference from Tellabs, Inc. Form 10-K Annual Report for the year ended December 31, 1993 (File No. 0-9692).
5/ Incorporated by reference from Tellabs, Inc. Form 10-Q Quarterly Report for the quarter ended June 30, 1995 (File No. 0-9692).
6/ Incorporated by reference from Tellabs, Inc. Form 10-K Annual Report for the year ended December 29, 1995 (File No. 0-9692).
7/ Incorporated by reference from Tellabs, Inc. Form 8-K Current Report filed on or about August 21, 1996 (File No. 0-9692).
8/ Incorporated by reference from Tellabs, Inc. Form 10-Q Quarterly Report for the quarter ended June 28, 1996 (File No. 0-9692).

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TELLABS, INC.

March 21, 1997 By /s Michael J. Birck
Date President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s Michael J. Birck	President and Director (Principal Executive Officer)	March 21, 1997
/s Peter A. Guglielmi	Executive Vice President (Principal Financial Officer) and Director	March 21, 1997
/s J. Peter Johnson	Controller (Principal Accounting Officer)	March 21, 1997
/s Brian J. Jackman	Director	March 21, 1997
/s John D. Foulkes	Director	March 21, 1997
/s Frederick A. Krehbiel	Director	March 21, 1997
/s Stephanie Pace Marshall	Director	March 21, 1997

/s William F. Souders	Director	March 21, 1997
/s Thomas H. Thompson	Director	March 21, 1997

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS ON SCHEDULES

Board of Directors
Tellabs, Inc.

In connection with our audit of the consolidated financial statements of Tellabs, Inc., and Subsidiaries, referred to in our report dated January 15, 1997, which is included in the annual report to shareholders and incorporated by reference in Part II of this form, we have also audited Schedule II for each of the three years in the period ended December 27, 1996. In our opinion, this schedule presents fairly in all material respects the information required to be set forth therein.

Grant Thornton LLP
Chicago, Illinois
January 15, 1997

<TABLE>
<CAPTION>

TELLABS, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

Three Years Ended December 27, 1996, December 29, 1995 and December 30, 1994

($ in thousands)

<S>	Balance at beginning of year <C>	Additions charged to costs and expenses <C>	Deductions (A) <C>	Balance at end of year <C>
1996				
Allowance for doubtful receivables	$2,317	$2,157	$792	$3,682
	======			======
1995				
Allowance for doubtful receivables	$992	$1,407	$82	$2,317

	======			======
1994				
Allowance for doubtful receivables	$844	$259	$111	$992
	======			======

<FN>
NOTE:
(A) - Uncollectible accounts charged off, net of recoveries.

</TABLE>

Exhibit 10.13

INFORMATION WITH REGARD TO

TELLABS, INC.

STOCK BONUS PLAN

1. INTRODUCTION

1.1 The purpose of the Tellabs, Inc. Stock Bonus Plan (the "Plan") is (i) to align the interests of the stockholders of Tellabs, Inc. ("Tellabs"), Groupe de Transport Tellabs Inc. / Tellabs TG, Inc. ("Tellabs TG") and recipients of awards under this Plan by increasing the proprietary interest of such recipients in the growth and success of Tellabs and Tellabs TG and (ii) to advance the interests of Tellabs and Tellabs TG by ensuring that key employees of Tellabs TG remain with such company. For purposes of this Plan, references to employment by Tellabs shall also mean employment by Tellabs TG.

1.2 Certain Definitions

"Board" shall mean the Board of Directors of Tellabs.

"Bonus Stock" shall mean shares of Common Stock awarded under the Plan.

"Bonus Stock Award" shall mean an award to an eligible employee of a right to receive Bonus Stock under the Plan.

"Cause" shall mean any act of dishonesty, commission of an indictable criminal offense, activities harmful to the reputation of Tellabs or Tellabs TG, the refusal to perform or the substantial disregard of duties properly assigned or a significant violation of any legal duty of loyalty to Tellabs or Tellabs TG, as determined by the Committee in its sole discretion.

"Closing Date" means June 28, 1996.

"Committee" shall mean the Compensation Committee of the Board of Directors of Tellabs or any successor Committee thereto.

"Common Stock" means the common stock of Tellabs, Inc.

"Disability" shall mean the inability of the holder of an award to perform substantially such holder's duties and responsibilities for a continuous period of at least six months, as determined by the Committee in its sole discretion.

"Fair Market Value" shall mean the average of the high and low transaction prices of a share of Common Stock as reported in the National Association of Securities Dealers Automated Quotation National Market System ("NASDAQNMS") on the date as of which such value is being determined, or, if the Common Stock is not

listed on the NASDAQNMS, the average of the high and low transaction prices of a share of Common Stock on the principal national stock exchange on which the Common Stock is traded on the date as of which such value is being determined, or, if there shall be no reported transactions for such date, on the next preceding date for which transactions were reported; provided, however, that if Fair Market Value for any date cannot be so determined, Fair Market Value shall be determined by the Committee by whatever means or method as the Committee, in the good faith exercise of its discretion, shall at such time deem appropriate.

1.3 Administration

This Plan shall be administered by the Committee. The Committee shall, subject to the terms of this Plan, interpret this Plan and the application thereof, establish rules and regulations it deems necessary or desirable for the administration of this Plan. All such interpretations, rules and regulations shall be conclusive and binding on all parties.

The Committee may delegate some or all of its power and authority hereunder to the President and Chief Executive Officer or other executive officer of Tellabs or Tellabs TG as the Committee deems appropriate.

1.4 Eligibility

Participants eligible to participate in this Plan shall consist of the full-time employees of Tellabs TG.

2. BONUS STOCK AWARDS

2.1 Bonus Stock Awards

Tellabs shall grant Bonus Stock Awards to employees of Tellabs TG from time to time as determined by Tellabs' Board of Directors or the Committee. Each such grant shall be evidenced by a notice sent by Tellabs to each such employee to whom Bonus Stock Awards are made. The maximum number of employees of Tellabs TG to whom

Bonus Stock Awards may be granted however is 50.

2.2 Terms of Bonus Stock Awards

Bonus Stock Awards shall be subject to the following terms and conditions.

a) Number of Shares and Other Terms

The number of shares of Common Stock subject to Bonus Stock Award granted to any one person pursuant to this Plan shall be no greater than 500, subject to adjustment as provided in Section 3.3 hereof.

b. Vesting and Forfeiture

One-half of the number of shares of Common Stock subject to a Bonus Stock Award shall vest and be payable on the first

anniversary of the Closing Date and the other half of such number shall vest and be payable on the second anniversary of the Closing Date, in each case, subject to Section 2.3 b), if the holder of such award remains continuously in the employment of Tellabs or Tellabs TG until such anniversary date of the Closing Date. Such holder shall forfeit the unvested portion of any such shares if such holder does not remain continuously in the employment of Tellabs or Tellabs TG as specified above, except as otherwise provided in Section 2.3 b) hereof.

c. Share Certificates

Upon the vesting of a portion of a Bonus Stock Award pursuant to Section 2.2 b), 2.3 b) or 3.5, in each case subject to Tellabs or Tellabs TG rights to require payment of any taxes in accordance with Section 3.2, a certificate or certificates evidencing ownership of the number of shares of Common Stock so vested shall be delivered to and in the name of the holder of such award. Notwithstanding the foregoing, in lieu of the delivery of shares representing all or a portion of the vested portion of a Bonus Stock Award, the Committee may, in its sole discretion, deliver to the holder cash in an amount equal to the Fair Market Value on the date such shares become vested equal to the vested portion of such award, less any applicable withholding, as required by Section 3.2, as the case may be.

d. Price

No payment shall be required or exigible by a recipient of a Bonus Stock Award or Common Stock pursuant to this Plan. Bonus

Stock Awards and Common Stock issued pursuant to this Plan shall be granted by Tellabs as consideration for a recipient's having decided to remain as an employee of Tellabs TG following its acquisition by Tellabs.

2.3 Termination of Employment.

a. Termination Resulting in Forfeiture

If the employment with Tellabs or Tellabs TG of the holder of a Bonus Stock Award is (i) terminated by Tellabs or Tellabs TG for Cause, (ii) if such employment terminates by reason of the holder's Disability, or death, or (iii) if a holder voluntarily terminates his employment with Tellabs or Tellabs TG for any reason, the portion of such award which is not vested pursuant to Section 2.2(b) shall be forfeited by such holder and such portion shall be canceled by Tellabs.

b. Other Termination

If Tellabs or Tellabs TG terminates the employment of the holder of a Bonus Stock Award for any reason other than Cause or Disability, the portion of such award which is not otherwise vested shall vest pursuant to Section 2.2(b) without regard to such termination.

3. GENERAL

3.1 Amendments

The Board may amend this Plan as it shall deem advisable, provided, however, that no amendment shall be made if such amendment would increase the maximum number of shares of Common Stock available under this Plan (subject to Section 3.3). No amendment may impair the rights of a holder of an outstanding award without the consent of such holder.

3.2 Tax Withholding

Tellabs and Tellabs TG shall have the right to require, prior to the issuance or delivery of any shares of Common Stock or the payment of any cash pursuant to an award made hereunder, payment by the holder of such award of any federal, provincial, local or other taxes which may be required to be withheld or paid in connection with such award. The Committee may allow shares of Common Stock to be delivered or withheld having an aggregate Fair Market Value not in excess of the minimum amount required to be withheld. Any fraction of a share of Common Stock which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be paid in cash by the holder.

