

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2022

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 0-30070

AUDICODES LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant's name into English)

ISRAEL

(Jurisdiction of incorporation or organization)

1 Hayarden Street, Airport City Lod 7019900, Israel

(Address of principal executive offices)

Shabtai Adlersberg, President and Chief Executive Officer, Tel: 972-3-976-4105, Fax: 972-3-9764040, 1 Hayarden Street, Airport City, Lod 7019900 Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, nominal value NIS 0.01 per share	AUDC	Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

As of December 31, 2022, the Registrant had outstanding 31,688,544 Ordinary Shares, nominal value NIS 0.01 per share.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

[Table of Contents](#)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Table of Contents

	Page
ITEM 1.	IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS
ITEM 2.	OFFER STATISTICS AND EXPECTED TIMETABLE
ITEM 3.	KEY INFORMATION
ITEM 4.	INFORMATION ON THE COMPANY
ITEM 4A.	UNRESOLVED STAFF COMMENTS
ITEM 5.	OPERATING AND FINANCIAL REVIEW AND PROSPECTS
ITEM 6.	DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES
ITEM 7.	MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS
ITEM 8.	FINANCIAL INFORMATION
ITEM 9.	THE OFFER AND LISTING
ITEM 10.	ADDITIONAL INFORMATION
ITEM 11.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
ITEM 12.	DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES
ITEM 13.	DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES
ITEM 14.	MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS
ITEM 15.	CONTROLS AND PROCEDURES
ITEM 16.	[RESERVED]
ITEM 16A.	AUDIT COMMITTEE FINANCIAL EXPERT
ITEM 16B.	CODE OF ETHICS
ITEM 16C.	PRINCIPAL ACCOUNTANT FEES AND SERVICES
ITEM 16D.	EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES
ITEM 16E.	PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS
ITEM 16F.	CHANGE IN REGISTRANT'S CERTIFIED ACCOUNTANT
ITEM 16G.	CORPORATE GOVERNANCE
ITEM 16H.	MINE SAFETY DISCLOSURE
ITEM 16I.	DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS
ITEM 17.	FINANCIAL STATEMENTS
ITEM 18.	FINANCIAL STATEMENTS
ITEM 19.	EXHIBITS

PRELIMINARY NOTE

This Annual Report contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, or the Exchange Act. These forward-looking statements can generally be identified as such because the context of the statement will include words such as may, “will,” “intends,” “plans,” “believes,” “anticipates,” “expects,” “estimates,” “predicts,” “potential,” “continue,” or “opportunity,” the negative of these words or words of similar import. Similarly, statements that describe our business outlook or future economic performance, anticipated revenues, expenses or other financial items, introductions and advancements in development of products, and plans and objectives related thereto, and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are also forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from those stated in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under Item 3.D, “Key Information – Risk Factors” of this Annual Report.

Our actual results of operations and execution of our business strategy could differ materially from those expressed in, or implied by, the forward-looking statements. In addition, past financial and/or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations and financial condition. In evaluating our forward-looking statements, you should specifically consider the risks and uncertainties set forth under Item 3.D, “Key Information – Risk Factors” of this Annual Report.

PART I

Unless the context otherwise requires, “AudioCodes,” “us,” “we” and “our” refer to AudioCodes Ltd. and its subsidiaries. Unless otherwise indicated in this Annual Report, all currency references are to U.S. dollars, or dollars.

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. [RESERVED]

B. *CAPITALIZATION AND INDEBTEDNESS*

Not applicable.

C. *REASONS FOR THE OFFER AND USE OF PROCEEDS*

Not applicable.

D. *RISK FACTORS*

We are subject to various risks and uncertainties. Many of the risks summarized and then discussed in greater detail below relate principally to our business, strategy and the industry in which we operate. Other risks relate principally to financial and economic concerns, our operations in Israel, legal, regulatory and tax considerations and ownership of our ordinary shares. We believe that the occurrence of anyone, or some combination, of the following factors could have a material and adverse effect on our business, financial condition, cash flows and results of operations.

Summary of Risk Factors

The following is a summary of some of the principal risks we face. The list below is not exhaustive and, therefore, investors should read this “Risk Factors” section in its entirety.

