

Avaya Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited; Dollars and Shares in Millions, except per share amounts)

	For the three months ended	
	December 31,	
	2006	2005
REVENUE		
Sales of products	\$ 619	\$ 591
Services	509	504
Rental and managed services	152	154
	<u>1,280</u>	<u>1,249</u>
COST		
Sales of products	289	277
Services	324	322
Rental and managed services	68	61
	<u>681</u>	<u>660</u>
GROSS MARGIN	<u>599</u>	<u>589</u>
OPERATING EXPENSES		
Selling, general and administrative	389	385
Research and development	114	97
Restructuring charges, net	6	-
TOTAL OPERATING EXPENSES	<u>509</u>	<u>482</u>
OPERATING INCOME	90	107
Other income, net	6	5
Interest expense	-	(1)
INCOME BEFORE INCOME TAXES	96	111
Provision for income taxes	25	40
NET INCOME	<u>\$ 71</u>	<u>\$ 71</u>
EARNINGS PER SHARE - BASIC	<u>\$ 0.16</u>	<u>\$ 0.15</u>
EARNINGS PER SHARE - DILUTED	<u>\$ 0.15</u>	<u>\$ 0.15</u>
Weighted Average Shares Outstanding - Basic	454	471
Weighted Average Shares Outstanding - Diluted	459	478

Avaya Inc. and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2006 and September 30, 2006
(Unaudited; Dollars in Millions, except per share amounts)

	December 31, 2006	September 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 895	\$ 899
Accounts receivable less allowances of \$55 and \$57 as of December 31, 2006 and September 30, 2006, respectively	854	871
Inventory	293	285
Deferred tax asset, net	148	153
Other current assets	175	151
TOTAL CURRENT ASSETS	2,365	2,359
Property, plant and equipment, net	656	668
Deferred income taxes, net	776	787
Intangible assets (a)	262	263
Goodwill (b)	975	941
Other assets	192	182
TOTAL ASSETS	\$ 5,226	\$ 5,200
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 371	\$ 418
Payroll and benefit obligations	298	348
Deferred revenue	281	286
Other current liabilities	346	335
TOTAL CURRENT LIABILITIES	1,296	1,387
Benefit obligations	1,351	1,350
Deferred income taxes, net	75	77
Other liabilities	262	300
TOTAL NON-CURRENT LIABILITIES	1,688	1,727
Commitments and contingencies		
STOCKHOLDERS' EQUITY		
Series A junior participating preferred stock, par value \$1.00 per share, 7.5 million shares authorized; none issued and outstanding	-	-
Common stock, par value \$0.01 per share, 1.5 billion shares authorized, 455,509,808 and 452,203,778 issued (including 562,341 and 461,429 treasury shares) as of December 31, 2006 and September 30, 2006, respectively	5	5
Additional paid-in capital	2,671	2,637
Retained earnings	219	148
Accumulated other comprehensive loss	(646)	(698)
Less treasury stock at cost	(7)	(6)
TOTAL STOCKHOLDERS' EQUITY	2,242	2,086
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 5,226	\$ 5,200

Notes to the Balance Sheets:

- (a) Intangible assets include \$187 million related to Tenovis, \$26 million related to Spectel, \$6 million related to Nimcat and \$3 million related to Traverse as of December 31, 2006.
- (b) Goodwill includes \$611 million related to Tenovis, \$64 million related to Spectel, \$26 million related to Nimcat and \$8 million related to Traverse as of December 31, 2006.

Avaya Inc. and Subsidiaries
Operating Segments
Revenue and Operating Income
Quarterly Trend
(Unaudited; Dollars in Millions)

REVENUE

	For the Fiscal Year Ended September 30, 2006					For the Fiscal Year Ended September 30, 2007				
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD
Global Communications Solutions	\$ 661	\$ 661	\$ 704	\$ 760	\$ 2,786	\$ 682				\$ 682
Avaya Global Services	588	577	593	604	2,362	598				598
Corporate	-	-	-	-	-	-				-
Total Avaya	<u>\$ 1,249</u>	<u>\$ 1,238</u>	<u>\$ 1,297</u>	<u>\$ 1,364</u>	<u>\$ 5,148</u>	<u>\$ 1,280</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,280</u>

