

ZHONE TECHNOLOGIES, INC.

CODE OF CONDUCT AND ETHICS

1. Policy Statement

We are committed to being a good corporate citizen and it is our policy to conduct our business affairs honestly and in an ethical manner. That goal cannot be achieved unless each of our officers, directors and employees individually accepts his or her responsibility to promote integrity and ethical conduct in all of his or her activities. Activities that may call into question Zhone's reputation or integrity should be avoided. The provisions of this Code cannot anticipate every situation that may pose an ethical or moral issue, and Zhone understands that not every situation is black and white. The key to compliance with the Code is exercising good judgment. This means following the spirit of this Code and the law, doing the "right" thing and acting ethically even when the law is not specific.

Managers set an example for other employees and are often responsible for directing the actions of others. Every manager and supervisor is expected to take necessary actions to ensure compliance with this Code, to provide guidance and assist employees in resolving questions concerning the Code and to permit employees to express any concerns regarding compliance with this Code. No one has the authority to order another employee to act contrary to this Code.

The Code outlines the broad principles of legal and ethical business conduct under which we do business. The Code is intended to supplement, but not to replace, our Employee Handbook and any policies that we have established. Each of our officers, directors and employees is expected to understand and comply with the provisions of this Code.

Violations of the Code of Conduct and Ethics, including failures to report potential violations by others, will be viewed as a disciplinary matter that may result in personnel action, including termination of employment. If you believe that a violation of this Code of Conduct and Ethics has occurred, please contact the Ethics Manager, Kirk Misaka, at 510-777-7538 or ethicsmanager@zhone.com. You may also contact the Chairman of the Audit Committee of the Board of Directors, Robert Dahl at auditcommitteechair@zhone.com. Zhone employees who work in any organization that reports to the Ethics Manager should send any communications directly to the Chairman of the Audit Committee.

If you are concerned about maintaining anonymity, you may submit your communication on a confidential basis by mail to Zhone Technologies, Inc., c/o Ethics Manager [or Chairman of the Audit Committee], 7001 Oakport Street, Oakland, CA 94621.

2. Compliance with Laws and Regulations

Zhone seeks to comply with both the letter and spirit of the laws and regulations in all countries in which it operates.

Zhone is committed to full compliance with the laws and regulations of the cities, states and countries in which it operates. Numerous federal, state and local laws and regulations define and establish obligations with which Zhone, its employees and agents must comply. Violation of governing laws and regulations may subject Zhone to significant risk of fines, penalties and damaged reputation. All of our employees are expected to comply with applicable laws, rules and regulations when performing duties for Zhone. Under certain circumstances, local country law may establish requirements that differ from this Code, and in such situations employees should comply with all local country laws. An employee or agent who violates laws or regulations in performing duties for Zhone risks individual indictment, prosecution and penalties, and civil actions and penalties, and may subject Zhone to the same risks and penalties. An employee who violates these laws or this Code may be subject to immediate disciplinary action, including possible termination of employment or affiliation with Zhone.

As explained below, you should always consult with your manager, the Director of Human Resources, or the designated Ethics Manager, regarding any questions you may have about the legality of you or your colleagues' conduct.

3. Fair Dealing and Business Ethics

Our goal is to conduct our business with integrity.

We expect all of our employees to deal honestly with our customers, suppliers, competitors, and other employees. Under federal and state laws, we are prohibited from engaging in unfair methods of competition, and unfair or deceptive acts and practices, and expect you to avoid taking unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation of material facts, or any other unfair dealing.

Examples of these unfair or deceptive acts or practices include:

- bribery or payoffs to induce business or breaches of contracts by others;
- acquiring a competitor's trade secrets through bribery or theft;
- making false, deceptive or disparaging claims or comparisons about competitors or their products or services; or
- mislabeling products or services.

These are examples of possible activities that we expect our employees to avoid. You should feel free to discuss any concerns about these activities with your manager or Zhone's Ethics Manager.

