



## Corporate Governance Principles

### Introduction

The Board of Directors (the "Board") of ADTRAN, Inc. (the "Company") has adopted these principles to guide the Company and the Board on matters of corporate governance. These policies will be made available to stockholders, investors and the general public through publication on the Company's website.

The Board formulates or approves policy and oversees and directs the overall management of the Company's business by its executive officers. In so doing, the directors have important obligations to the stockholders. The primary responsibility of management and the Board to the stockholders is to maximize the long-term return on their investment in the Company. The Board must also establish a structure that ensures corporate accountability. The purpose of these Governance Principles is to set forth certain general principles and policies by which the Board will manage its affairs. These Governance Principles will be reviewed annually by the Nominating and Corporate Governance Committee.

### Composition of the Board

The Board will consist of a number of directors to be set by resolution of the Board. At least a majority of the directors shall be "Independent Directors." For purposes of these Governance Principles, the term "Independent Director" means: a person other than an officer or employee of the Company or its subsidiaries or any other individual having a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a member of the Board or a director. The following persons shall not be considered independent:

- a. a director who is, or at any time during the past three years was, employed by the Company or any parent or subsidiary of the Company;
- b. a director who accepted or who has a Family Member (as defined below) who accepted any payments from the Company or any parent or subsidiary of the Company, in excess of \$60,000 during any period of 12 consecutive months within the three years preceding the determination of independence, other than:
  - compensation for board or board committee services,
  - payments arising solely from investments in the Company's securities;
  - compensation paid to a Family Member who is a non-executive employee of the Company or a parent or subsidiary of the Company;
  - benefits under a tax-qualified retirement plan or non-discretionary compensation;
  - loans from a financial institution provided that the loans (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with the general public, (c) did not involve more than a normal degree of risk or other unfavorable factors, and (d) were not otherwise subject to the specific disclosure



requirements regarding certain relationships and related party transactions under Item 404 of Regulation S-K;

- payments from a financial institution in connection with the deposit of funds or the financial institution acting in an agency capacity, provided such payments were (a) made in the ordinary course of business, (b) made on substantially the same terms as those prevailing at the time for comparable transactions with the general public, and (c) not otherwise subject to the disclosure requirements regarding certain relationships and related party transactions under Item 404 of Regulation S-K; or
- loans to executive permitted under Section 13(k) of the Securities Exchange Act of 1934, as amended;
- c. a director who is a Family Member of an individual who is, or at any time during the past three years was, employed by the Company, or any parent or subsidiary of the Company, as an executive officer;
- d. a director who is, or who has a Family Member who is, a partner in, or a controlling stockholder or an executive officer of, any organization to which the Company made, or from which the Company received, payments for property or services in the current or any past three fiscal years that exceed 5% of the recipient's consolidated gross revenues for that year, or \$200,000, whichever is more, other than payments arising solely from investments in the Company's securities or payments under non-discretionary charitable contribution matching programs;
- e. a director who is, or has a Family Member who is, employed as an executive officer of another entity where at any time during the past three years any of the Company's executive officers serve or served on the compensation committee of such other entity; or
- f. a director who is, or has a Family Member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any time during the past three years.

For purposes of these Governance Principles, "Family Member" includes a person's spouse, parents, children and siblings, whether by blood, marriage or adoption or anyone residing in such person's home (other than domestic employees).

In addition to the requirements contained in Section 2, committee members are also subject to the requirements of the applicable committee charter. Additional criteria for serving as a director may be established by the Nominating and Corporate Governance Committee, and additional requirements may be established to serve on Board committees. The above criteria for director independence may be revised from time to time to conform to stock exchange or market listing rules and requirements promulgated by the Securities and Exchange Commission.



Employee directors will tender to the Board their resignations from the Board coincident with their termination, resignation or retirement as employees, such tender to be accepted or declined by the Board in its discretion.

### **Role, Authority, Duties, and Responsibilities**

The Board, which is elected by the stockholders, is the ultimate decision-making body of the Company except with respect to matters reserved to the stockholders. The Board selects the senior management team, which is charged with the day-to-day conduct of the Company's business.