3.3 Adjustment

In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a regular cash dividend, the number and class of securities available under this Plan, the number and class of securities subject to each outstanding Bonus Stock Award shall be adjusted or modified accordingly, as determined by the Committee, which adjustment may include providing for payment of an asset not constituting a security upon the vesting of an outstanding Bonus Stock Award. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive. If any such adjustment would result in a fractional security being (i) available under this Plan, such fractional security shall be disregarded, or (ii) subject to an award under this Plan, Tellabs or Tellabs TG shall pay the holder of such award, in connection with the first vesting of such award, in whole or in part, occurring after such adjustment, an amount in cash determined by multiplying (i) the fraction of such security (rounded to the nearest hundredth) by (ii) the excess, if any, of the Fair Market Value on the vesting date.

3.4 Minimum Sum to be Collected

Given that Bonus Stock Awards and Common Stock issued pursuant to this Plan without any payment being required or exigible, no minimum sum will be collected. Bonus Stock Awards and Common Stock issued pursuant to this Plan shall be granted by Tellabs as consideration for a recipient's having decided to remain as an employee of Tellabs TG following its acquisition by Tellabs.

3.5 No Assignment

It is a condition of this Plan, and the rights of all holders of Bonus Stock Awards shall be subject thereto, that no right or interest of any such holder shall be assignable or transferable in whole or in part, either directly or by operation of law or otherwise, including, but not by way of limitation, execution, levy, garnishment, attachment, pledge or bankruptcy, and no right or interest of any such holder under this Plan shall be liable for, or subject to, any obligation of any such holder, including claims for alimony or the support of any spouse.

3.6 No Right of Employment

Neither this Plan nor any award made hereunder shall confer upon any person any right to continued employment by Tellabs, Tellabs TG or any subsidiary or affiliate thereof or affect in any manner the right of Tellabs, Tellabs TG or any subsidiary or affiliate thereof to terminate the employment of any person at any time without liability hereunder.

3.7 Right as Stockholder

No person shall have any right as a stockholder of Tellabs with respect to any shares of Common Stock or other equity security of Tellabs which is subject to an award hereunder unless and until such person becomes a stockholder of record with respect to such shares of Common Stock or equity security. Tellabs's obligation to deliver shares of Common Stock pursuant to this Plan shall be unfunded, and Tellabs shall not be obligated to set aside any of its assets for the purpose of satisfying its obligations hereunder. The claims of holders of Bonus Stock Awards shall be solely those of an unsecured creditor of Tellabs.

3.8 Governing Law

This Plan and each award hereunder, and all determinations made and actions taken pursuant hereto, to the extent not otherwise governed by the laws of the United States, shall be governed by the laws of the State of Delaware and construed in accordance therewith without giving effect to principles of conflicts of laws.

3.9 Effective Date

This Plan shall have retroactive effect from the Closing Date following its approval by the Commission des valeurs mobilieres du Quebec.

Exhibit 10.14

TELLABS, INC.

STOCK BONUS PLAN

1. INTRODUCTION

1.1 The purpose of the Tellabs, Inc. Stock Bonus Plan (the "Plan") is (i) to align the interests of the stockholders of Tellabs, Inc. ("Tellabs"), and its subsidiaries from time to time (individually, a "Subsidiary" and collectively, the "Subsidiaries") and recipients of awards under this Plan by increasing the proprietary interests of such recipients in the growth and success of Tellabs and (ii) to advance the interests of Tellabs and its Subsidiaries by retaining key employees of International Business Machines Corporation, a New York corporation, as employees of Tellabs Operations, Inc. ("Tellabs Operations").

1.2 Certain Definitions

"Board" shall mean the Board of Directors of Tellabs.

"Bonus Stock" shall mean shares of Common Stock awarded under the Plan.

"Bonus Stock Award" shall mean an award to an eligible employee of a right to receive Bonus Stock under the Plan.

"Cause" shall mean any act of dishonesty, commission of an indictable criminal offense, activities harmful to the reputation of Tellabs or a Subsidiary, the refusal to perform or the substantial disregard of duties properly assigned or a significant violation of any legal duty of loyalty to Tellabs or a Subsidiary, as determined by the Committee in its sole discretion.

"Closing Date" means January 10, 1997.

"Committee" shall mean the Compensation Committee of the Board of Tellabs or any successor Committee thereto.

"Common Stock" means the common stock of Tellabs, Inc.

"Disability" shall mean the inability of the holder of an award to perform substantially such holder's duties and responsibilities for a continuous period of at least six months, as determined by the Committee in its sole discretion.

"Fair Market Value" shall mean the average of the high and low transaction prices of a share of Common Stock as reported in the National Association of Securities Dealers Automated Quotation National Market System ("NASDAQNMS") on the date as of which such value is being determined, or, if the Common Stock is not listed on the NASDAQNMS, the average of the high and low transaction prices of a share of Common Stock on the principal national stock exchange on which the Common Stock is traded on

the date as of which such value is being determined, or, if there shall be no reported transactions for such date, on the next preceding date for which transactions were reported; provided, however, that if Fair Market Value for any date cannot be so determined, Fair Market Value shall be determined by the Committee by whatever means or method as the Committee, in the good faith exercise of its discretion, shall at such time deem appropriate.

1.3 Administration

This Plan shall be administered by the Committee. The Committee shall, subject to the terms of this Plan, interpret this Plan and the application thereof, establish rules and regulations it deems necessary or desirable for the administration of this Plan. All such interpretations, rules and regulations shall be conclusive and binding on all parties.

The Committee may delegate some or all of its power and authority hereunder to the President and Chief Executive Officer or other executive officer of Tellabs or a Subsidiary as the Committee deems appropriate.

1.4 Eligibility

Participants eligible to participate in this Plan shall consist of the full-time employees of Tellabs whose names appear on Schedule A, attached hereto. No other persons shall be eligible to participate in this Plan.

2. BONUS STOCK AWARDS

2.1 Bonus Stock Awards

Effective on the Closing Date, Tellabs shall grant Bonus Stock Awards to employees of Tellabs Operations from time to time as determined by Tellabs' Board or the Committee. Each such grant shall be evidenced by a notice sent by Tellabs to each such employee to whom Bonus Stock Awards are made.

2.2 Terms of Bonus Stock Awards

Bonus Stock Awards shall be subject to the following terms and conditions.

a. Number of Shares and Other Terms

The number of shares of Common Stock subject to a Bonus Stock Award granted pursuant to this Plan shall be the number of such shares set forth opposite the name of such employee on Schedule A hereto.

b. Vesting and Forfeiture

One-half of the number of shares of Common Stock subject to a Bonus Stock Award shall vest and be payable on the first anniversary of the Closing Date and the other half of such number shall vest and be payable on the second anniversary of the

Closing Date, in each case, subject to Section 2.3(b), if the holder of such award remains continuously in the employment of Tellabs or a Subsidiary until such anniversary date of the Closing Date. Such holder shall forfeit the unvested portion of any such shares if such holder does not remain continuously in the employment of Tellabs or a Subsidiary as specified above, except as otherwise provided in Section 2.3(b) hereof.

c. Shares Certificates

Upon the vesting of a portion of a Bonus Stock Award pursuant to Section 2.2(b) or 2.3(b), in each case subject to Tellabs or a Subsidiary rights to require payment of any taxes in accordance with Section 3.2, a certificate or certificates evidencing ownership of the number of shares of Common Stock so vested shall be delivered to and in the name of the holder of such award. Notwithstanding the foregoing, in lieu of the delivery of shares representing all or a portion of the vested portion of a Bonus Stock Award, the Committee may, in its sole discretion, deliver to the holder cash in an amount equal to the Fair Market Value on the date such shares become vested equal to the vested portion of such award, less any applicable withholding, as required by Section 3.2, as the case may be.

2.3 Termination of Employment

a. Termination Resulting in Forfeiture

If (i) employment with Tellabs or a Subsidiary of the holder of a Bonus Stock Award is terminated by Tellabs or a Subsidiary for Cause, (ii) such employment terminates by reason of the holder's

Disability or death, or (iii) a holder voluntarily terminates his employment with Tellabs or a Subsidiary for any reason, the portion of such award which is not vested pursuant to Section 2.2(b) shall be forfeited by such holder and such portion shall be canceled by Tellabs.

b. Other Termination

If Tellabs or a Subsidiary terminates the employment of the holder of a Bonus Stock Award for any reason other than as provided in Section 2.3(a), the portion of such award which is not otherwise vested shall vest pursuant to Section 2.2(b) without regard to such termination and be payable within thirty (30) days of such termination, in accordance with Section 2.2(c).

3. GENERAL

3.1 Amendments

The Board or the Committee may amend this Plan as it shall deem advisable, provided, however, that no amendment shall be made if such amendment would increase the maximum number of shares of Common Stock available under this Plan (subject to Section 3.3). No amendment may impair the rights of a holder of an outstanding award without the consent of such holder.

3.2 Tax Withholding

Tellabs shall have the right to require, prior to the issuance or delivery of any shares of Common Stock or the payment of any cash pursuant to an award made hereunder, payment by the holder of such award of any federal, provincial, local or other taxes which may be required to be withheld or paid in connection with such award. The Committee may allow shares of Common Stock to be delivered or withheld having an aggregate Fair Market Value not in excess of the minimum amount required to be withheld and in such event, any fraction of a share of Common Stock which would be required to satisfy such an obligation shall be disregarded and the remaining amount due shall be paid in cash by the holder.