- Adverse macroeconomic conditions, including inflationary pressures and potential recessionary conditions, as well as actions taken by central banks and regulators across the world in an attempt to reduce, curtail and address such pressures and conditions;
- Our quarterly results of operations have fluctuated in the past and we expect these fluctuations to continue, any actual or anticipated fluctuations in our results of operations could require that we issue revised guidance, and the failure to meet the expectations of our investors or analysts could have a material and adverse impact on our share price;
- Our business will be harmed if Microsoft or our other contact center, unified communications and ALL-IP project partners abandon or fail to achieve the expected growth of solutions compatible with our products or if we are unable or unwilling to change our products when and as may be required in order to remain a certified partner;
- If our new products fail to generate anticipated demand, we will realize a lower-than-expected return from our investment in research and development;
- Rapid technological development in the communications equipment market necessitates that we effectively manage transition to the next generation of our products;
- The ongoing transition to the use of cloud-based software creates challenges for us because some of our products are intended for on-premises use;
- The increased adoption of IP networks may adversely affect the demand for media gateway products;
- New industry standards, the modification of our products to meet additional existing standards or the addition of features to our products may delay the introduction of our products or increase our costs;
- Because we sell most of our products and services to customers who function as intermediaries, such as original equipment manufacturers, or OEMs, network equipment providers, or NEPs, system integrators, carriers/service providers, resellers and distributors, rather than directly to end-users, we are heavily reliant on such intermediaries and have less control over the ultimate selection of products by end-users;
- The markets we serve are highly competitive;
- We rely on (i) third-party subcontractors to assemble, and original design manufacturers, or ODMs, to design and manufacture, some of our products, and (ii) third-party suppliers to provide us with key components on a timely basis;
- We may need additional financing to operate or grow our business;
- Uncertain economic conditions, macroeconomic changes and trade wars (such as the trade war between the U.S. and China) may adversely affect our business;
- Political, economic and military conditions in Israel directly affect our operations and we are subject to specific risks, such as (i) fluctuations in the value of the dollar against the NIS, and (ii) labor disputes and strikes, including those arising from recent governmental proposals to reform the Israeli judiciary;
- We are subject to ongoing costs and risks associated with complying with changing laws and regulations in multiple jurisdictions, including with respect to protection of our intellectual property, privacy, the use of environmentally friendly materials in our products, electronic equipment waste disposal and encryption technology;

[Table of Contents](#)

- We have a significant presence in international markets and plan to continue to expand our international operations, which exposes us to a number of risks that could affect our future growth;
- There are significant shortages of critical components that we utilize and therefore, we may not be able to manufacture sufficient quantities to keep up with market demand; and
- Our wage-related expenses in Israel have increased exponentially as a result of the ongoing shortage of skilled research and development, or R&D, employees in Israel, which is causing heightened competition to recruit new employees.

Risks Related to Our Business, Strategy and Industry

Epidemics, pandemics, global health crises, or other public health events, threats and concerns, including, but not limited to, the spread of COVID-19, could have a material adverse effect on our business, financial position, operating results and cash flows.

Epidemics, pandemics, global health crises, or other public health events, threats and concerns, including, but not limited to, the global spread of COVID-19, Ebola, the H1N1 flu virus, the Zika virus, Severe Acute Respiratory Syndrome and other highly communicable diseases, outbreaks of which have occurred fairly recently in various parts of the world in which we operate, could adversely impact our operations, the operations of our clients and the global economy, including the level of demand for our services.

In particular, a resurgence of COVID-19, including its highly contagious variants and sub-lineages, could present significant and additional challenges and risks to businesses around the world. Governmental authorities of many countries, including Israel and the United States, previously implemented, and could elect to re-implement, significant measures to control the spread (or resurgence) of COVID-19, including temporary closure of businesses, severe restrictions on travel and the movement of people, and other material limitations on the conduct of businesses. In response to the COVID-19 pandemic, we previously implemented remote working and workplace protocols for our employees in Israel in accordance with Israeli Ministry of Health requirements and similar arrangements in other countries in which we operate.

The COVID-19 pandemic disrupted supply chains and affected production and sales across a range of industries, including the industry in which we operate. While we have previously managed, and will continue to actively manage, the business in an attempt to mitigate the impacts of the COVID-19 pandemic, we cannot at this time estimate the duration or full magnitude that the COVID-19 pandemic could ultimately have on our business, results of operations and financial condition.