In fulfilling its obligations, the Board shall have the right, authority, duty and responsibility to:

- Monitor the financial position and operating results of the Company;
- Approve significant transactions of the Company and its affiliates as necessary or appropriate;
- Review Compensation Committee and Nominating and Corporate Governance Committee decisions and recommendations and monitor actions relating to the selection and evaluation of the performance of the CEO, and taking appropriate action, including removal, when warranted;
- Monitor actions regarding succession plans and management development programs for members of senior management;
- Review Nominating and Corporate Governance Committee decisions and recommendations and monitor actions regarding matters of corporate governance; and
- Review Audit Committee decisions and recommendations and monitor actions related to the adoption of policies relating to the integrity of the Company's financial statements and the accounting, reporting and financial practices of the Company, including compliance with applicable laws and regulations and reviewing the adequacy of compliance systems.

### **Board Committees**

The Board has established the following Board committees:

- Audit Committee
- Compensation Committee
- Nominating and Corporate Governance Committee

Each committee must have a charter approved by the Board. These charters, which are reviewed annually for their adequacy, will be published on the Company's website. In addition to the standing committees, the Board may establish *ad hoc* committees as the Board deems appropriate.



Materials related to agenda items should be provided to the committee members in advance of the meeting to allow the members to prepare for discussion of the materials at the meeting.

### **Independent Members of the Committees**

All members of the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee shall be independent directors in accordance with the standards set forth in Section 2 of these policies and as otherwise may be required by the Company's Bylaws, the provisions of the Securities Exchange Act of 1934, the rules and regulations of the Securities and Exchange Commission and the NASDAQ (or other such exchange or market as may be applicable).

### **Chair**

The Board will elect a director as Chair of the Board who may or may not be the Chief Executive Officer. If the Chair is also the Chief Executive Officer, or if the Board otherwise determines that it is appropriate, the Board will also elect one Independent Director as the Lead Director. The role of the Chair will be:

- Chair all meetings of the Board in a manner that utilizes the time of the Board effectively and that takes full advantage of the expertise and experience that each Director has to offer;
- Together with the Lead Director, establish an agenda for each Board meeting that covers all matters that should come before the Board in the proper exercise of its duties; and
- Facilitate and encourage constructive and useful communication between management and the Board.

### **Functioning of the Board**

- **Regular Meetings:** The Board will meet at least quarterly. Additional sessions and special meetings may be held from time to time as appropriate.

A schedule of regular Board meetings for each calendar year for consideration by the Board will be provided to the Board.

- **Executive Sessions:** Executive sessions of independent directors without the participation of non-independent directors will be held at regularly scheduled Board meetings at least two times a year and may be called at any other time as necessary to fulfill their responsibilities. The Lead Director will chair the executive sessions of the independent directors.

- **Board Materials:** The agenda for each regular meeting and Board materials related to the agenda items will generally be provided to directors at least three days in advance, or such other timeframe to allow directors to prepare for discussion of the materials at the meeting. All directors are free to suggest items for a Board agenda and to raise items for consideration at any meeting which are not on the agenda for that meeting.



Directors will also routinely receive quarterly financial statements and other information designed to keep them informed about the Company, its business, performance and prospects.

- **Minutes:** The Secretary of the Company or such other person appointed by the Board will prepare the minutes of each meeting of the Board and send them to all directors for review.
- **Access to Senior Management Experts:** Directors have complete access to the management of the Company and the Company's outside advisors, including counsel and auditors. Directors will use judgment to assure that contact is not distracting to the business operation of the Company and that the CEO is advised, as appropriate, of any such contact. The Board may retain outside advisors, including counsel, to assist it in fulfilling its duties.
- **Attendance of Non-Directors:** The Chair, CEO or Lead Director may invite senior management or advisors to the company to attend specific Board meetings to provide insight or assistance on particular matters.

### **Board Evaluation**

The Board shall conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee will administer the evaluation process and prepare a report on the results thereof for consideration by the full Board.

### **Director Matters**

- **Board Membership Criteria:**  
The Nominating and Corporate Governance Committee reviews candidates for Board membership on a regular basis and whether such nominees have the appropriate skills and characteristics required of Board members in the context of the current makeup of the Board. The Nominating and Corporate Governance Committee shall establish criteria for the selection of potential directors, taking into account the following desired attributes: leadership; independence; interpersonal skills; financial acumen; business experiences; industry knowledge; and diversity of viewpoints.
- **Selection of New Director Candidates:**  
The Nominating and Corporate Governance Committee shall establish standards for selecting new board members. The Nominating and Corporate Governance Committee shall also recommend the director nominees for the next annual meeting of the stockholders of the Company, taking into consideration any qualified director candidates recommended by a stockholder or board member that complies with the procedural requirements as specified in the Company's Bylaws and other governing policies and laws.
- **New Director Orientation:**  
New directors will be provided an orientation to familiarize them with the Company and its operations and its principles of corporate governance.
- **Continuing Education:**  
Directors are encouraged to attend at least one course of continuing education each year on the duties and responsibilities of directors as approved by



the Nominating and Corporate Governance Committee. The costs of such continuing education will be borne by the Company.

