

**ADVANCED FIBRE COMMUNICATIONS, INC.
CORPORATE GOVERNANCE GUIDELINES**

A. THE ROLES OF THE BOARD OF DIRECTORS AND MANAGEMENT

1. *The Board* — The business of Advanced Fibre Communications, Inc. (the “Corporation”) is conducted under the oversight of the Board of Directors (the “Board”). The Board selects the Chairman and Chief Executive Officer and delegates to the CEO the authority and responsibility to manage the Corporation’s operations. The Board serves as elected representatives of the stockholders, acts as an advisor and counselor to the CEO and senior management, and oversees management performance on behalf of stockholders.
2. *Management* — The CEO and senior management are responsible for running the Corporation’s business operations.

B. BOARD COMPOSITION AND LEADERSHIP

1. *Chairman of the Board and Chief Executive Officer* — The Board has the authority to decide whether the positions of Chairman and CEO should be held by the same person and shall determine the best arrangement for the Corporation and its stockholders in light of all relevant and changing circumstances. In the event the Board decides the positions of Chairman and CEO should be held by the same person, the Board will strive to name a Lead Director to carry out the responsibilities outlined in Section C.7 below.
2. *Size of the Board* — The number of directors should not exceed a number that can function efficiently. The Nominating and Corporate Governance Committee considers and makes recommendations to the Board concerning the appropriate size of the Board.
3. *Board Independence* — The Board believes in having a majority of independent directors on the Board. As such, a majority of the directors shall be “independent directors” as defined by the rules promulgated by the National Association of Securities Dealers, Inc. (“NASD Rules”), as amended, and shall satisfy all applicable independence requirements under the federal securities laws or rules thereunder. The Board shall establish a Nominating and Corporate Governance Committee of independent directors to make recommendations to the Board regarding decisions on corporate governance matters. Only the independent directors of the Board will make the Board decisions on corporate governance matters.
4. *Board Membership Criteria* — The Nominating and Corporate Governance Committee shall periodically review with the Board the appropriate skills and characteristics required of Board members given the current Board composition. The Board will be comprised of individuals who have distinguished records of leadership and success in their arena of activity and who will make substantial contributions to Board operations. The Board’s assessment of Board candidates includes, but is not limited to, consideration of relevant industry experience, general business experience, relevant financial experience, and compliance with independence and other qualifications necessary to comply with any applicable tax and securities laws and the rules and regulations thereunder, and the NASD Rules. Specific consideration shall also be given to: (i) roles and contributions valuable to the business community, (ii) personal qualities of leadership, character, judgment and whether the candidate possesses and maintains throughout service on the

Board a reputation in the community at large of integrity, trust, respect, competence and adherence to the highest ethical standards, (iii) relevant knowledge and diversity of background and experience in such things as business, manufacturing, technology, finance and accounting, marketing, international business, government and the like; or (iv) whether the candidate is free of conflicts and has the time required for preparation, participation and attendance at all meetings. A director's qualifications in light of these criteria is considered at least each time the director is re-nominated for Board membership.

5. *Selection of New Director Candidates* — The Nominating and Corporate Governance Committee screens and recommends Board candidates to the Board.
6. *Director Orientation and Continuing Education* — The Corporation provides directors with orientation and education for the purpose of developing and updating the skills and qualifications of the Board of Directors. In addition, during each three-year term each director will strive to attend at least one director education seminar hosted by an external source recommended by management, outside counsel or the independent auditors.
7. *Directors Who Experience Change in Present Job Responsibilities or Other Relevant Circumstances* — When a director's principal occupation or business affiliation changes, or other circumstances arise which may raise questions about the Director's continuing qualifications in relation to the Board Membership Criteria set forth above, then the director should tender her/his resignation, or the Nominating and Corporate Governance Committee will ask for such tender. The Nominating and Corporate Governance Committee will consider the tendered resignation and recommend to the Board the action to be taken.
8. *Service On Other For-Profit Boards* — Independent directors are encouraged to evaluate carefully the time required to serve on other boards (excluding non-profit) taking into account board attendance, preparation, participation and effectiveness on these boards. Independent directors must advise the Chairman/CEO before accepting an invitation to serve on another board to enable the Corporation to determine whether (i) any regulatory issues or potential conflicts are raised by the director accepting such an invitation and (ii) the director will have the time required for preparation, participation and attendance at Board meetings.
9. *Retirement Policy* — Each non-employee director must tender her/his resignation at the annual meeting following her or his 70th birthday. If circumstances dictate, the Nominating and Corporate Governance Committee may ask a director to continue to serve on the Board past age 70.
10. *Board Compensation Review* — The Nominating and Corporate Governance Committee will periodically receive reports on the status of Board compensation in relation to other companies, as it deems appropriate, and is responsible for recommending to the Board changes in compensation for non-employee directors.
11. *Board's Interaction With Stakeholders* — The CEO is responsible for establishing effective communications with the Corporation's stakeholders, including stockholders, customers, employees, communities, suppliers, creditors, governments, and corporate partners. It is the policy of the Board that management speaks for the Corporation. This policy does not preclude independent directors from meeting with stakeholders, but management, where appropriate, should be present at such meetings.