Governmental reactions to the COVID-19 pandemic, lockdowns, including shelter-in-place orders, and social distancing policies adopted by governments worldwide to manage the COVID-19 pandemic led to an acceleration in the adoption of work from home (Work from Home or WFH) policies and technologies, a global trend that had already been gaining momentum in the past few years. To ensure business continuity, companies and contact centers were compelled to transition their employees quickly from a physical office to a Work from Home, or WFH environment. This in turn led to increased demand for UCaaS (UC as a Service) and video conferencing solutions, such as Microsoft Teams and Zoom, as well as WFH agent solutions for contact centers. As a result of these recent trends, we have experienced an increased demand for our related products and solutions.

In response to such increased demand, we previously launched WFH promotions and solutions aimed at helping companies offer reliable and high-quality voice communications for WFH employees and contact center agents. Businesses that previously were unable to transition to WFH, or faced challenges in their implementation of WFH arrangements due to aging or inappropriate communications solutions, have begun, and will likely continue, to adopt policies and technologies to better prepare them for future foreseeable and unforeseeable events that prevent employees from working in a physical on-site office, a trend which has provided a direct benefit to our business. While we believe that more businesses may ultimately decide to transition to WFH, either fully or partially, as a continuing alternative to the manner in which they conducted their operations before the COVID-19 pandemic, any material decreases to the use of WFH could have a material and adverse effect on our business, operations and financial condition.

[Table of Contents](#)

We are continuously monitoring our own operations and have taken, and intend to continue to take, appropriate actions to mitigate the risks arising from the COVID-19 pandemic to the best of our abilities. Nevertheless, there can be no assurances that we will be successful in doing so. The ultimate magnitude and effect of the continued spread of COVID-19 globally, and the resulting social, economic and labor instability attributable to COVID-19, cannot be predicted or estimated at this time. The discovery of any new strains of COVID-19, the development, availability and effectiveness of treatments or vaccines for COVID-19, and the general resuming of widespread economic activity could materially impact our business and operations. Therefore, we can give no assurances that the spread (or any resurgence) of COVID-19 will not have a material adverse effect on our financial position or results of operations in 2023 and beyond.

To the extent the COVID-19 pandemic adversely affects our business and financial results, it may also have the effect of heightening many of the other risks described in this “Risk Factors” section, such as those relating to our ability to comply with the covenants contained in the agreements that govern our indebtedness or our ability to access additional capital should the need arise.

We have invested significant resources in developing products compatible with Microsoft Skype for Business, Microsoft Teams and related solutions of our other partners. If Microsoft or our other contact center, unified communications and ALL-IP project partners, such as Genesys, Zoom, Avaya or the BroadSoft division of Cisco, abandon their solutions compatible with our products, decide to promote products of our competitors instead of our own products (including as a result of acquiring one of our competitors), become unwilling to continue to recognize AudioCodes as a partner or fail to achieve the expected growth of solutions compatible with our products, our results of operations will be adversely affected.

We have invested significant resources in complying with Microsoft’s requirements for the purpose of becoming a Microsoft recognized partner for their unified communication solutions for the enterprise market, which are known as Microsoft Skype for Business (formerly known as Microsoft Lync) and Microsoft Teams. We have adapted some of our gateway products, IP phones, session border controllers, survivable branch applications, value added applications and professional services to operate in the Skype for Business and Teams environments. We believe that recognition as a Microsoft partner and having our products certified by Microsoft, when such a certification program exists, enhances our access to and visibility in markets relevant to our products. We depend on users of Skype for Business and Teams selecting our compatible products and purchasing them. If Microsoft abandons or significantly changes Skype for Business and Teams, decides to promote our competitors’ products instead of ours (including as a result of an acquisition of one of our competitors), becomes unwilling to continue to recognize AudioCodes as a Skype for Business and Teams partner or fails to achieve the expected growth of Skype for Business or Teams, our results of operations will be adversely affected.

Similarly, we have invested in the development of products and capabilities and achieving certifications for the solutions of other partners of ours, such as Genesys and Avaya contact centers, Zoom phone or BroadSoft’s BroadWorks and BroadCloud (acquired by Cisco). If those partners decide to promote products of our competitors instead of our products, are unwilling to continue to recognize AudioCodes as a partner or fail to achieve the expected growth of solutions compatible with our products, our results of operations may be adversely affected.

