

Separation Agreement

As previously announced, on July 24, 2006 Donald K. Peterson stepped down as President and Chief Executive Officer of Avaya Inc. (the "Company"). Effective as of that date, the Company and Mr. Peterson executed a Separation Agreement and General Release (the "Agreement") outlining the terms and conditions regarding his termination of employment. Mr. Peterson shall remain Chairman of the Board of Directors through September 30, 2006.

Pursuant to the Agreement, Mr. Peterson will continue service as a non-executive employee of the Company for a transition period (the "Transition Period") from July 24, 2006 through and including December 31, 2006 (the "Separation Date"). As compensation for his services during the Transition Period, the Company has agreed:

- (i) to continue to pay Mr. Peterson at his current rate of base salary through September 30, 2006 and to pay Mr. Peterson an aggregate of \$150,000 for the period from October 1, 2006 through the Separation Date, payable in 3 equal monthly installments;
- (ii) to pay Mr. Peterson an aggregate of \$4,230,000 (less applicable federal, state and local withholding taxes and other appropriate deductions) on the last business day prior to December 31, 2006;
- (iii) to continue Mr. Peterson's eligibility to receive a bonus for fiscal 2006 in accordance with the terms of the Company's Short Term Incentive Plan;
- (iv) to provide Mr. Peterson with continued coverage under the Company's group health, vision and dental plans for a period of six months following the Separation Date;
- (v) to provide Mr. Peterson with (i) financial counseling services for three months following the Separation Date and (ii) outplacement services suitable to his position for a period of one year following the Separation Date;
- (vi) to pay Mr. Peterson \$240,000 (less all applicable federal, state and local withholding taxes and other appropriate deductions) to offset his cost of purchasing post-employment medical coverage for himself and his spouse; and
- (vii) effective as of the Separation Date, to accelerate the vesting of 45,489 restricted stock units granted to Mr. Peterson on October 27, 2005 (the remainder of Mr. Peterson's outstanding unvested restricted stock units and stock options and vested but unexercised stock options shall continue to be governed by the terms and conditions of the plans under which they were granted).

In addition, during the Transition Period, Mr. Peterson shall continue to be entitled to participate in all employee benefit plans to which he was participating as of July 24, 2006. Moreover, during that time period, he will be entitled to the following: certain business related transportation; secretarial assistance; an office for use in a Company facility; and home security services.

Under the terms of the Agreement, Mr. Peterson has agreed:

- (i) to refrain from using, misappropriating or disclosing the Company's proprietary information; and
- (ii) that, through December 31, 2007, he will not, directly or indirectly, engage in certain competitive activities or solicit any of the Company's employees or customers.