4. Ethics Obligations For Employees

It is of critical importance to Zhone that all disclosure in reports and documents that we file with the Securities and Exchange Commission be fair, accurate, timely and understandable. You may be called upon to provide information to assist Zhone in these responsibilities consistent with your role within Zhone, and to assure that our public reports are complete, fair and understandable. We expect all of our employees to take this responsibility seriously, and to provide prompt and accurate answers to all inquiries made to you in connection with the preparation of our public reports and disclosure. In addition, our Chief Executive Officer, Chief Financial Officer, and other members of our Finance Department each bear a special responsibility for promoting integrity throughout Zhone and fostering a culture throughout Zhone as a whole that ensures the fair and timely reporting of our financial results and condition.

By accepting the Code of Conduct and Ethics, each employee agrees that he or she will:

- Act with honesty and integrity, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Comply with rules and regulations of federal, state, provincial and local governments, and other appropriate private and public regulatory agencies applicable to the performance of his or her duties to Zhone.
- Respect the confidentiality of information acquired in the course of his or her work except when authorized or otherwise legally obligated to disclose. Confidential information acquired in the course of one's work will not be used for personal advantage.
- Promptly report to the Ethics Manager and/or the Chairman of the Audit Committee any conduct that the individual believes to be a violation of law or business ethics or of any provision of the Code of Conduct.

In addition, because of the special role our Chief Executive Officer, Chief Financial Officer, and other members of our Finance Department have in the financial reporting process, they bear additional responsibilities, and by accepting the Code of Conduct and Ethics each agrees that, in addition to the items noted above, he or she will:

- Comply with our established accounting procedures, our system of internal controls and generally accepted accounting principles.
- Provide information that is accurate, complete, objective, relevant, timely and understandable to ensure full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or submit to, governmental agencies and in other public communications made by us.

5. Insider Trading

In accordance with Zhone's established Insider Trading Policy, you should never trade securities on the basis of confidential information acquired through your employment or fiduciary relationship with Zhone.

If you have material, non-public information relating to Zhone or its business, it is our policy that neither you, your family members, nor any entities controlled by you shall buy or sell securities of Zhone or pass on to others that information, until the information has been released to the public. This policy also applies to trading in the securities of other companies, including our customers, suppliers, vendors or business partners, if you have obtained material, non-public information about that company as a result of your position at Zhone. Generally, material information is information that would be expected to affect the investment decisions of a reasonable investor or the market price of the stock.

Employees are also prohibited from recommending a stock (i.e., "tipping") to someone else on the basis of material, non-public information. This includes passing along information to family members or a friend under circumstances that indicate that you were trying to help them make a profit or avoid a loss on the stock. You should therefore avoid discussing confidential information about Zhone in public locations where others may overhear you.

If you have any questions concerning the appropriateness or legality of a particular securities transaction, please consult with Zhone's Ethics Manager. In addition, please note that Zhone has an Insider Trading Policy that has been distributed to all employees. This Code of Conduct and Ethics does not supersede or replace the Insider Trading Policy, and is meant to supplement the provisions set forth in the Insider Trading Policy with respect to transactions in Zhone's securities.

6. Conflicts of Interest and Corporate Opportunities

Employees should avoid any situation in which his or her personal interests conflict or appear to conflict with Zhone's interests, and should make business decisions and take actions based on the best interests of Zhone as a whole and not based upon personal relationships or benefits.

There are certain situations and activities that may create a conflict between your interests and those of Zhone. You should avoid any relationship, influence or activity that would cause a conflict of interest, or appear to cause a conflict of interest, with your duties and responsibilities at Zhone. This includes situations in which your personal, family or financial interests conflict or appear to conflict with those of Zhone. You should not take for your own benefit opportunities discovered in the course of employment that you have reason to know would benefit Zhone. Sometimes a conflict of interest will develop unexpectedly. If you feel that you have a conflict, actual or potential, you should report the details to your manager. Although not every actual or potential activity creating a conflict of interest is automatically prohibited, you should disclose all details of the conflict to your manager, and if possible obtain written approval from the Ethics Manager before participating in any such activity.