If new products we introduce or expect to introduce in the future fail to generate the level of demand we anticipated, we will realize a lower-than-expected return from our investment in research and development with respect to those products, and our results of operations may suffer.

Our success is dependent, in part, on the willingness of our customers to transition or migrate to new products, such as our (i) expanded offering of cloud session border controller products, (ii) multi-service business routers, or MSBRs, (iii) IP phones and meeting room solutions, (iv) management, (v) analytics and Voice.AI software solutions and value-added application products, (vi) services or (vii) expected future products. We continually evaluate and assess changing market demands and customer requirements in order to develop and introduce new products, features and applications to meet changing demands and requirements. We need to interpret market trends and the advancement of technology in order to successfully develop and introduce new products, features and applications. If potential customers defer transition or migration to new products, our return on our investment in research and development with respect to products recently introduced or expected to be introduced in the near future will be lower than we originally anticipated and our results of operations may suffer.

Because of the rapid technological development in the communications equipment market and the intense competition we face, our products can become outmoded or obsolete in a relatively short period of time, which requires us to provide frequent updates and/or replacements to existing products. If we do not successfully manage the transition process to the next generation of our products, our operating results may be harmed.

The communications equipment market is characterized by rapid technological innovation and intense competition. Accordingly, our success depends in part on our ability to enhance our existing products and develop next generation products and product features in a timely and cost-effective manner. The development of new products is expensive, complex and time-consuming. If we do not rapidly develop our next generation products ahead of our competitors and address the increasingly sophisticated needs of our customers, we may lose both existing and potential customers to our competitors. Further, if a competitor develops a new, less expensive product using a different technological approach to delivering informational services over existing networks, our products would no longer be competitive. Conversely, even if we are successful in rapidly developing new products ahead of our competitors, if we do not cost-effectively manage our inventory levels of existing products when making the transition to new products, our financial results could be negatively affected by write-offs as a result of high levels of obsolete inventory. If any of the foregoing were to occur, our operating results would be harmed.

The increased adoption of IP networks may adversely affect the demand for media gateway products.

Media gateway products are primarily intended to transmit voice from traditional telephony networks to IP networks and vice versa. Along with the growth and adoption of IP networks, there has been an increase in the amount of information that is sent directly from one IP network to another IP network. This direct network communication potentially obviates the need to use a media gateway. A reduction in the demand for media gateways may adversely affect the demand for our media gateway products and, in turn, adversely affect our results of operations. This transition is ongoing and has resulted in a decline in our revenues from such products. Various regulators and service providers have announced planned deadlines for transition to all-IP networks. While this transition could result in new sales opportunities, we believe the overall trend is a decline in revenues in the media gateway business.

The ongoing transition to the use of cloud-based software creates challenges for us.

Recently, our partners have started adopting cloud-based architecture or cloud-based software as a service, or SaaS, models. For example, Microsoft offers a cloud-based alternative to Skype for Business and Teams and has encouraged business customers to use that model instead of an on-premises alternative. Moreover, the successor for Skype for Business is Teams, which by definition is cloud-based only. Many of our products are intended for on-premises use with cloud architecture, but in some scenarios, cloud architecture introduces an alternative to on-premises use. Currently, our revenue is generated primarily from on-premises deployments. The transition to cloud-based delivery impacts the architecture and role of our products in the overall solution. We may not succeed in transitioning in time or at all to the new cloud-based technologies, products, solutions and services adopted by our partners and their customers. We may not succeed in aligning our solutions with our partners' solutions and be unable to bring sufficient value to them or their end customers. Our inability to adapt to the ongoing transition to the use of cloud-based software could have an adverse effect on us. Furthermore, SaaS pay-per-use licensing models may have an adverse effect on our short-term revenue recognition.

New industry standards, the modification of our products to meet additional existing standards or the addition of features to our products may delay the introduction of our products or increase our costs.

The industry standards that apply to our products are continually evolving. In addition, since our products are integrated into networks consisting of elements manufactured by various companies, they must comply with a number of industry standards and practices established by various international bodies and industry forums. Should new standards gain broad acceptance, we will be required to adopt those standards in our products. We may also decide to modify our products to meet additional existing standards or add features to our products. Standards may be adopted by various industry interest groups or may be proprietary and nonetheless accepted broadly in the industry. It may take us a significant amount of time to develop and design products incorporating these new standards.

