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**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK**

)		
In re:))	Chapter 11
))	
AVAYA INC., <i>et al.</i> ¹))	Case No. 17-10089 (SMB)
))	
Debtors.))	(Jointly Administered)
))	

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor's federal tax identification number, include: Avaya Inc. (3430); Avaya CALA Inc. (9365); Avaya EMEA Ltd. (9361); Avaya Federal Solutions, Inc. (4392); Avaya Holdings Corp. (9726); Avaya Holdings LLC (6959); Avaya Holdings Two, LLC (3240); Avaya Integrated Cabinet Solutions Inc. (9449); Avaya Management Services Inc. (9358); Avaya Services Inc. (9687); Avaya World Services Inc. (9364); Octel Communications LLC (5700); Sierra Asia Pacific Inc. (9362); Sierra Communication International LLC (9828); Technology Corporation of America, Inc. (9022); Ubiquity Software Corporation (6232); VPNet Technologies, Inc. (1193); and Zang, Inc. (7229). The location of Debtor Avaya Inc.'s corporate headquarters and the Debtors' service address is: 4655 Great America Parkway, Santa Clara, CA 95054.

**SUPPLEMENTAL DECLARATION OF
ERIC KOZA IN SUPPORT OF THE DEBTORS' KEIP MOTION**

Pursuant to 28 U.S.C. § 1746, I, Eric Koza, hereby declare as follows under penalty of perjury that the following is true and correct to the best of my knowledge, information, and belief:²

1. My background and qualifications are set forth in the First Day Declaration [Docket No. 22], and I submit this supplemental declaration (this "Supplemental Declaration") in further support of the relief requested by the Debtors pursuant to the KEIP Motion. Except as otherwise indicated herein, all facts set forth in this Supplemental Declaration are based upon my personal knowledge, discussions with members of the Debtors' management team and the Debtors' advisors, review of relevant documents and information concerning the Debtors' operations, financial affairs, and restructuring initiatives, or represent my opinions and beliefs based upon my professional experience and knowledge of the Debtors and their operations. If I were called upon to testify, I could and would testify competently to the facts set forth herein on that basis. I am authorized to submit this Supplemental Declaration on behalf of the Debtors.

2. I am also submitting this Supplemental Declaration in response to a request by the United States Trustee (the "U.S. Trustee") following an in-person meeting among the U.S. Trustee, the Assistant U.S. Trustee and their counsel, myself, members of my team, and the Debtors' counsel regarding the relief requested by the KEIP Motion. To the greatest extent reasonably possible without disclosing commercially sensitive and other confidential

² Capitalized terms used but not immediately defined herein have the meanings given to them in the *Debtors' Motion Seeking Entry of an Order (I) Approving the Debtors' 2Q 2017 Key Employee Incentive Program and (II) Granting Related Relief* [Docket No. 192] (the "KEIP Motion"), the *Declaration of Eric Koza in Support of Debtors' Motion Seeking Entry of an Order (I) Approving the Debtors' 2Q 2017 Key Employee Incentive Program and (II) Granting Related Relief* [Docket No. 192, Ex. C] (the "Koza KEIP Declaration"), the *Debtors' Omnibus Reply to Objections and in Further Support of the Debtors' KEIP Motion* [Docket No. 330] (the "KEIP Reply"), or elsewhere in this Declaration, as applicable.

information, this Supplemental Declaration provides the substance of the information discussed at that meeting for the Court's benefit and to supplement the record with respect to the relief sought by the Debtors' KEIP Motion. It is also my understanding that, based on the record set forth in the KEIP Motion, my prior declaration in support of the KEIP Motion, and the additional testimony provided herein, the U.S. Trustee's objection with respect to the KEIP Motion will have been resolved.

Supplemental Declaration

I. Setting the KEIP Metrics.

3. In the ordinary course of business, the Debtors' management team provides regular updates to the Debtors' Board of Directors regarding, among other things, the projected, enterprise-wide financial performance for a given period of time. During the first quarter of the Debtors' fiscal 2017 (ended December 31, 2016) and continuing thereafter, the frequency of such updates increased as the Debtors' management team and advisors explored various restructuring alternatives. In the latter part of the same period, the Debtors' management team faced a spike in operational challenges resulting in large part from increased public scrutiny on the Debtors' liquidity and balance sheet, including a November 2016 *Wall Street Journal* article regarding a potential chapter 11 filing.

4. On January 13, 2017, the Debtors' management team presented a financial outlook for the second quarter of fiscal 2017 to the Board. At that time, and prior to the Petition Date, the management team projected ranges of \$770–\$810 million and \$170–\$205 million in quarterly revenue and Adjusted EBITDA, respectively.