Since it isn't always easy to spot potential conflicts of interests, set forth below are some examples of actual or potential conflicts. It is not possible to list every possible potential conflict and you are encouraged to consult with the Ethics Manager before taking action if you are uncertain whether an activity may constitute a conflict of interest.

- you or a member of your family, receives improper personal benefits as a result of your position at Zhone;
- you use Company property for your personal benefit;
- you engage in activities that interfere with your loyalty to Zhone or your ability to perform Company duties or responsibilities effectively;
- you work simultaneously (whether as an employee or a consultant) for a competitor, customer or supplier;
- you, or a member of your family, have a financial interest in a customer, supplier, or competitor which is significant enough to cause divided loyalty with the Company or the appearance of divided loyalty (the significance of a financial interest depends on many factors, such as size of investment in relation to your income, net worth and/or financial needs, your potential to influence decisions that could impact your

interests, and the nature of the business or level of competition between the Company and the supplier, customer or competitor);

- you, or a member of your family, acquire an interest in property (such as real estate, patent or other intellectual property rights or securities) in which you have reason to know the Company has, or might have, a legitimate interest;
- you, or a member of your family, receive a loan or a guarantee of a loan from a customer, supplier or competitor (other than a loan from a financial institution made in the ordinary course of business and on an arm's-length basis);
- you divulge or use the Company's confidential information – such as financial data, customer information, or computer programs – for your own personal or business purposes;
- you make gifts or payments, or provide special favors, to customers, suppliers or competitors (or their immediate family members) with a value significant enough to cause the customer, supplier or competitor to make a purchase, or take or forego other action, which is beneficial to Zhone and which the customer, supplier or competitor would not otherwise have taken; or
- you are given the right to buy stock in other companies or you receive cash or other payments in return for promoting the services of an advisor, such as an investment banker, to Zhone.

Neither you, nor members of your immediate family, are permitted to solicit or accept valuable gifts, payments, special favors or other consideration to or from customers, suppliers or competitors, and you should not make payments or promises to influence someone else's acts or decisions. An exception is made for gifts with a nominal dollar value which may be given or accepted occasionally in the ordinary course of business. You must observe all government restrictions on gifts and entertainment, including the restrictions of the Foreign Corrupt Practices Act which makes it illegal to offer payment, promise to pay, or authorization to pay any money, gift, or anything of value to any foreign official, or any foreign political party, candidate or official, for the purpose of (1) influencing any act, or failure to act, in the official capacity of that foreign official or party; or (2) inducing the foreign official or party to use influence to affect a decision of a foreign government or agency, in order to obtain or retain business for anyone, or direct business to anyone. If a circumstance arises where local customs call for the exchange of gifts of more than nominal value as part of the business relationship, the gifts may be accepted only on behalf of Zhone with the approval of your manager and the Ethics Manager. Any gifts received with more than a nominal value should be turned over to Human Resources for appropriate distribution.

Although we encourage you to participate in industry and civic associations, you should be sensitive to possible conflicts with our business interests, if, for instance, the association takes a position adverse to our interests. As a general rule, employees may not accept a position as an outside director of another company without prior written approval from the Ethics Manager. In addition, employees may not accept a position as an outside director of any current or likely competitor of Zhone.

7. Protection and Proper Use of Company Assets

You should endeavor to protect Zhone's assets and ensure their proper use.

Company assets, both tangible and intangible, should be used only for legitimate business purposes of Zhone and only by authorized employees or consultants. Intangible assets include intellectual property such as trade secrets, patents, trademarks and copyrights, business, marketing and service plans, engineering and manufacturing ideas, designs, databases, Company records, salary information, and any unpublished financial data and reports. Unauthorized alteration, destruction, use, disclosure or distribution of Company assets violates Company policy and this Code.

Zhone provides computers, voice mail, electronic mail (e-mail), and Internet access to certain employees for the purpose of achieving Zhone's business objectives. As a result, Zhone has the right to access, reprint, publish, or retain any information created, sent or contained in any of Zhone's computers or e-mail systems of any Company machine. You may not use e-mail, the Internet or voice mail for any illegal purpose or in any manner that is contrary to Zhone's policies or the standards embodied in this Code.