OPERATING INCOME

	For the Fiscal Year Ended September 30, 2006					For the Fiscal Year Ended September 30, 2007				
	Q1	Q2	Q3	Q4	YTD	Q1	Q2	Q3	Q4	YTD
Global Communications Solutions	\$ 43	\$ 32	\$ 36	\$ 86	\$ 197	\$ 22				\$ 22
Avaya Global Services	60	41	34	36	171	53				53
Corporate: (A)	4	(20)	(42)	(47)	(105)	15				15
Total Avaya	<u>\$ 107</u>	<u>\$ 53</u>	<u>\$ 28</u>	<u>\$ 75</u>	<u>\$ 263</u>	<u>\$ 90</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 90</u>

(A) The segments are managed as two individual businesses and, as a result, include certain allocated costs and expenses of shared services, such as information technology, human resources, legal and finance. At the beginning of each fiscal year, the amount of certain corporate overhead expenses, including targeted annual incentive awards, to be charged to operating segments is determined and fixed for the entire year in the annual plan. The annual incentive award accrual is adjusted quarterly based on actual year to date results and those estimated for the remainder of the year. This adjustment of the annual incentive award accrual, as well as any other over/under absorption of corporate overheads against plan is recorded and reported within the Corporate caption. In addition, certain discrete items, such as charges related to restructuring actions, are not allocated to the operating segments and remain within Corporate.

Avaya Inc. and Subsidiaries
Condensed Statements of Cash Flows
For the Three Months Ended December 31, 2006 and 2005
(Unaudited; Dollars in Millions)

	<u>For the three months ended December 31, 2006</u>	<u>For the three months ended December 31, 2005</u>
Net cash provided by operating activities	\$ 17	\$ 106
Net cash (used in) investing activities	(53) (a)	(42) (a)
Net cash provided by (used in) financing activities	20	(84) (b)
Effect of exchange rate changes on cash and cash equivalents	<u>12</u>	<u>(4)</u>
Net (decrease) in cash and cash equivalents	(4)	(24)
Cash and cash equivalents at beginning of the quarter	<u>899</u>	<u>750</u>
Cash and cash equivalents at end of the quarter	<u>\$ 895</u>	<u>\$ 726</u>

(a) Includes capital expenditures of \$20 and \$26 and capitalized software development costs of \$19 and \$18 for the three months ended December 31, 2006 and 2005, respectively. The three months ended December 31, 2006 also include \$15 million used for the acquisition of Traverse Networks.

(b) Includes \$90 related to the repurchase of our common stock for the three months ended December 31, 2005.

Avaya Inc. and Subsidiaries
Supplemental Revenue Tables
(Unaudited, Dollars in Millions)

Revenue by Geography

1Q06	2Q06	3Q06	4Q06	<i>Dollars in millions</i>	First Fiscal Quarter				Change	
					2007	2006	Mix			
					2007	2006	2007	2006		
\$ 734	\$ 719	\$ 753	\$ 788	U.S.	\$ 732	\$ 734	57%	59%	\$ (2)	-0.3%
				Outside the U.S.:						
364	356	387	391	EMEA - Europe/Middle East/Africa	389	364	30%	29%	25	6.9%
87	99	87	110	APAC - Asia Pacific	88	87	7%	7%	1	1.1%
64	64	70	75	Americas, non-U.S.	71	64	6%	5%	7	10.9%
515	519	544	576	Total outside the U.S.	548	515	43%	41%	33	6.4%
\$ 1,249	\$ 1,238	\$ 1,297	\$ 1,364	Total revenue	\$ 1,280	\$ 1,249	100%	100%	\$ 31	2.5%

Revenue by Type

1Q06	2Q06	3Q06	4Q06	<i>Dollars in millions</i>	First Fiscal Quarter				Change	
					2007	2006	Mix			
					2007	2006	2007	2006		
\$ 591	\$ 593	\$ 636	\$ 690	Sales of products	\$ 619	\$ 591	48%	47%	\$ 28	4.7%
504	492	507	514	Services (b)	509	504	40%	40%	5	1.0%
154	153	154	160	Rental and managed services (a), (b)	152	154	12%	13%	(2)	-1.3%
\$ 1,249	\$ 1,238	\$ 1,297	\$ 1,364	Total revenue	\$ 1,280	\$ 1,249	100%	100%	\$ 31	2.5%

Sales of Products by Channel

1Q06	2Q06	3Q06	4Q06	<i>Dollars in millions</i>	First Fiscal Quarter				Change	
					2007	2006	Mix			
					2007	2006	2007	2006		
\$ 268	\$ 250	\$ 277	\$ 302	Direct (b)	\$ 259	\$ 268	42%	45%	\$ (9)	-3.4%
323	343	359	388	Indirect (b)	360	323	58%	55%	37	11.5%
\$ 591	\$ 593	\$ 636	\$ 690	Total sales of products	\$ 619	\$ 591	100%	100%	\$ 28	4.7%

(a) The services portion falls within the global managed services line in the AGS Revenue by Class chart and the product portion is spread among the applicable line items in the GCS Revenue by Class chart.