3.3 Adjustment

In the event of any stock split, stock dividend, recapitalization, reorganization, merger, consolidation, combination, exchange of shares, liquidation, spin-off or other similar change in capitalization or event, or any distribution to holders of Common Stock other than a regular cash dividend, the number and class of securities available under this Plan, the number and class of securities subject to each outstanding Bonus Stock Award shall be adjusted or modified accordingly, as determined by the Committee, which adjustment may include providing for payment of an asset not constituting a security upon the vesting of an outstanding Bonus Stock Award. The decision of the Committee regarding any such adjustment shall be final, binding and conclusive. If any such adjustment would result in a fractional security being (i) available under this Plan, such fractional security shall be disregarded, or (ii) subject to an award under this Plan, Tellabs shall pay the holder of such award, in connection with the first vesting of such award, in whole or in part, occurring after such adjustment, an amount in cash determined by multiplying (a) the fraction of such security (rounded to the nearest hundredth) by (b) the excess, if any, of the Fair Market Value on the vesting date.

3.4 No Assignment

It is a condition of this Plan, and the rights of all holders of Bonus Stock Awards shall be subject thereto, that no right or interest of any such holder shall be assignable or transferable in whole or in part, either directly or by operation of law or otherwise, including, but not by way of limitation, execution, levy, garnishment, attachment, pledge or bankruptcy, and no right or interest of any such holder under this Plan shall be liable for, or subject to, any obligation of any such holder, including claims for alimony or the support of any spouse.

3.5 No Right of Employment

Neither this Plan nor any award made hereunder shall confer upon any person any right to continued employment by Tellabs, Tellabs Operations or any Subsidiary or affiliate thereof or affect in any manner the right of Tellabs, Tellabs Operations or any

Subsidiary or affiliate thereof to terminate the employment of any person at any time without liability hereunder.

3.6 Right as Stockholder

No person shall have any right as a stockholder of Tellabs with respect to any shares of Common Stock or other equity security of Tellabs which is subject to an award hereunder unless and until such person becomes a stockholder of record with respect to such shares of Common Stock or equity security. Tellabs' obligation to deliver shares of Common Stock pursuant to this Plan shall be unfunded, and Tellabs shall not be obligated to set aside any of its assets for the purpose of satisfying its obligations hereunder. The claims of holders of Bonus Stock Awards shall be solely those of an unsecured creditor of Tellabs.

3.7 Governing Law

The corporate law of the State of Delaware shall govern all issues concerning the relative rights of Tellabs and the holders of Bonus Stock Awards with respect to this Plan. The law of the State of Illinois, except its law with respect to choice of law, shall be controlling in all other matters relating to the Plan.

3.8 Effective Date

This Plan shall become effective on the Closing Date.

EXHIBIT 13

<TABLE>
<CAPTION>

Five-Year Summary of Selected Financial Data
(In thousands, except per-share data)

<S>	1996 <C>	1995 <C>	1994 <C>	1993 <C>	1992 <C>
Net sales	$868,975	$635,229	$494,153	$320,463	$258,560
Gross profit	$519,243	$363,835	$270,003	$164,255	$125,876
Earnings before income taxes	$175,282	$162,825	$97,824	$35,801	$19,152
Net earnings before cumulative effect	$117,965	$115,606	$72,389	$30,467	$16,854
Cumulative effect of accounting change	----	----	----	$1,500	----
Net earnings	$117,965	$115,606	$72,389	$31,967	$16,854
Earnings per share before cumulative effect of accounting change	$0.64	$0.63	$0.40	$0.17	$0.10
Cumulative effect on earnings per share	----	----	----	$0.01	----
Earnings per share	$0.64	$0.63	$0.40	$0.02	$0.10
Stockholders' equity	$591,276	$433,233	$292,790	$207,006	$167,144
Total assets	$743,823	$552,051	$390,067	$328,766	$210,748
Net working capital	$343,840	$267,806	$138,317	$64,285	$109,201
Long-term debt	$2,850	$2,850	$2,850	$2,850	$2,850

No cash dividends per common share were paid. Per-share amounts are restated to reflect stock splits in 1996, 1995, 1994 and 1993.

COMMON STOCK MARKET DATA
(Restated for stock splits in 1996 and 1995)

	1996		1995	
	High	Low	High	Low
First Quarter	26 3/8	15 1/4	16 7/8	11 3/4
Second Quarter	34 3/4	23 5/8	24 1/8	14
Third Quarter	38 1/8	24 1/2	26 3/8	19 5/8
Fourth Quarter	45 1/4	34 1/8	21 3/8	14 7/8

The Company's common stock is traded over-the-counter under the symbol TLAB. The shares are included in the NASDAQ National Market System, which reports sales prices for actual transactions. At February 17, 1997, there were approximately 3,035 stockholders of record.

Management Statement of Financial Responsibilities

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 27, 1996, and December 29, 1995, and the consolidated results of its operations for the years ended December 27, 1996, December 29, 1995, and December 30, 1994.

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.

Ethical decision-making is fundamental to the Company's management philosophy. Management recognizes its responsibility for fostering a strong ethical climate so that the Company's affairs are conducted to the highest standards of personal and corporate conduct. Employee awareness of these objectives is achieved through key written policy statements.

The Board of Directors has appointed two of its non-employee members as an Audit Committee. This committee meets periodically with management and the independent certified public accountants, who have free access to this committee without management present, to discuss the results of their audit work and their evaluation of the internal control structure and the quality of financial reporting.

Michael J. Birck
President and
Chief Executive Officer,
Tellabs, Inc.

January 15, 1997

Peter A. Guglielmi
Executive Vice President,
Chief Financial Officer and Treasurer,
Tellabs, Inc.

January 15, 1997

Report of Independent Certified Public Accountants

We have audited the accompanying consolidated balance sheets of Tellabs, Inc., and Subsidiaries as of December 27, 1996, and December 29, 1995, and the related consolidated statements of earnings, stockholders' equity and cash flows for the years ended December 27, 1996, December 29, 1995 and December 30, 1994. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tellabs, Inc., and Subsidiaries at December 27, 1996, and December 29, 1995, and the consolidated results of its operations and its consolidated cash flows for the years ended December 27, 1996, December 29, 1995 and December 30, 1994, in conformity with generally accepted accounting principles.

Grant Thornton LLP
Chicago, Illinois
January 15, 1997

</TABLE>
<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF EARNINGS
(In thousands, except per-share data)

	Year Ended 12/27/96	Year Ended 12/29/95	Year Ended 12/30/94
<S>	<C>	<C>	<C>
Net sales	$868,975	$635,229	$494,153

Cost of sales	349,732	271,394	224,150
Gross Profit	519,243	363,835	270,003
Operating expenses			
Marketing	112,206	85,843	67,310
Research and development	107,258	81,893	64,765
Acquired in-process research and development	74,658	---	---
General and administrative	52,495	36,878	35,857
Goodwill amortization	3,683	2,568	2,389
	350,300	207,182	170,321
Operating Profit	168,943	156,653	99,682
Other income (expense)			
Interest income	7,371	5,855	3,185
Interest expense	(1,173)	(124)	(1,773)
Other	141	441	(3,270)
	6,339	6,172	(1,858)
Earnings Before Income Taxes	175,282	162,825	97,824
Income taxes	57,317	47,219	25,435
Net Earnings	$117,965	$115,606	$72,389
Average number of common and common equivalent shares outstanding	184,674	183,420	181,328
Earnings per Share	$0.64	$0.63	$0.40

<FN>
The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>

CONSOLIDATED BALANCE SHEETS

ASSETS (In thousands)

<S>	12/27/96 <C>	12/29/95 <C>
Current Assets		
Cash and cash equivalents	$90,446	$92,485
Investments in marketable securities	136,421	69,751

Accounts receivable -- primarily trade, net of allowance for doubtful receivables of $3,682,000 at December 27, 1996 and $2,317,000 at December 29, 1995	167,928	127,565
Inventories		
Raw materials	30,961	31,302
Work in process	12,046	11,694
Finished goods	35,512	24,719
	-------	-------
	78,519	67,715
Other current assets	2,150	8,854
	-------	-------
Total Current Assets	475,464	366,370
Property, Plant and Equipment -- at Cost		
Buildings and improvements	77,481	55,852
Equipment	180,758	139,117
	-------	-------
	258,239	194,969
Less accumulated depreciation	104,254	84,419
	-------	-------
	153,985	110,550
Land	8,775	6,472
	-------	-------
	162,760	117,022
Goodwill, Net	64,785	44,958
Other Assets	40,814	23,701
	-------	-------
Total Assets	$743,823	$552,051
	========	========

<FN>
</TABLE>

<TABLE>
<CAPTION>

LIABILITIES AND STOCKHOLDERS' EQUITY (In thousands)	12/27/96	12/29/95
	--------	--------
<S>	<C>	<C>
Current Liabilities		
Accounts payable-trade	$36,931	$30,097
Accrued liabilities		
Compensation	34,689	23,861
Payroll and other taxes	8,770	6,268
Other	17,918	12,054
	------	------
Total accrued liabilities	61,377	42,183
Deferred income taxes	9,881	---