Our OEM customers, potential customers or partners may develop or prefer to develop their own technical solutions, use their own internal resources as an alternative to our technical services, or purchase third-party technology or services as an alternative to our technical services, and as a result, may not buy our products.

We sell our products as components or building blocks to some potential customers, such as large OEMs, NEPs, enterprises and carriers. These customers incorporate our products into their product offerings, usually in conjunction with value-added services of their own or of third parties. These potential customers may prefer to develop their own technology or purchase third-party technology. They could also manufacture their own components or building blocks that are similar to the ones we offer. Large customers have already committed significant resources in developing integrated product offerings. Customers may decide that this gives them better profitability and/or greater control over supplies, specifications and performance. Customers may therefore not buy components or products from an external manufacturer such as us. This could have an adverse impact on our ability to sell our products and, as a result, may reduce our revenues.

We generally sell to OEMs, NEPs, system integrators, carriers/service providers and distributors who function as intermediaries between us as an equipment supplier and the ultimate end-users of our products. As a result, we have less information with respect to the actual requirements of end-users and their utilization of equipment. We also have less influence over the choice of equipment by these end-users.

Generally, our customers are OEMs, NEPs, system integrators, carriers/service providers and distributors, rather than the end-users of equipment that we supply. These customers usually purchase equipment from several suppliers and may be trying to fulfill their end-user customers' specific technical specifications. We rely heavily on these customers for sales of our products and to inform us about market trends and the needs of their end-user customers. We cannot be certain that this information is accurate. If the information we receive is not accurate, we may be manufacturing products for which no customer demand exists or fail to manufacture products that end-users want. Because we sell most of our products to customers who function as intermediaries rather than directly to end-users, we are heavily reliant on such intermediaries and have less control over the ultimate selection of products by end-users.

The markets we serve are highly competitive and several of our competitors have competitive advantages over us, which may make it difficult for us to maintain profitability.

Competition in our industry is intense and we expect competition to increase in the future. Our competitors currently sell products that provide similar benefits to those that we sell. There has been a significant amount of merger and acquisition activity, frequently involving major telecommunications equipment manufacturers acquiring smaller companies, as well as strategic alliances entered into by competitors. We expect that these activities will result in an increasing concentration of market share among these companies, many of whom are our customers.

Our competitors in the area of enterprise session border controllers include, among others, Oracle, Ribbon Communications, Metaswitch (acquired by Microsoft), TE-Systems and Ingate.

Our competitors in the area of low and mid-density digital gateways include, among others, Ribbon Communications, Cisco, Dialogic, NewRock, Patton, Ferrari and Sangoma.

Our competitors in the area of multi-service business routers include, among others, Cisco, Juniper, Adtran, One-Access (previously acquired by Ekinops), Patton, Huawei, HP/3COM and Alcatel-Lucent.

Our competitors in the area of call recording include, among others, Verint, NICE, ACS, Red Box, Teleware and Dubber.

Our competitors in the area of applications leveraging speech recognition and conversational AI technology include, among others, Twilio, Nuance (which was recently acquired by Microsoft) and IBM, as well as Contact Center vendors (including Genesys, NICE and Five9s). Some public cloud providers offer technology and services that partially overlap with ours and several smaller start-up companies are also developing competing solutions.

Our competitors in the area of Conversational IVR and Speech Attendants include companies such as Nuance, Parlance, and other contact center vendors IVR solutions.

[Table of Contents](#)

Our competitors in the area of SmartTAP360 live which focuses mainly on compliance and quality recording in conjunction with Microsoft Teams are listed in the certified list of Microsoft vendors although we mainly see in the mid-market projects ASC, Redbox, NICE and Verint.

Our competitors in the area of Meeting Insights, which is focused on productivity enhancement and organization repository in the Microsoft environment, are Avoma, Otter and sometimes also Microsoft (with Stream or Teams premium). Our principal competitors in the area of IP phones and meeting room devices are “best-of-breed” IP phone vendors and end-to-end IP telephony vendors. “Best of breed” IP phone vendors sell standards-based SIP phones that can be integrated into any standards-based IP-PBX or hosted IP telephony system. These competitors include Poly (acquired by HPQ), Yealink, Grandstream, Logitech, Crestron, VTEC (which acquired Snom Technology) and many others.