You should not make copies of, or resell or transfer copyrighted publications, including software, manuals, articles, books, and databases being used in Zhone, that were created by another entity and licensed to Zhone, unless you are authorized to do so under the applicable license agreement. You may not transfer any data or information to any Company computer other than for Company use. Although you may use a handheld computing device or mobile phone in connection with your work for Zhone, you may not use this device or phone to access, load or transfer content, software or data in violation of any applicable law or regulation or without the permission of the owner of such content, software or data. If you should have any questions as to what is permitted in this regard, please consult with the Company's Information Systems Director.

8. Reporting Violations of Company Policies and Receipt of Complaints Regarding Financial Reporting or Accounting Issues

You should report any violation or suspected violation of this Code to the appropriate Company personnel or via Zhone's anonymous and confidential reporting procedures.

In connection with our efforts to ensure observance of, and adherence to, the goals and policies we have outlined in this Code, we have designated Kirk Misaka, as Zhone's Ethics Manager for purposes of matters of business ethics and conduct. However, Zhone employees who work in any organization that reports to the Ethics Manager should send any communications directly to the Chairman of the Audit Committee. In addition, any complaints regarding financial reporting or accounting issues should also be sent directly to the Chairman of the Audit Committee.

You should promptly bring to the attention of the Ethics Manager or Chairman of the Audit Committee any conduct that you believe in good faith to be an actual or apparent violation of this Code. We encourage you to work with your managers or other appropriate personnel in making such reports, but you may also make such reports directly to the Ethics Manager or Chairman of the Audit Committee, or anonymously through our confidential reporting procedures. Prompt reporting is in the best interests of everyone. The following are some approaches to handling potential questions or concerns about violations of this Code:

- Discuss your concerns with a supervisor or other member of Company management. In the event you believe a violation of the Code, including a violation of applicable laws and/or governmental regulations, has occurred or you have become aware of conduct that may be contrary to the Code, you should discuss the situation with your manager or supervisor. Supervisor or managers who receive any report of a suspected violation must report the matter to the Ethics Manager. If you have or receive notice of a complaint or concern regarding Zhone's financial disclosure, accounting practices, internal accounting controls, auditing, or questionable accounting or auditing matters, you **must** immediately advise your supervisor. If it would be inappropriate to discuss the issue with your supervisor, or if you would be more comfortable discussing the situation with the Ethics Manager, you may report directly to the Ethics Manager, the Chairman of the Audit Committee, or anonymously pursuant to our confidential reporting procedures. Our confidential reporting procedures are set forth in our Policy For Reporting Violations and Complaints that has been provided to all employees, and is included in our Employee Handbook.
- Use common sense and good judgment; Act in good faith. You should become familiar with and to understand the requirements of the Code. If you become aware of a suspected violation, don't try to investigate it or resolve it on your own. Allegations of violations of the Code are not taken lightly and should not be made to embarrass someone or put him or her in a false light. Reports of suspected violations should always be made in good faith.
- Internal investigation. We will investigate all allegations of violation of this Code made in good faith in accordance with the procedures set forth below, and expect you to cooperate in any such internal investigation.
- No fear of retaliation. It is our policy that there be no intentional retaliation against any person who provides truthful information to a Company or law enforcement official concerning a possible violation of any law, regulation or Company policy, including this Code. Persons who retaliate may be subject to civil, criminal and administrative penalties, as well as disciplinary action, up to and including termination of employment. In cases in which you report a suspected violation in good faith and are not engaged in the

questionable conduct, we will attempt to keep our discussions with you confidential to the greatest extent possible. In the course of our investigation, we may find it necessary to share information with others on a “need to know” basis. No retaliation shall be taken against you for reporting alleged violations while acting in good faith.