Income taxes	23,435	26,284
Total Current Liabilities	131,624	98,564
Long-Term Debt	2,850	2,850
Other Long-Term Liabilities	10,964	6,179
Deferred Income Taxes	7,109	11,225
Commitments	---	---
Stockholders' Equity		
Preferred stock: authorized 5,000,000 shares of $.01 par value; no shares issued and outstanding	---	---
Common stock: authorized 200,000,000 shares of $.01 par value; issued 179,652,633 shares at December 27, 1996, and 177,596,744 shares at December 29, 1995	1,797	888
Additional paid-in capital	94,854	72,385
Cumulative translation adjustment	3,937	7,842
Unrealized net gains on available-for-sale securities	21,551	48
Retained earnings	469,137	352,070
Total Stockholders' Equity	591,276	433,233
Total Liabilities and Stockholders' Equity	$743,823	$552,051

<FN> The accompanying notes are an integral part of these statements.
</TABLE>

<TABLE>
<CAPTION>

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands)	Common Stock	Additional Paid-In Capital	Cumulative Translation Adjustment	Unrealized Net Gains (Losses)	Retained Earnings	Total
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1994	$215	$45,072	($3,042)	$28	$164,733	$207,006
Net earnings	---	---	---	---	72,389	72,389
Stock options exercised	4	8,883	---	---	---	8,887
Employee stock awards	---	195	---	---	---	195
Stock split	217	---	---	---	(217)	---
Unrealized net losses on available-for-sale marketable securities	---	---	---	(831)	---	(831)
Foreign currency translation adjustment	---	---	5,144	---	---	5,144
Balance at						

December 30, 1994	436	54,150	2,102	(803)	236,905	292,790
Net earnings	---	---	---	---	115,606	115,606
Stock options exercised	11	18,128	---	---	---	18,139
Employee stock awards	---	107	---	---	---	107
Stock split	441	---	---	---	(441)	---
Unrealized net gains on available-for-sale marketable securities	---	---	---	851	---	851
Foreign currency translation adjustment	---	---	5,740	---	---	5,740
Balance at December 29, 1995	888	72,385	7,842	48	352,070	433,233
Net earnings	---	---	---	---	117,965	117,965
Stock options exercised	11	22,393	---	---	---	22,404
Employee stock awards	---	76	---	---	---	76
Stock split	898	---	---	---	(898)	---
Unrealized net gains on available-for-sale marketable securities	---	---	---	21,503	---	21,503
Foreign currency translation adjustment	---	---	(3,905)	---	---	(3,905)
Balance at December 27, 1996	$1,797	$94,854	$3,937	$21,551	$469,137	$591,276

<FN>
The accompanying notes are an integral part of these statements.

</TABLE>

<TABLE>
<CAPTION>
CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands)	Year Ended 12/27/96	Year Ended 12/29/95	Year Ended 12/30/94
<S>	<C>	<C>	<C>
Operating Activities			
Net earnings	$117,965	$115,606	$72,389
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	32,648	23,682	19,502
Provision for doubtful receivables	2,157	1,396	254
Deferred income taxes	(23,486)	9,214	(1,757)
Acquired in-process research and development	74,658	---	---
Gain on sale of long-term investment	---	(929)	---
Net (increase) decrease in current assets, net of effects from acquisitions:			
Accounts receivable	(43,535)	(42,689)	(7,660)
Inventories	(7,434)	(14,696)	92
Other current assets	(1,206)	353	(724)
Net increase (decrease) in current liabilities,			

net of effects from acquisitions:			
Accounts payable	6,348	7,067	7,001
Accrued liabilities	14,801	2,807	9,991
Income taxes	(2,221)	3,793	9,054
Net increase in other assets	(10,272)	(3,637)	(665)
Net (decrease) increase in other liabilities	(120)	(4,312)	3,638
Net Cash Provided by Operating Activities	160,303	97,655	111,115
Investing Activities			
Acquisition of property, plant and equipment, net	(64,831)	(35,191)	(22,956)
Proceeds from sales and maturities of marketable securities	99,642	65,780	7,543
Payments for purchases of marketable securities	(122,679)	(111,168)	(15,602)
Payments for purchases of long-term investments	---	(1,215)	(9,005)
Proceeds from sale of long-term investment	---	3,429	---
Payments for acquisitions, net of cash acquired	(91,732)	---	---
Origination of loan receivable	(5,822)		
Net Cash Used by Investing Activities	(185,422)	(78,365)	(40,020)

Consolidated Statements of Cash Flows (continued)
(In thousands)

	Year Ended 12/29/95	Year Ended 12/29/95	Year Ended 12/30/94
<S>	<C>	<C>	<C>
Financing Activities			
Common stock sold through stock-option plans	22,480	18,246	9,082
Proceeds from notes payable	40,000	---	---
Payments of notes payable	(40,000)	---	(60,000)
Net Cash Provided(Used) by Financing Activities	22,480	18,246	(50,918)
Effect of Exchange Rate Changes on Cash	600	3,489	1,694
Net (Decrease) Increase in Cash And Cash Equivalents	(2,039)	41,025	21,871
Cash and Cash Equivalents At Beginning of Year	92,485	51,460	29,589
Cash and Cash Equivalents At End of Year	$90,446	$92,485	$51,460

Other Information			
Interest paid	$1,165	$111	$1,798
Income taxes paid	$67,887	$28,646	$10,664

Supplemental Schedule of Non-cash Investing and Financing Activities:

In acquiring all of the outstanding shares of Steinbrecher Corporation and TRANSYS Network's SONET product line during 1996, the Company paid direct costs totaling $94,261,000. In conjunction with the acquisition, liabilities were assumed as follows:

(In thousands)	
Fair value of assets acquired	$104,944
Costs in excess of fair value	22,977
Direct costs paid	(94,261)
Liabilities assumed	$33,660

<FN> The accompanying notes are an integral part of these statements.

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A: Summary of Significant Accounting Policies

Nature of Business
Operating in one business segment, the Company and its Subsidiaries design, assemble, market and service a diverse line of electronic communications equipment used in public and private communications networks worldwide.

Consolidation
The consolidated financial statements include the accounts of the Company and its Subsidiaries. All significant intercompany balances and transactions have been eliminated. The results of the Tellabs Wireless Systems Division and the Tellabs Transport Group are included since their respective purchase dates of April 17, 1996, and June 28, 1996. (See Note K.)

Certain reclassifications have been made in the 1994 and 1995 consolidated financial statements to conform to the 1996 presentation. The presentation of the consolidated financial statements requires the use of estimates by management.

Cash Equivalents
The Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Fair Value of Financial Instruments
The Company's financial instruments include cash and cash equivalents, marketable securities, cost-basis investments, and long-term debt. The carrying value of the cash and cash equivalents and long-term debt approximates their estimated fair values based upon quoted market prices.

The fair value of investments in marketable securities is estimated based on quotes from brokers or current rates offered for instruments with similar characteristics.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Depreciation

Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives, on both the declining-balance and straight-line methods.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases at enacted tax rates when such amounts are expected to be realized or settled.

Goodwill

On an ongoing basis, management reviews the valuation and amortization of goodwill. As part of this review, the Company estimates the value and future benefits of the net income generated by the related subsidiaries to determine that no impairment has occurred. Goodwill is amortized over both 20 and 10 years using the straight-line method. The accumulated amortization of goodwill is approximately $9,775,000 and $6,092,000 as of December 27, 1996 and December 29, 1995, respectively.

Stock Awards

The Company has a program to award shares of the Company's common stock to employees in recognition of their past service. Each full-time employee who has worked for a continuous 5- or 20-year period is awarded 10 or 25 shares, respectively. When an employee stock award is granted, compensation expense is charged for the fair market value of the shares issued.

Revenue Recognition

The Company recognizes revenue at the date of shipment.

Earnings Per Share

Earnings per share are based on the weighted average number of common and common equivalent shares outstanding during each period along with the dilutive effect of outstanding stock options. On April 22, 1994, April 25, 1995, and October 24, 1996, the Company declared 2-for-1 stock splits payable in the form of a 100 percent stock dividend. All references to the number of common shares and per share amounts have been retroactively restated to give effect to the stock dividends.

Foreign Currency Translation

The financial statements of the Company's subsidiaries are generally measured using the local currency as the functional currency. Accordingly, the effect of translating a subsidiary's financial statements into U.S. dollars is recorded as a separate component of stockholders' equity.

Foreign Exchange

Gains and losses from changes in exchange rates are recognized in "Other Income (Expense)". Net losses of $273,000, $302,000 and $1,555,000 were recorded in 1996, 1995 and 1994, respectively.

Foreign Exchange Contracts

The Company enters into foreign exchange contracts as a hedge against net foreign accounts receivable and payable. Market value gains and losses on the contracts are recognized and are combined with offsetting foreign exchange gains or losses on those accounts.

<TABLE>
<CAPTION>
Note B: Investments

Available-for-sale marketable securities are accounted for at market with the unrealized gain or loss net of deferred income taxes shown as a separate component of stockholders' equity. At December 27, 1996, and December 29, 1995, they consisted of the following:

(In thousands) 1996	Amortized Cost	Unrealized Gain (Loss)	Market Value
<S>	<C>	<C>	<C>
State and municipal securities	$7,345	($25)	$7,320
Preferred and common stocks	18,907	41,797	60,704
U.S. government and corporate debt obligations	36,215	(126)	36,089
Foreign government debt obligations	32,389	(81)	32,308
	$94,856	$41,565	$136,421

	Amortized Cost	Unrealized Gain (Loss)	Market Value
<S>	<C>	<C>	<C>
1995			
State and municipal securities	$39,938	$151	$40,089
Preferred and common stocks	12,423	(30)	12,393
U.S. government and corporate debt obligations	16,022	(53)	15,969
	$68,383	$68	$68,451

</TABLE>
Held-to-maturity securities are carried at their amortized cost. During 1996, all such investments had matured. At December 29, 1995, the balance of $1,300,000, consisting entirely of U.S. government and corporate debt obligations, was included in "Investments in Marketable Securities".