- **Compensation:**

Employee directors will not receive compensation as directors. Non-employee directors will receive compensation as determined by the Compensation Committee.

- **Director Attendance:**

Each Director is expected to attend all meetings of the Board, each meeting of a Committee on which the Director is a member and the Annual Meeting of Stockholders. The Board recognizes that occasionally meetings may need to be scheduled on short notice and that conflicts may arise from time to time that will prevent a Director from attending a meeting. However, each Director will make every reasonable effort to keep such absences to a minimum. Except for meetings which are scheduled to be telephonic, attendance by telephone is discouraged.

- **Directors Who Change Their Job Responsibility or Status:**

Individual directors who experience a significant change (including retirement) in the principal position, job responsibility or status they held when they were most recently elected to the Board are expected to provide written notice of such change to the Chair of the Board and the Chairperson of the Nominating and Corporate Governance Committee. The Board does not believe that a director in this circumstance should necessarily be required to leave the Board. Rather, the Board believes the Nominating and Corporate Governance Committee should have the opportunity to assess each situation, based on the individual circumstances, and make a recommendation to the Board. The Board would determine whether it is appropriate for the director to continue Board membership under these circumstances.

- **Term Limits:**

Term limits should not be established for Board membership. Term limits hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole.

- **Retirement Age:**

There is no set mandatory retirement for directors. The Nominating and Corporate Governance Committee may in the future establish a mandatory retirement age if it deems it appropriate and in the best interests of the Company.

- **Service on Other Boards and Conflicts:**

Directors of the Company must limit their external directorships of other publicly-traded corporations to five (5). Additionally, any director that is currently the Chief Executive Officer of a publicly-traded corporation must limit his or her external directorships of other publicly-traded corporations to three (3). The Nominating and Corporate Governance Committee must be notified of the intention of directors and officers of the Company to serve on another board, so that the committee can review the possibility for conflicts of interest or time constraints. Each director is responsible for notifying the



Nominating and Corporate Governance Committee of any conflicts caused by service on another board.

- **Officers:**  
All Officers of the Company other than the Chief Executive Officer and the Chairman of the Board must obtain the approval of the Chief Executive Officer prior to accepting membership on any other boards of directors to ensure that outside directorships do not interfere with their duties and responsibilities as Officers of the Company.
- **Chief Executive Officer:**  
The Chief Executive Officer of the Company must seek the approval of the Nominating and Corporate Governance Committee before accepting any external public company directorships.
- **Formal Evaluation of the Chief Executive Officer:**  
The performance evaluation of the Chief Executive Officer by the Board is coordinated on an annual basis by the Compensation Committee. The evaluation is based on objective criteria including, without limitation, the performance of the Company and the accomplishment of short-term operating and long-term strategic objectives.
- **Management Development and Succession Planning:**  
On a regular basis, Board members are made aware of the development of senior management, including those members of senior management that are elected officers by the Board. The members of the Board on an annual basis will discuss the Company's plans for succession of the Chief Executive Officer upon his retirement or in the event he is unable to serve in such capacity, and will perform a similar analysis for other senior management positions.
- **Interaction with Investors, Lenders, the Press, and Other Constituencies:**  
The Board believes that the Chief Executive Officer should speak for the Company. Individual directors may, from time to time, receive requests for comment from various constituencies who are involved with the Company. The directors should refer all inquiries to the Chief Executive Officer.

### **Conflicts of Interest and Code of Conduct**

The Board has adopted a Code of Business Conduct and Ethics, which includes the Company's policy on conflicts of interest and which will be reviewed at least annually by the Audit Committee. Violations and proposed waivers of the Code of Conduct must be reported to Director of Internal Audit, who is responsible for reporting them to the Audit Committee, and any waiver of such a violation or of such policy for executive officers or directors will be reported to stockholders as required by law.