C. BOARD OPERATIONS

1. *Selection of Agenda Items for Board Meetings* — The Chairman of the Board, in consultation with other directors and management as appropriate, establishes the agenda for each meeting of the Board. Any Board member may ask to include items on the agenda.
2. *Board Materials Distributed in Advance* — Board members receive materials related to agenda items in advance of Board meetings so that the directors may prepare to discuss the items at the meeting. Sensitive subjects may be discussed at the meeting without distributing written materials in advance or at the meeting.
3. *Director Responsibilities* — Directors must exercise their business judgment to act in the best interests of the stockholders and the Corporation. In discharging this obligation, directors reasonably may rely on the Corporation's senior executives and its advisors and auditors. Directors are expected to attend and participate in all meetings of the Board and of committees on which they serve and to spend the time needed and prepare for and meet as frequently as necessary to discharge their responsibilities.
4. *Board Presentations and Access to Employees* — Members of senior management may be invited to attend part or all of a Board meeting in order to participate in discussions. Generally, the executive responsible for an area of the Corporation's operations the Board is to consider makes the presentation. Board members have complete access to all other members of management and Corporation employees.
5. *Board Access to Independent Advisors* — The Board and its committees may seek advice from outside advisors as appropriate.
6. *Executive Sessions of Independent Directors* — If the positions of Chairman and CEO are held by the same person, the independent directors will name a Lead Director and they will regularly meet without the Chairman. The Lead Director, as selected by the independent directors, will serve as chairperson for the meeting, or, at such time as no Lead Director has been selected or is not present, the independent directors will select a director to chair the meeting. The chairs of the Audit, Compensation, and Nominating and Corporate Governance Committees of the Board may chair executive sessions of the independent directors at which the principal items to be considered are within the scope of the committee chair's authority.
7. *Role of Lead Director* - If a Lead Director has been selected by the independent directors, the role of that person will include acting as a focal point for input and feedback from independent directors, serving as a chairperson for executive sessions of independent directors, and reviewing final versions of the Board agendas.

D. BOARD COMMITTEES

1. *Committees* — The current committees are Audit, Compensation and Nominating and Corporate Governance.

2. *Assignment and Term of Service of Committee Members* — The Board is responsible for the appointment of committee members and chairs, based on recommendations of the Nominating and Corporate Governance Committee. The Board at its first meeting following the Annual Meeting of Stockholders shall elect the members of each committee.
3. *Agenda, Frequency, Length and Reports of Committee Meetings* — The chair of each committee approves the agenda, length of and attendance at each committee meeting and determines the frequency of meetings. Materials related to agenda items are given to the committee members sufficiently in advance to allow the members to prepare for discussing the items at the meeting. The committee chairs report a summary of their meeting to the Board following each regular committee meeting.
4. *Membership* — Only independent directors may serve on the Audit, Compensation, and Nominating and Corporate Governance Committees.
5. *Responsibilities* — The Board periodically reviews the responsibilities of each committee and approves the committee charters, copies of which are attached to these guidelines.

E. BOARD AND MANAGEMENT EVALUATION

1. *Formal Evaluation of the CEO and other Officers* — The Compensation Committee shall review and approve corporate goals and objectives relevant to the compensation of the Corporation's CEO. The CEO shall provide the Compensation Committee a summary of the goals and objectives, and performance against such goals and objectives, of the other officers who are reporting persons under Section 16 of the Securities Exchange Act of 1934 and the rules promulgated thereunder ("Officers"). The Compensation Committee shall also evaluate the CEO's and Officers' performance in light of such goals and objectives at least annually and communicate the results to the CEO and the Board. Based on such evaluation, the Compensation Committee shall establish and approve annually for the CEO and Officers, the compensation levels for those persons, including, as applicable, (a) base salary, (b) bonus, (c) long-term incentive and equity compensation, and (d) any other compensation, perquisites, and special or supplemental benefits.
2. *Board Self-Assessment* — The Board will conduct an annual self-assessment to determine whether it and its committees are functioning effectively. The Nominating and Corporate Governance Committee will be responsible for overseeing the assessment process.
3. *Succession Planning and Management Development* — The Board reviews CEO succession planning on an annual basis. CEO reviews succession planning and management development with the Board on an annual basis.