The Company has an investment in a company that had an initial public offering (IPO) during 1996. The Company has marked this investment to market subject to the constraints of the security sale limitations of the IPO. Under these constraints, only those shares that can be traded within the next year are included in "Investment in Marketable Securities" while the remaining shares are included in "Other Assets" at their historical cost.

During 1996, the Company committed to make a $8,500,000 contribution to the Tellabs Foundation. The contribution will consist of stock from the aforementioned investment. Investments in marketable securities have been reduced accordingly.

In the ordinary course of managing its assets and liabilities, the Company uses financial instruments, which are not reflected in the financial statements, to reduce or eliminate its exposure to foreign exchange risks. Foreign currency risk is managed through forward exchange contracts.

Note B: Investments (Continued)

The Company had forward exchange contracts, generally having maturities of less than 120 days, in the amount of $57,409,000 and $41,914,000 at December 27, 1996, and December 29, 1995, respectively. These contracts are primarily denominated in Finnish markka, Irish punts and Canadian dollars.

Note C: Long-Term Debt

The long-term debt of $2,850,000 comprises industrial revenue bonds that were issued on December 20, 1991, with the principal payable in October 2014. Interest is payable quarterly based on a variable interest rate set weekly based on market conditions for similar instruments. The effective rates for 1996, 1995 and 1994 were 3.51 percent, 3.94 percent and 2.88 percent, respectively. The debt is unsecured. The provisions of the loan agreement contain restrictive covenants, including a minimum net worth and debt-to-equity ratio.

Note D: Stock Options

At December 27, 1996, the Company had seven stock-based compensation plans, which are described below. The Company applies APB Opinion 25 and its related interpretations in accounting for its plans. No compensation cost has been recognized for its fixed stock option plan grants. Had compensation cost for the Company's stock-based compensation plans been determined using the fair value at the grant dates for awards under those plans consistent with the method of FASB Statement 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

<TABLE>
<CAPTION>

(In Thousands, Except Per-Share Data)		Year Ended 12/27/96	Year Ended 12/29/95
<S>		<C>	<C>
Net Earnings	As reported	$117,965	$115,606
	Pro forma	$113,315	$114,691
Earnings per share	As reported	$0.64	$0.63
	Pro forma	$0.61	$0.63

</TABLE>

The fair value of each option is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions used for grants in 1996 and 1995, respectively: dividend yield of zero percent for both years; expected volatility of 51.2 percent and 52.4 percent; risk-free interest rates of 5.26 percent to 6.65 percent and 5.25 to 7.88 percent; and expected lives of 2.53 years to 5.53 years and 2.6 years to 5.6 years.

The Company's 1981 Incentive Stock Option Plan is a tax-qualified plan that provided for 4,320,000 shares of common stock to be reserved for options issued under the plan. No grants have been made under the 1981 Plan since its expiration on November 24, 1991. At December 29, 1995, all shares that had been granted under the 1981 Plan had been exercised or cancelled.
Note D: Stock Options (continued)

The Company's 1984 Incentive Stock Option Plan is a tax-qualified plan that provides for 4,800,000 shares of common stock to be reserved for options that may be issued under the plan. The plan also provides that the option price shall be the market value of the shares as of the date of grant, except for options granted to holders of 10 percent or more of the outstanding shares, in which case the option price shall be 110 percent of the market value of the shares as of the date of grant.

The Company's 1986 Non-Qualified Stock Option Plan provides for 12,000,000 shares of common stock to be reserved for options that may be issued under the plan. The plan provides that the option price shall be the market value of the shares as of the date of grant.

The Company's 1987 Stock Option Plan for Non-Employee Corporate Directors provides for the non-discretionary grant of options to non-employee directors of the Company to purchase a combined maximum of 1,200,000 shares of common stock of the Company at a per-share price not less than the market value per share of the common stock on the date of grant. The plan provides that each non-employee director, on the date such person becomes a non-employee director, will be granted options to purchase 10,000 shares of common stock and, provided such person is still serving as a non-employee director, will automatically be granted options to purchase 6,000 additional shares of common stock each year thereafter on the anniversary of the last day of the month in which the initial options were granted. Options granted under the 1987 plan expire five years from the grant date.

The Company's 1989 Stock Option Plan provides for 12,000,000 shares of common stock to be reserved for options under the plan. The plan allows grants to employees of incentive or non-qualified options for up to 12,000,000 shares and up to 12,000,000 stock appreciation rights (SARs). The SARs may be granted in conjunction with, or independently of, the options under the plan. The plan provides that the option price and the SAR price shall be the market value of the Company's shares as of the date of grant. At December 27, 1996, 1,524,000 SARs with grant prices ranging from $0.75 to $1.08 and 5-year terms and 786,220 SARs with a grant price of $1.58 and $28.63 and 10-year terms had been granted. At that date, a total of 2,094,000 SARs had been exercised and 15,400 had been cancelled, leaving 200,820 outstanding.

The Company's 1991 Stock Option Plan provides for 6,000,000 shares of common stock to be reserved for options under the plan. The plan allows grants to employees of incentive or non-qualified options for up to 6,000,000 shares. The plan provides that the option price shall be the market value of the Company's shares as of the date of grant.

The Company's 1994 Stock Option Plan provides for 8,000,000 shares of common stock to be reserved for options under the plan. The plan allows grants to employees of incentive or non-qualified options for up to 8,000,000 shares. The plan provides that the option price shall be the market value of the Company's shares as of the date of grant.

In July 1996, the Company began a Global Option Program under which all full-time employees below the director level as of July 8, 1996, were granted non-qualified options or SARs to purchase 400 shares plus 20 shares for each year of service. The grants were dated July 22, 1996, with a price of $28.63. The options were granted from the 1994 Plan and the SARs from the 1989 Plan.

Note D: Stock Options (continued)

Unless the option agreements provide otherwise, options or SARs granted under the 1981, 1984, 1986, 1989, 1991, and 1994 plans become exercisable on a cumulative basis at a rate of 25 percent on each of the second through fifth anniversaries of the grant date. Unless the option agreements provide otherwise, options under the 1981 and 1986 plans terminate at the end of 5 years after the grant while options or SARs granted under the 1984, 1989, 1991, and 1994 plans terminate at the end of 10 years after the grant.

<TABLE>
<CAPTION>
A summary of the status of the Company's seven option plans as of December 27, 1996, December 29, 1995, and December 30, 1994, and changes during the years ending on these dates is presented below:

	1996		1995		1994	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Outstanding - beginning of year	10,331,146	$4.53	12,745,348	$3.04	12,948,432	$2.26
Granted	3,266,420	28.61	889,000	16.94	2,576,404	6.77
Exercised	(2,053,399)	3.18	(3,013,066)	1.92	(2,616,952)	1.42
Cancelled	(258,420)	11.19	(290,136)	4.82	(162,536)	2.98
Outstanding - end of year	11,285,747	$11.59	10,331,146	$4.53	12,745,348	$3.04
Exercisable at end of year	5,878,597		5,719,896		5,964,432	
Available for grant	4,078,436		7,086,436		7,685,296	
Weighted average fair value of options granted during the year	$13.22		$7.84		N/A	

</TABLE><TABLE><CAPTION>
Options Outstanding and Exercisable as of December 27, 1996, by Price Range:

	Outstanding			Exercisable	
<S>	<C>	<C>	<C>	<C>	<C>
Range of Exercise Prices:	Shares	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Shares	Wtd. Avg. Exercise Price

$0.77 - $1.53	3,821,512	4.52	$1.35	3,821,512	$1.35
$1.54 - $6.59	3,339,135	6.92	$5.68	1,771,735	$5.41
$6.84 - $27.63	1,004,100	7.76	$16.86	280,350	$16.82
$28.63 - $28.63	3,041,000	9.44	$28.63	5,000	$28.63
$29.88 - $39.50	80,000	8.70	$33.31	---	---
$0.77 - $39.50	11,285,747	6.87	$11.59	5,878,597	$3.33

</TABLE>

Note E: Employee Benefit and Retirement Plans

The Company maintains a defined contribution 401(k) retirement plan for the benefit of eligible employees. Under the plan, a participant may elect to defer a portion of annual compensation. Matching contributions equal to the first 3 percent of annual compensation were made by the Company for all eligible participants. The Company may contribute additional amounts at the discretion of the Board of Directors. Company contributions to the plan were $6,035,000, $4,707,000, and $3,480,000 in 1996, 1995 and 1994, respectively. Contributions to the plan are immediately vested in plan participants' accounts.

The Company maintains a deferred compensation plan that permits officers and certain management employees to defer portions of their compensation. Unless the plan is amended by the Company, the deferred amounts earn an annual interest rate of 12 percent during the term of the plan. The liabilities for the deferred salaries plus interest are included in "Other Long-Term Liabilities".

The Company maintains money purchase and profit sharing plans for the benefit of eligible employees. Under the plans, 4 percent of eligible annual compensation was contributed by the Company for each participant. No part of the contribution is vested until after a service period of five years, at which time the participant is fully vested. Company contributions to the plan were $4,056,000, $3,451,000, and $3,134,000 for 1996, 1995 and 1994, respectively.