5. Importantly, the quarterly revenue and Adjusted EBITDA ranges presented to the Board in early January did not assume a "free fall" chapter 11 filing of uncertain duration. Instead, the Debtors' financial outlook at that time assumed a normalized operating environment,

as opposed to the substantial chilling effect that occurred due to the commencement of these chapter 11 cases. Those projections, in turn, formed the basis for the KEIP's Performance Goals of \$170 million in Threshold Adjusted EBITDA and \$205 million in Target Adjusted EBITDA, which were approved by the Compensation Committee of the Board on February 21, 2017.

II. Operational Headwinds, the Avaya Business Plan, and Timeline of KEIP-Related Events.

6. The Debtors did not ultimately enter chapter 11 with a consensual restructuring deal in hand, although the Debtors continue in their efforts to build support for such a solution. Following their January 19, 2017 chapter 11 filing, and as detailed more fully in the KEIP Motion, KEIP Reply, and my prior testimony in support of the KEIP Motion, the Debtors have encountered much stronger operational headwinds than had been contemplated prior to the filing in connection with the consensual, short-termed scenario on which their pre-bankruptcy financial projections had been predicated. For example:

- in February 2017, a leading tech industry research and advisory firm published a report that advised the Debtors' existing and potential customers to:
 - attempt to negotiate shorter-termed maintenance renewal contracts with the Debtors—e.g., 12 months rather than 36 months;
 - delay, to the greatest extent possible, major upgrade and expansion projects that would require products and services from the Debtors; and
 - limit exposure by using the Debtors' existing products and services—rather than acquiring new platforms—for necessary upgrades and expansions;
- the Debtors' competitors have launched public and private campaigns to lure away the Debtors' existing and potential customers, as illustrated by the examples provided at Exhibit D to the KEIP Motion;
- the Debtors' ability to implement necessary operational-restructuring measures has been delayed by timing and process impediments caused by the chapter 11 filing; and

- certain of the Debtors' channel partners and distributors have mitigated their exposure to the Debtors by reducing dedicated Avaya sales personnel and inventory—the Debtors have observed a strong correlation between such reductions and the execution of their balance-sheet restructuring via these chapter 11 cases.

7. Against this backdrop, in early February 2017, my team and I, along with the management team, out to formulate an updated, enterprise-wide business plan (the "Avaya Business Plan" or "ABP") that reflected the changes in landscape since the Debtors' financial projections were presented prior to their chapter 11 filing. During February, myself, the Debtors management team, and the Debtors' advisors analyzed near real-time data to accurately project the Debtors' financial performance in light of the operational strains caused by the chapter 11 filing. Importantly, during the course of developing the ABP, I directly observed and analyzed data that reflected the Debtors' operational challenges. For example, certain key intra-quarter revenue indicators for the second quarter of fiscal 2017, such as the sales funnel, were down as much as 30% versus the same period in fiscal 2016. Nevertheless, the management team and I agreed that a second quarter revenue target of approximately \$780 million was a reasonable—albeit challenging—target.

8. On March 3, 2017, two days after the KEIP Motion was filed, and 10 days after the KEIP was approved by the Compensation Committee, the ABP was completed and presented to the Board. At that time, the Debtors' projected quarterly revenue and Adjusted EBITDA for the second quarter was approximately \$780 million and approximately \$170 million, respectively. For reference, a graphical depiction of the foregoing timeline is attached hereto as Exhibit A.

III. The Debtors' Typical Quarterly Performance and Second Quarter Monthly Results.

9. As discussed in the KEIP Reply, the Debtors' quarterly financial performance is heavily weighted to the last month in a given quarter. Historically, approximately 45–50% of

quarterly revenues are recorded in the third month of a given quarter. The same is true for the second quarter of fiscal 2017: As of March 1—the date the KEIP Motion was filed—the Debtors had recorded approximately \$420 million of revenues, leaving approximately \$360 million “left to get” to achieve the baseline revenue necessary to support their \$170 million Threshold Adjusted EBITDA. Importantly, while the Debtors are generally aware that a substantial portion of their Adjusted EBITDA is generated in the last month of a given quarter, due to customary lags between sales generation and internal financial reporting, the Debtors’ management team did not know the quarter-to-date Adjusted EBITDA when the KEIP Motion was filed on March 1. Indeed, the filing of the KEIP Motion was strategically timed to drive outperformance by the Debtors’ management team to hit the revised projections established under the Avaya Business Plan.