(b) Prior year revenue amounts have been reclassified to conform to current interim period presentation.

Avaya Inc. and Subsidiaries
Supplemental Revenue Tables
(Unaudited, Dollars in Millions)

GCS Revenue by Class

1Q06	2Q06	3Q06	4Q06	<i>Dollars in millions</i>	First Fiscal Quarter				Change	
					2007	2006	Mix			
					2007	2006	2007	2006		
\$ 413	\$ 414	\$ 455	\$ 483	Large Communications Systems	\$ 435	\$ 413	64%	63%	\$ 22	5.3%
88	94	92	96	Small Communications Systems	85	88	12%	13%	(3)	-3.4%
151	141	144	169	Converged Voice Applications	151	151	22%	23%	-	0.0%
9	12	13	12	Other	11	9	2%	1%	2	22.2%
<u>\$ 661</u>	<u>\$ 661</u>	<u>\$ 704</u>	<u>\$ 760</u>	Total revenue - GCS	<u>\$ 682</u>	<u>\$ 661</u>	<u>100%</u>	<u>100%</u>	<u>\$ 21</u>	<u>3.2%</u>

AGS Revenue by Class

1Q06	2Q06	3Q06	4Q06	<i>Dollars in millions</i>	First Fiscal Quarter				Change	
					2007	2006	Mix			
					2007	2006	2007	2006		
\$ 412	\$ 401	\$ 402	\$ 404	Product Support Services (c)	\$ 411	\$ 412	69%	70%	\$ (1)	-0.2%
95	89	106	111	Consulting and Systems Integration (c)	98	95	16%	16%	3	3.2%
81	86	84	89	Global Managed Services (c)	89	81	15%	14%	8	9.9%
-	1	1	-	Services - Other (c)	-	-	0%	0%	-	0.0%
<u>\$ 588</u>	<u>\$ 577</u>	<u>\$ 593</u>	<u>\$ 604</u>	Total revenue - AGS	<u>\$ 598</u>	<u>\$ 588</u>	<u>100%</u>	<u>100%</u>	<u>\$ 10</u>	<u>1.7%</u>

(a) The services portion falls within the global managed services line in the AGS Revenue by Class chart and the product portion is spread among the applicable line items in the GCS Revenue by Class chart.

(b) Prior year revenue amounts have been reclassified to conform to current interim period presentation.

(c) Revenue amounts for AGS classes have been reclassified as a result of a change in the management within the AGS segment

Avaya Inc. and Subsidiaries
Reconciliation of Non-GAAP Financial Measures
(Unaudited; Dollars and Shares in Millions, except per share amounts)

Operating Income:

GAAP Operating Income
GAAP Operating Margin

Item Included in Operating Income:

Business restructuring charges

Non-GAAP Operating Income

Non-GAAP Operating Margin (Non-GAAP Operating Income / Revenue)

For the three months ended December 31, 2006	
\$	90
	7.0%
	(6)
\$	96
	7.5%

Net Income:

GAAP Net Income

Items Included in Net Income:

Business restructuring charges, after tax

Net favorable tax items included in provision for income taxes

Items Included in Net Income

Non-GAAP Net Income

Diluted Shares

Non-GAAP Diluted EPS (Non-GAAP Net Income / Diluted Shares)

GAAP Diluted EPS

For the three months ended December 31, 2006	
\$	71
	(3)
	13
	10
\$	61
	459
\$	0.13
\$	0.15

The Company had previously reported a pre-tax adjustment in the first quarter of fiscal 2006 of \$21 million (\$13 million after tax), or 3 cents per diluted share, related to the reversal of a portion of its vacation liability. This adjustment was reported in the table entitled "Certain Items Included in Reported Results That May Affect Comparability" in the Company's press release and Form 8-K dated October 24, 2006, which set forth all of the Company's non-GAAP adjustments for the 2006 and 2005 fiscal years. Management has re-evaluated its use of non-GAAP financial measures and the appropriateness of inclusion of various items within those measures and is removing the reversal of a portion of the vacation liability from its calculation of the Company's non-GAAP measures. Other than this adjustment, the Company did not have any non-GAAP adjustments to report in the first quarter of fiscal 2006, and therefore a comparative period is not shown in the table above.