<TABLE>
<CAPTION>
Note F: Quarterly Financial Data (Unaudited)

Selected quarterly financial data for 1996 and 1995 is as follows:

(In thousands, except per-share data)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<S>	<C>	<C>	<C>	<C>	<C>
1996					
Net sales	$172,256	$189,473	$234,340	$272,906	$868,975
Gross profit	97,774	112,315	139,529	169,625	519,243
Net earnings (loss)	31,127	(18,678)	46,117	59,399	117,965
Earnings (loss) per share	$0.17	($0.10)	$0.25	$0.32	$0.64

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<S>	<C>	<C>	<C>	<C>	<C>
1995					
Net sales	$142,212	$159,939	$151,754	$181,324	$635,229
Gross profit	79,269	90,956	84,415	109,195	363,835
Net earnings	22,941	27,118	27,441	38,106	115,606
Earnings per share	$0.13	$0.15	$0.15	$0.21	$0.63 *

<FN>
Per-share amounts are restated to reflect stock splits in 1996 and 1995.

* The earnings-per-share computation for the year is a separate, annual calculation. Accordingly, the sum of the quarterly earnings-per-share amounts do not necessarily equal the earnings per share for the year.

</TABLE>

Note G: Income Taxes

(In thousands)	Year Ended 12/27/96	Year Ended 12/29/95	Year Ended 12/30/94
Components of the Company's earnings before income taxes are as follows:			
Domestic source	$70,835	$97,372	$50,962
Foreign source	104,447	65,453	46,862
Total	$175,282	$162,825	$97,824

The provisions for income tax expense (benefit) consists of the following:

Current:			
Federal	$47,371	$24,111	$16,689
State	9,751	2,220	1312
Foreign	23,681	11,674	9,191
	80,803	38,005	27,192
Deferred:			
Federal	(23,615)	7,435	(906)
Reduction of valuation allowance	----	----	(1,544)
Foreign and State	129	1,779	693
	(23,486)	9,214	(1,757)
Total	$57,317	$47,219	$25,435

Deferred tax assets (liabilities) for 1996 and 1995 are comprised of the following:

(In thousands)	Ending Balance 12/27/96	Ending Balance 12/29/95
Deferred tax assets		
Inventory reserves	$3,050	$2,710
Deferred employee benefit expenses	4,294	2,933
Deferred compensation plan	2,563	1,607
Accrued liabilities	3,135	2,502
NOL and research and development credit carryforwards	21,604	457
Other	476	61
Gross deferred tax assets	35,122	10,270
Deferred tax liabilities		
Depreciation	(13,912)	(12,625)
Unrealized gain on marketable securities	(20,016)	(20)
Other untaxed reserves - Martis Oy	246	(614)
Amortizable intangibles	(4,290)	---
Other	(840)	(312)
Gross deferred tax liabilities	(38,812)	(13,571)
Valuation allowance	(13,300)	---
Net Deferred Tax (Liability)	($16,990)	($3,301)

<TABLE>
<CAPTION>
Note G: Income Taxes (continued)

	Year Ended 12/27/96	Year Ended 12/29/95	Year Ended 12/30/94
<S>	<C>	<C>	<C>
Federal income taxes at the statutory rate are reconciled with the Company's income tax provision as follows:			
Statutory U.S. income tax rate	35.0%	35.0%	35.0%
Foreign income taxes	(4.6)	(5.1)	(7.2)
Tax benefits associated with merger of Finland subsidiaries	(2.0)	(1.7)	--
Charitable contribution	(1.7)	--	--
Foreign tax credit and research and development credit	(1.2)	(0.6)	(2.9)
Benefits attributable to foreign sales corporation	(0.3)	(0.3)	(0.9)
State income tax, net of federal benefits	3.6	1	0.9
Acquired in-process research and development charge	3.2	--	--
Reduction of valuation allowance	--	---	(1.6)
Other - net	0.7	0.7	2.7
Effective Income Tax Rate	32.7%	29.0%	26.0%

</TABLE>

Note G: Income Taxes (continued)

The net deferred income tax liability increased to $16,990,000 at December 27, 1996, from $3,301,000 at December 29, 1995. The increase of the deferred tax balance is attributable to deferred taxes provided on the mark-to-market adjustment on investments in accordance with FASB 115 and the intangibles associated with the acquisition of the Wireless Systems Division offset by a net operating loss also attributable to the acquisition.

The Company recorded deferred tax assets for research and development credits and net operating loss carryovers associated with the acquisition in the amount of approximately $21,100,000. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The Company has established a valuation allowance of $13,300,000 associated with the net operating losses and research and credit carryovers of the acquisition. The net operating loss carryforwards and research and development tax credits will expire at various dates through the year 2010. If the Company utilizes these carryforwards, they will be recognized as a reduction of goodwill.

Deferred U.S. income taxes are not provided on the undistributed cumulative earnings of foreign subsidiaries because such earnings are considered to be permanently invested in those operations. The cumulative earnings of foreign subsidiaries were approximately $173,549,000 at December 27, 1996. The amount of unrecognized deferred tax liability for undistributed cumulative earnings of foreign subsidiaries at December 27, 1996, was approximately $28,893,000.

Note H: Major Customers

No single customer accounted for more than 10 percent of consolidated net sales in 1996 and 1995. A single customer accounted for approximately 15.3 percent of consolidated net sales in 1994.

<TABLE>
<CAPTION>
Note I: Business Segment and Geographical Information

The Company operates in one business segment. Products include voice and data communications and networking equipment used in public and private communication networks worldwide.

The Company operates in two principal geographic areas: North America and Europe. A summary of the Company's operations by area is presented below.

(In thousands)	North America	Europe	Adjustments and Elimination	Consolidated Total

1996	-------	-------	-------	-------
<S>	<C>	<C>	<C>	<C>
Net Sales				
Unaffiliated customers	$628,679	$240,296	---	$868,975
Intergeographic	2,641	8,504	($11,145)	---
Total	$631,320	$248,800	($11,145)	$868,975
Operating profit	$67,008	$101,935	---	$168,943
Identifiable assets	$491,298	$252,525	---	$743,823
1995				
Net Sales				
Unaffiliated customers	$457,161	$178,068	---	$635,229
Intergeographic	2,751	7,156	($9,907)	---
Total	$459,912	$185,224	($9,907)	$635,229
Operating profit	$87,573	$69,080	---	$156,653
Identifiable assets	$371,729	$180,322	---	$552,051
1994				
Net Sales				
Unaffiliated customers	$377,554	$116,599	---	$494,153
Intergeographic	5,796	5,034	($10,830)	---
Total	$383,350	$121,633	($10,830)	$494,153
Operating profit	$53,277	$46,405	---	$99,682
Identifiable assets	$249,224	$140,843	---	$390,067

</TABLE>

Operating profit is net sales less all related costs of sales, marketing, research and development, general and administrative and goodwill amortization, excluding interest and income taxes. Identifiable assets are those assets considered as necessary for the ongoing activities and operations of each geographic area.

Intergeographic sales are accounted for as sales and as cost of sales between the domestic parent and its subsidiaries. The sales price or cost is dependent upon the product, consists of a discount from list price and is sufficient to recover cost plus an appropriate markup for profit.

North American operating revenues include export sales to unaffiliated customers of approximately $23,722,000, $33,105,000, and $31,018,000 in 1996, 1995, and 1994, respectively.

Note J: Commitments

The Company and its Subsidiaries have a number of operating lease agreements primarily involving office space, buildings and office equipment. These leases are non-cancellable and expire on various dates through 2009.

As of December 27, 1996, future minimum lease commitments under non-cancellable operating leases are as follows:

	(In thousands)
1997	$6,998
1998	5,397
1999	3,824
2000	1,929
2001	1,548
2002 and thereafter	2,626

Total Minimum Lease Payments	$22,322
	======

Rental expense for the years ended December 27, 1996, December 29, 1995, and December 30, 1994, was approximately $5,734,000, $3,420,000 and $2,782,000, respectively.

Note K: Business Acquisitions

In April 1996, the Company acquired all of the outstanding shares of Steinbrecher Corporation for approximately $77,000,000, financed with bank loans and cash. This acquisition has been accounted for through the use of the purchase method of accounting, and, accordingly, the accompanying financial statements include the results of its operations since the acquisition date. Goodwill arising from this acquisition of approximately $6,865,000 is being amortized over 10 years.

The following table summarizes on an unaudited pro forma basis the combined results of operations of the Company as though the above acquisition were made at December 31, 1994. The pro forma amounts give effect to appropriate adjustments to amortize goodwill, intangible assets and acquisition costs and to reflect the reduction of interest income resulting from the use of cash for the acquisition; the increase in interest expense on the acquired bank debt; and, the corresponding income tax effects. In accordance with the Company's practice, in-process research and development as well as its deferred income tax effects (a net amount of approximately $54 million) was written of as reflected in the 1995 pro forma results presented below.

(In Thousands, Except Per-Share Data)	Year Ended 12/27/96	Year Ended 12/29/95
Net Sales	$869,171	$644,730
Net Earnings	$165,713	$51,703
Earnings per common share	$0.90	$0.28

The pro forma financial information presented above does not purport to be indicative of either the results that would have occurred had the acquisition taken place at the beginning of the period presented or of future results of operation of the combined businesses.

In June 1996, the Company through the Tellabs Transport Group acquired TRANSYS Network's SONET product line for approximately $17,000,000 in cash. This acquisition has been accounted for through the use of the purchase method of accounting, and, accordingly, the accompanying financial statements include the results of its operations since the acquisition date. Goodwill resulting from this acquisition, in the amount of $15,799,000, is being amortized over 10 years. This acquisition did not have a material impact on the Company's financial results.