IV. Management Initiatives and Second Quarter Estimated Results.

10. With the foregoing in mind, the Debtors’ management team aggressively pursued a laundry list of initiatives designed to enhance performance across the enterprise. For example, in response to concerns expressed by the Debtors’ partners and distributors regarding these chapter 11 cases and the Debtors’ long-term viability, the Debtors have implemented certain programs designed to retain and increase loyalty and incentivize partners and distributors to “push” Avaya products to their customers. The Debtors have also engaged with their customers directly to solicit feedback and promote awareness of the chapter 11 process. The Debtors have also established revenue war rooms designed to stabilize and grow all aspects of product and services revenues, including targeted renewal opportunities and specific geographic initiatives. And the Debtors have continued their focus, which began prepetition, on greater customer-centric alignment and processes aimed at enhancing efficiencies across their suite of products and services.

11. The management team’s efforts generate results: preliminary indications from the Debtors’ sales team yield a second quarter revenue range of approximately \$800–\$803 million, resulting in an Adjusted EBITDA range of \$195–\$200 million.³ To be clear, as of the date hereof, the Debtors have not closed their books for the second quarter. Thus, the ranges set forth above are preliminary and based on information available as of the date hereof. The Debtors’ actual results for the second quarter of fiscal 2017 may differ materially and will be reported via an earnings release in the ordinary course. Nevertheless, based on available information as of the date hereof, the Debtors believe that they will likely achieve the Threshold Adjusted EBITDA—but not the Target Adjusted EBITDA—under the KEIP and thus, if approved, awards will be payable to the KEIP Participants.

V. Inclusion of Employees Subject to the Court’s Pending Ruling on the Wages Motion in the KEIP Is Incentivizing and Justified by the Facts and Circumstances of these Chapter 11 Cases.

12. I understand that, on March 3, 2017, the Court took under advisement the question of whether the Debtors’ (a) Corporate Secretary, (b) Corporate Controller & Chief Accounting Officer,⁴ and (c) Corporate Treasurer are each “insiders” and, therefore, ineligible for certain of the relief sought by the Debtors’ Wages Motion. I also understand the Debtors have requested that, if the Court rules that one or more of such individuals are “insiders,” such individuals be deemed KEIP Participants for purposes of the Debtors’ proposed KEIP.

³ The revenue and Adjusted EBITDA ranges set forth herein were estimated based on information available as of April 11, 2017.

⁴ As set forth more fully in the KEIP Reply and the Debtors’ supplement filed with the Court at [Docket No. 331], the Debtors’ Corporate Controller and Chief Accounting Officer is presently on an extended leave of absence, with such role being filled by an Interim Corporate Controller and Chief Accounting Officer. The Debtors’ Interim Corporate Controller and Chief Accounting Officer, like the Debtors’ Corporate Controller and Chief Accounting Officer, was appointed by the Debtors’ Board of Directors. The “insider” status of that interim appointee and eligibility for any final relief granted with respect to the Wages Order will be subject to the Court’s ultimate adjudication of that issue.

13. I believe the Debtors' request in this regard is justified on the record here and should be approved. The Debtors' proposed KEIP is equally incentivizing for both the original KEIP Participants and the potential additional participants. As set forth more fully in my declaration in support of the KEIP Motion, based on my expertise and experience, and as further supplemented herein, the Adjusted EBITDA metrics fixed by the proposed KEIP set "stretch goals," rather than easy-to-achieve milestones.

14. Further, and as detailed in the Debtors' Wages Motion, the Debtors' non-insider incentive programs also include a performance-based quarterly bonus program tied to the achievement of defined Adjusted EBITDA targets.⁵ The performance goals with respect to non-insider performance are the same Adjusted EBITDA Performance Goals proposed in connection with the relief requested for the KEIP Motion. Thus, the three individuals in question have, like the 'original' KEIP Participants been working towards achievement of the same stretch goals contemplated by the KEIP from the beginning. As a result, I further believe the Debtors' proposed KEIP and related Performance Goals has had the effect of incentivizing the original KEIP Participants and those individual whose "insider" status remains subject to ongoing review by the Court. Accordingly, I believe the Debtors' proposed KEIP is equally incentivizing for the Debtors' (a) Corporate Secretary, (b) Corporate Controller & Chief Accounting Officer, and (c) Corporate Treasurer and, therefore, that such awards are justified on the record here.

15. Based on the foregoing, it is my belief that the proposed KEIP satisfies the requirements of section 503(c) of the Bankruptcy Code insofar as achievement of the Performance Goals requires an appropriate stretch from KEIP Participants and is intended to incentivize performance.

⁵ See Wages Mot. ¶¶ 43-48.

Conclusion

16. For the reasons discussed in this Supplemental Declaration, in the KEIP Motion, and in the KEIP Reply, I believe the relief requested by the Debtors' KEIP Motion is appropriate and should be approved.

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Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing statements are true and correct to the best of my knowledge, information, and belief.

Dated: April 12, 2017
New York, New York

By: /s/ Eric Koza
Name: Eric Koza
Title: Chief Restructuring Officer
Avaya Inc. et al.

Exhibit A

Timeline of KEIP-Related Events