9. Compliance Procedures

We have established this Code as part of our overall policies and procedures. To the extent that other Company policies and procedures conflict with this Code, you should follow this Code. The Code applies to all Company directors and Company employees, including all officers, in all locations. We will ensure that employees may access the Code on Zhone’s internal website and each employee shall be provided with a hard copy of the Code. From time to time, we will sponsor employee training programs in which the Code and other Company policies and procedures will be discussed. Zhone shall maintain a record of all incidents reported as violations of the Code, and the Audit Committee will be provided with periodic reports summarizing all communications expressing complaints or concerns about violations or potential violations of the Code received.

- **Monitoring.** The Ethics Manager shall be responsible for reviewing the Code with all of Zhone’s managers. In turn, Zhone’s managers with supervisory responsibilities should review the Code with his/her direct reports. Managers will work with the Ethics Manager in assessing areas of concern, potential violations, and overall compliance with the Code and other related policies.
- **Internal Investigation.** When an alleged violation of the Code is reported, Zhone shall take prompt and appropriate action in accordance with the law and regulations and otherwise consistent with good business practice. If the suspected violation appears to involve either a possible violation of law or an issue of significant corporate interest, including complaints or concerns regarding Zhone’s financial disclosures, internal accounting controls, questionable auditing or accounting matter or practices, then the manager or investigator should immediately notify the Ethics Manager, who, in turn, shall if appropriate, notify the Chairman of the Audit Committee. The Ethics Manager or other senior officer of Zhone, as applicable, shall assess the situation and determine an appropriate course of action. If a suspected violation involves any director or executive officer or if the suspected violation concerns any fraud involving management or other employees who have a significant role in Zhone’s internal controls, any person who received such report should immediately report the alleged violation to the Ethics Manager, if appropriate, the Chief Executive Officer and/or Chief Financial Officer, or the Chairman of the Audit Committee. At a point in the process consistent with the need not to compromise the investigation, a person who is suspected of a violation shall be apprised of the alleged violation and shall have an opportunity to provide a response to the investigator.
- **Disciplinary Actions.** The Ethics Manager, after appropriate consultation, shall be responsible for implementing the appropriate disciplinary action in accordance with Zhone’s policies and procedures for any employee who is found to have violated the Code. The Audit Committee shall be responsible for determining appropriate disciplinary action for any officer or director who is found to have violated the Code. Any employee engaged in the exercise of substantial discretionary authority, including any senior officer, who is found to have engaged in a violation of law or unethical conduct in connection with the performance of his or her duties for Zhone, shall be removed from his or her position and not assigned to any other position involving the exercise of substantial discretionary authority.¹ In addition to imposing discipline upon employees involved in non-compliant conduct, Zhone shall impose discipline, as appropriate, upon an employee’s supervisor, if any, who directs or approves such employees’ improper actions or is aware of those actions but does not act appropriately to correct them, and upon other individuals who fail to report known non-compliant conduct. Disciplinary action may include the termination of the employee’s employment, and violations of law may be brought to the attention of appropriate law enforcement personnel.

¹ Zhone will exercise due diligence when hiring and promoting all employees, and, in particular, when conducting an employment search for a position involving the exercise of substantial discretionary authority, such as a member of the executive team, a senior management position or an employee with financial management responsibilities. Zhone will make reasonable inquiries into the background of each individual who is a candidate for such a position. All such inquiries will be made in accordance with applicable law and good business practice.

- Remedial Action. In the event of a violation of the Code, the Ethics Manager or the Chairman of the Audit Committee, as applicable, should assess the situation to determine whether the violation demonstrates a problem that requires remedial action as to Company policies and procedures. Such remedial action may include retraining Company employees, modifying Company policies and procedures, improving monitoring of compliance under existing procedures and other action necessary to detect similar non-compliant conduct and prevent it from occurring in the future. Such corrective action shall be documented, as appropriate.

10. Publication of the Code of Conduct and Ethics; Amendments and Waivers of the Code of Conduct and Ethics

The most current version of this Code will be posted and maintained on Zhone's website.

Any material amendment or any waiver of this Code for executive officers or directors may be made only after approval by the Board of Directors or the audit committee. Amendments or waivers will be promptly disclosed to shareholders in accordance with the requirements of applicable laws and regulatory requirements.