Subsequent to year end, the Company acquired, for $6,000,000 in cash, certain wavelength-division multiplexing and optical networking technology, including the rights to or ownership of several patents and patent applications, from IBM's Thomas J. Watson Research Center. Under the terms of the agreement, the Research Center's optical network development team joined the Company.

In conjunction with each of the above acquisitions, a stock bonus plan was established under which certain acquired employees are entitled to a specific number of shares of the Company's stock over a two-year vesting period.

MANAGEMENT'S DISCUSSION AND ANALYSIS

RESULTS OF OPERATIONS

1996 vs. 1995

Sales during 1996 reached an all-time high as they climbed to $868,975,000, surpassing 1995's previous record sales of $635,229,000. The 1996 sales growth of 36.8 percent was driven by increased sales on both the domestic and international fronts. Domestic sales grew by 46 percent, primarily as the result of the continuing strong sales of the TITAN (a registered trademark of Tellabs Operations, Inc.) 5500 digital cross-connect system. International sales, which grew by 21 percent, were driven by the Martis DXX (a trademark of Martis Oy, a subsidiary of Tellabs, Inc.) managed access and transport system.

Digital cross-connect sales for 1996 of $479,174,000 represent an increase of $179,041,000 over those of the previous year. Sales of the Titan 5500 digital cross-connect system grew by 69 percent and continue to drive this product group primarily through higher sales to existing local exchange customers and the addition of a new major interexchange carrier. These service providers seek to enhance their competitive advantage by providing more robust networks to meet the needs of business customers, the increasing demands of Internet traffic, and the desire for enhanced data and video services. The digital cross-connect group accounted for approximately 57 percent of total product sales as it continues to lead all product groups.

The managed digital networks area exceeded last year's sales by almost 33 percent, reaching $231,602,000. The continued expansion of DXX system sales outside the Scandinavian market in response to growth in infrastructure helped drive its $70,979,000 increase in sales during 1996, reaching a new annual record of $201,198,000. As was expected, the remaining products in this group, such as the CROSSNET (a registered trademark of Tellabs Operations, Inc.) data multiplexer and 33X packet switch products, experienced decreases in their sales over those of the previous year.

Sales of network access products, which include analog voice-frequency products, digital echo cancellers and digital transcoders, fell short of the previous year's sales for the first time since 1991, although sales of digital echo cancellors reached an all-time high. This product group continues to decrease as a percent of total product sales as the Company concentrates its efforts on providing larger value-added system solutions to its customers.

Net earnings for 1996 were a record $117,965,000, up 2.0 percent from 1995 earnings of $115,606,000. This slight increase in earnings was the net effect of the significant increase in sales during 1996 being offset by the one-time, net-of-tax charge of $54,100,000 for acquired in-process research and development related to the acquisition of the Wireless Systems Division (see Note K) and increased operating expenses and income taxes. Earnings per share were 64 cents in 1996, compared with 63 cents in 1995. (The earnings-per-share amounts for both years are adjusted to reflect the effect of the 2-for-1 stock splits that occurred in November 1996 and May 1995.)

Sales during the fourth quarter of 1996 were a record $272,906,000, consistent with the Company's typically strong fourth-quarter sales pattern. Sales of the TITAN 5500 system and DXX system led the 50.5 percent sales increase over the 1995 fourth quarter. Net earnings for the quarter were $59,399,000, a 55.9 percent increase over 1995 earnings of $38,106,000. Earnings per share were 32 cents for the fourth quarter of 1996 and 21 cents for the fourth quarter of 1995. (The earnings-per-share amounts for both years are adjusted to reflect the effect of the 2-for-1 stock splits that occurred in November 1996 and May 1995.)

The gross profit margin for 1996 improved again to a new record level of 59.8 percent versus the previous record 57.3 percent achieved in 1995. This improvement reflects both the sales of higher-margin products, including software sales and hardware expansions, and the benefits provided by the Company's highly productive and efficient manufacturing operations. It will once again be a challenge to sustain the gross profit margin at this record-setting level.

Excluding the one-time charge to earnings for the acquired in-process research and development, operating expenses increased 33.0 percent during 1996. During the year, new items such as the expenses of the Wireless Systems Division and the Transport Group and the cost of the enterprise-wide business system conversion were included in operating expenses. Headcount and related expenses grew to support and service international and domestic products while additional expenses related to employee compensation programs were incurred. As a percentage of sales, total 1996 operating expenses (excluding the one-time charge) decreased to 31.7 percent as compared to 32.6 percent in 1995 while each expense category as a percentage of sales decreased from the prior year as has occurred since 1993.

Interest income increased to $7,371,000 in 1996, a 25.9 percent increase, compared with $5,855,000 in 1995. This increase was due to higher average cash balances throughout the year as well as a shift in investment holdings from federally tax-free municipal bonds to fully taxable investments. Interest expense for 1996 of $1,173,000 increased by $1,049,000 from 1995 expense of $124,000. The expense incurred in 1996 was primarily related to the bank debt used to partially finance the Wireless Systems Division acquisition. The debt was entirely repaid by the fourth quarter of 1996.

The effective tax rate was approximately 32.7 percent for 1996 and 29 percent for 1995. The increase in the effective tax rate for 1996 is primarily due to the tax effects of the in-process research and development one-time charge taken in conjunction with the Wireless Systems Division acquisition and the increase in domestic taxable income being partially offset by the tax benefits received as a result of the $8,500,000 charitable contribution made to the Tellabs Foundation. The 1996 effective rate reflects adjustments from the federal statutory rate attributable to the benefits of foreign tax rates, the merger of Finnish subsidiaries, the charitable contribution, and tax credits offset by state taxes and the one-time charge.

1995 vs. 1994

Sales during 1995 hit a then-record high as they exceeded the half-billion-dollar mark to reach $635,229,000 versus $494,153,000 in 1994. The 1995 sales growth of 28.5 percent was representative of both the continued strength and acceptance in the domestic marketplace of the TITAN 5500 digital cross-connect system and the growth of the Company's leading international product, the DXX managed access and transport system. Each of these products addresses a different geographic marketplace, which provided for growth of 24 percent domestically and 38 percent internationally. Additionally, all of the major product groups posted gains over 1994 sales, as was the case in the prior two years.

Digital cross-connect sales for 1995 reached the $300,000,000 mark, with an increase of almost $81,000,000 over those of the previous year. Sales of the Titan 5500 digital cross-connect system grew by 46 percent and continued to drive this product group. By the end of 1995, the Titan 5500 system was standard in all but one of the major local exchange carriers and in most of the interexchange carriers in North America. The digital cross-connect group accounted for approximately 49 percent of total product sales as it continued to lead all product groups.

The managed digital networks area exceeded 1994's sales by 34 percent in 1995. The acceptance of the DXX system in the international marketplace and agreements with Ericsson helped drive its $53,000,000 increase in sales during 1995. As was expected, the remaining products in this group, such as the CROSSNET data multiplexer and 33X packet switch products, experienced decreases in their sales over those of the previous year.

Sales of network access products, which include analog voice-frequency products, digital echo cancellers and digital transcoders, exceeded the previous year's sales in each of the last five years, even though they continued to decrease as a percent of total product sales. Sales of the digital products within this group continued to grow as the products are incorporated into cellular networks. However, sales of the analog products continued to decline as customers migrate to digital technology.

Net earnings for 1995 were $115,606,000, up 59.7 percent from 1994 earnings of $72,389,000. Earnings per share were 63 cents in 1995, compared with 40 cents in 1994. (The earnings-per-share amounts for both years have been adjusted to reflect the effect of the 2-for-1 stock splits that occurred in November 1996, May 1995 and May 1994.) This significant increase in earnings was primarily due to the increase in sales during 1995 and a corresponding 34.7 percent increase in gross profit dollars. Although operating expenses exceeded 1994's total, they continued to decrease as a percentage of sales.

Sales during the fourth quarter of 1995 were a then-record $181,324,000, consistent with the Company's typically strong fourth-quarter sales pattern. Sales of the TITAN 5500 system and DXX system led the 22 percent sales increase over the 1994 fourth quarter. Net earnings for the quarter were $38,106,000, a 46.1 percent increase over 1994 earnings of $26,075,000. Earnings per share were 21 cents for the fourth quarter of 1995 and 14 cents for the fourth quarter of 1994. (The earnings-per-share amounts for both years are adjusted to reflect the effect of the 2-for-1 stock splits that occurred in November 1996 and May 1995.)

The gross profit margin for 1995 improved significantly to a then-record level of 57.3 percent versus 54.6 percent in 1994. This improvement reflects both the sales of higher-margin products, including a small amount of higher-margin software sales, and the continuation of highly productive and efficient manufacturing operations.

Total operating expenses increased 21.6 percent during 1995, an increase that was evenly divided between marketing and research and development. Marketing expenses increased 27.5 percent due to headcount-related expenses, international marketing activities, and customer support and service expenses. Research and development expenses increased 26.4 percent due to increased headcount-related expenses in support of planned enhancements to the Company's domestic and international product base. As a percentage of sales, total 1995 operating expenses were 32.6 percent compared to 34.5 percent in 1994. Each category as a percentage of sales decreased from 1994.

Interest income increased to $5,855,000 in 1995, an 83.8 percent increase compared with $3,185,000 in 1994. This was the result of interest-bearing investments more than doubling during 1995. Interest expense for 1995 of $124,000 decreased by $1,649,000 from 1994 expense of $1,773,000. The expense incurred in 1994 was primarily related to the bank debt used to finance the acquisition of Martis Oy. The debt was entirely repaid by the fourth quarter of 1994.

Other income in 1995 was $441,000, of which foreign exchange losses of $302,000 were the result of the strength of the Finnish markka and the Irish punt versus the U.S. dollar. The significantly higher foreign exchange losses of $1,555,000 in 1994 were primarily the result of the strength of the Finnish markka versus the Swedish krona, U.S. dollar and other European currencies to which the Company has exposure.

Other income also includes the write-down of the Company's investment in Advanced Access Labs, a joint venture between Advanced Fibre Communications, Inc. (AFC) and the Company by which the two companies combined their efforts in the local loop transport area to develop the CABLESPAN (a registered trademark of Tellabs Operations, Inc.) 2300 system. The investment was written down to reflect the Company's share of the losses of the joint venture in accordance with the equity method of accounting. The equity in cumulative losses of the joint venture increased to $2,000,000 by the end of 1995 from $1,012,000 at the end of 1994.

The effective tax rate was approximately 29 percent for 1995 and 26 percent for 1994. The increase in the effective tax rate for 1995 was primarily due to the reduction of research and development tax credits and reduced foreign tax rate benefits. The 1995 effective rate reflected adjustments from the federal statutory rate attributable to foreign tax rate benefits.

LIQUIDITY AND CAPITAL RESOURCES

The Company has never paid a cash dividend, and current policy is to retain earnings to provide funds for the operation and expansion of the business. The Company does not anticipate paying cash dividends in the foreseeable future.

Net working capital at December 27, 1996, was $343,840,000, compared with working capital of $267,806,000 at December 29, 1995. The Company's current ratio at December 27, 1996 was 3.6 to 1. The increase in net working capital is primarily the result of the Company's record earnings being offset by the use of cash and cash equivalents to partially finance the Company's second-quarter acquisitions. Management believes this level of working capital will be adequate to meet the Company's liquidity needs related to normal operations both currently and in the foreseeable future. Sufficient resources exist to support the Company's growth either through currently available cash, through cash generated from future operations, or through additional short-term or long-term financing.

Operating activities provided the Company with a significant amount of cash due to net earnings of $117,965,000. Net trade accounts receivable increased by $40,363,000 to a year-end balance of $167,928,000, due primarily to the record-level sales volume in the fourth quarter of 1996. Total inventory levels increased by $10,804,000 from 1995 levels due to 1997 sales forecast requirements for digital cross-connect systems and the inventory purchased in the Wireless Systems Division acquisition. The inventory turnover ratio increased to 4.8 times from 4.5 times in 1995.

Goodwill increased by $19,827,000 principally as a result of the Transport Group and Wireless System Division acquisitions. Other assets increased by $17,113,000 primarily due to $18,216,000 worth of developed research and development acquired in the Wireless Systems Division acquisition. Accrued liabilities increased from the 1995 balance by $19,194,000 primarily as a result of the year-end obligations related to employee compensation programs and the liabilities assumed as part of the acquisitions. The increase in the Company's liability for deferred income taxes of $9,881,000 reflects the future obligations related to the unrealized gains on marketable securities as of year end.

The Company's holdings in marketable securities increased by $66,670,000. Approximately $43,648,000 is due to the mark-to-market adjustment of an investment in a certain company that had an initial public offering during 1996. The Company also invested approximately $64,831,000 during 1996 in property, plant and equipment (exclusive of acquisitions) as additions were made primarily to increase manufacturing capacity and expand research and development efforts worldwide.

The Company utilized $40,000,000 of bank debt to finance the acquisition of the Wireless Systems Division. This debt was entirely repaid by the end of year. Finally, an additional $22,480,000 of cash was provided to the Company through the exercise of stock options under the Company's stock option plans.

OUTLOOK

Driven by sales growth in both the international and domestic markets, sales for 1997 are expected to reach $1 billion for the first time in the Company's history. Domestic growth continues to be dependent upon the continued strength of TITAN 5500 system sales. International growth will be primarily driven by sales of the DXX system. In addition, late 1997 should see the introduction of several new products related to the 1996 acquisitions. At December 27, 1996, backlog increased to approximately $118,000,000 from $84,000,000 at the end of the prior year. All of the 1996 backlog is expected to be shipped in 1997. The Company considers backlog to be an indicator, but not the sole predictor, of future sales.

During 1997, the Company will continue to focus on providing the resources to support revenue growth in the most cost-effective method possible. To that end, total operating expenses for 1997 are expected to average approximately 31 percent of planned revenues. Research and development expenses are expected to maintain an average of approximately 13 percent of sales, consistent with 1996 and 1995 percentages. Marketing and general and administrative expenses are expected to decrease by almost 2 percent to approximately 17 percent of sales. Management believes these levels can be attained while supporting the sales and product growth slated for 1997 and beyond as the Company continues to invest in its future.

The 1997 capital expenditure plan totals approximately $96,000,000. It is anticipated that 1997 working capital requirements and capital expenditures will be met with funds currently on hand and funds generated by future earnings. Earnings for 1997 are expected to be taxed at a 34 percent rate.

The Company believes that the formation of business relationships with compatible organizations is important to future growth in that it allows the Company the opportunity to share in the development of new markets, products and technologies. It is for this reason that the Company will continue to pursue the establishment of such relationships.

Except for historical information, the matters discussed or incorporated by reference in this report are forward-looking statements that involve risks and uncertainties including, but not limited to, economic conditions, product demand and industry capacity, competitive products and pricing, manufacturing efficiencies, research and new product development, protection of intellectual property, patents and technology, ability to attract and retain highly qualified personnel, availability of components and critical manufacturing equipment, facility construction and startups, the regulatory and trade environment, and other factors indicated from time to time in the Company's filings with the Securities and Exchange Commission.

EXHIBIT 21

TELLABS, INC. AND SUBSIDIARIES
SUBSIDIARIES OF THE REGISTRANT
AS OF FEBRUARY 28, 1997

Name	State or Other Jurisdiction of Incorporation
Tellabs Operations, Inc.	Delaware
Tellabs Wireless, Inc.	Delaware
Tellabs Export, Inc.	Delaware
Telecommunications Laboratories, Inc.	Illinois
Tellabs International, Inc.	Illinois
Tellabs do Brasil Ltda.	Brazil
Tellabs Singapore Private Limited	Singapore
Tellabs Communications Canada Ltd.	Ontario, Canada
Tellabs (V.I.), Inc.	U.S. Virgin Islands
Tellabs H.K. Ltd.	Hong Kong
Tellabs N.Z. Limited	New Zealand
Tellabs Korea, Inc.	Korea
Tellabs Pty. Limited	Australia
Tellabs Holdings Ltd.	Ireland
Tellabs Ltd.	Ireland
Tellabs (Ireland) Ltd.	Ireland
Tellabs Research Ltd.	Ireland
Tellabs U.K. Ltd.	United Kingdom
Tellabs GmbH	Germany
Tellabs Southern Europe, S.A.	Spain
Tellabs Mexico, Inc.	Delaware
Tellabs de Mexico, S.A. de C.V.	Mexico
Tellabs Oy	Finland
Tellabs AB	Sweden
Tellabs SAS	France
Tellabs Pty. Ltd.	South Africa
Tellabs TG, Inc.	Delaware
Tellabs Transport Group Inc.	Quebec, Canada

EXHIBIT 23

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACOUNTANTS

We have issued our reports dated January 15, 1997, accompanying the consolidated financial statements and schedule incorporated by reference or included in the Annual Report of Tellabs, Inc. and Subsidiaries on Form 10-K (Exhibit 13) for the year ended December 27, 1996. We hereby consent to the incorporation by reference of said reports in the Registration Statements of Tellabs, Inc. on Form S-8 (File Nos. 33-48972, 33-45788 and 33-55487).

GRANT THORNTON LLP
Chicago, Illinois
March 21, 1997

<TABLE> <S> <C>

<ARTICLE> 5
<LEGEND>
This schedule contains summary financial information extracted from the December 27, 1996, Income Statement and Balance Sheet and is qualified in its entirety by reference to such 10K.
</LEGEND>

<S>	<C>
<PERIOD-TYPE>	YEAR
<FISCAL-YEAR-END>	DEC-27-1996
<PERIOD-END>	DEC-27-1996
<CASH>	90446000
<SECURITIES>	136421000
<RECEIVABLES>	171610000
<ALLOWANCES>	3682000
<INVENTORY>	78519000
<CURRENT-ASSETS>	475464000
<PP&E>	258239000
<DEPRECIATION>	104254000
<TOTAL-ASSETS>	743823000
<CURRENT-LIABILITIES>	131624000
<BONDS>	2850000
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<COMMON>	1797000
<OTHER-SE>	589479000
<TOTAL-LIABILITY-AND-EQUITY>	743823000
<SALES>	868975000
<TOTAL-REVENUES>	868975000
<CGS>	349732000
<TOTAL-COSTS>	349732000
<OTHER-EXPENSES>	0
<LOSS-PROVISION>	2157000
<INTEREST-EXPENSE>	(6198000)
<INCOME-PRETAX>	175282000
<INCOME-TAX>	57317000
<INCOME-CONTINUING>	117965000
<DISCONTINUED>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	117965000
<EPS-PRIMARY>	0.64
<EPS-DILUTED>	0.64

</TABLE>