Our competitors for AudioCodes Live for Microsoft Teams are companies that offer a variety managed services for business customers. These companies include systems integrators, service providers and some cloud-based solution providers. In certain cases, some companies buy AudioCodes products and/or services, and use them to offer managed services to their customers. AudioCodes sometimes works in partnership with such companies to complement their offering or even leverage some of their capabilities to offer managed services.

Our main competitor in the area of Live is the in-house implementation of projects (after buying products either directly or through an integrator). Competition is also in the form of system integrators such as Converge One in USA, NTT or BT and numerous others in various sizes and locations and specialties.

Some of our competitors have the ability to offer vendor-sponsored financing programs to customers. Those with broad product portfolios may also be able to offer lower prices on products that compete with ours because of their ability to recoup a loss of margin through sales of other products or services. Additionally, voice, audio and other communications alternatives that compete with our products are constantly being introduced.

Some of our competitors are also customers of our products and technologies.

In the future, we may also develop and introduce other products or services with new or additional telecommunications capabilities or services. As a result, we may compete directly with voice over-IP, or VoIP, companies, system integrators, value-added resellers, or VARs, and other telecommunications infrastructure and solution providers, some of which may be our current customers. Additional competitors may include companies that currently provide communication software products and services. The ability of some of our competitors to bundle other enhanced services or complete solutions with VoIP products could give these competitors an advantage over us.

Offering to sell directly to carriers or service providers may expose us to requirements for service which we may not be able to meet.

We also sell our products directly to telecommunications carriers, service providers or other end-users. We have traditionally relied on third-party distributors and OEMs to test and/or sell our products and to inform us about the requirements of end-users. Telecommunications carriers and other service providers have great bargaining power in negotiating contracts. Generally, contracts with end-users tend to be more complex and impose more obligations on us than contracts with third-party distributors. We may be unable to meet the requirements of these contracts. If we are unable to meet the conditions of a contract with an end-user customer, we may be required to pay liquidated damages or become subject to liabilities that could result in a material adverse effect on our results of operations.

Selling directly to end-users and VARs may adversely affect our relationship with our current third-party distributors upon whom we expect to continue to rely for a significant portion of our sales. The loss of third-party distributors and OEMs, or a decreased commitment by them to sell our products as a result of direct sales by us, could adversely affect our sales and results of operations.

We rely on third-party subcontractors to assemble and ODMs to design and manufacture some of our products, and therefore do not directly control manufacturing costs, product delivery schedules or manufacturing quality.

Our products are assembled and tested by third-party subcontractors. As a result of our reliance on third-party subcontractors, we cannot directly control product delivery schedules. We have in the past experienced delays in delivery schedules. Any problems that occur and persist in connection with the delivery, quality or cost of the assembly and testing of our products could have a material adverse effect on our business, financial condition and results of operations. This reliance could also lead to product shortages or quality assurance problems, which, in turn, could lead to an increase in the costs of manufacturing or assembling our products.

In addition, we have engaged several ODMs based in Asia to design and manufacture some of our products and may engage additional ODMs in the future. Any problems that occur and persist in connection with the delivery, quality, cost of the assembly or testing of our products, as well as the termination of our commercial relationship with an ODM or the discontinuance of the manufacturing of the respective products could have a material adverse effect on our business, financial condition and results of operations.

If a small number of third-party suppliers do not provide us with key components on a timely basis, we may not be able to deliver our products to our customers, and substantial reengineering costs may be incurred.

Texas Instruments Incorporated, DSPG and Rockchip, collectively, supply all of the chips for our signal processor product line. Our signal processor line is used both as a product line in its own right and as a key component in our other product lines. Motorola and Cavium Networks manufacture all of the communications and network processors currently used in our embedded communications boards and network products.

We have not entered into any long-term supply agreements or alternate source agreements with our suppliers and, while we maintain an inventory of critical components, our inventory of chips would likely not be sufficient in the event that we had to engage an alternate supplier for these components.

An unexpected termination of the supply of the chips provided by Texas Instruments, DSPG, Rockchip or the communications processors supplied by Motorola or Cavium Networks or disruption in their timely delivery would require us to make a large investment in capital and personnel to shift to using chips or signal processors manufactured by other companies and may cause a delay in introducing replacement products. Customers may not accept an alternative product design. Supporting old products or redesigning products may make it more difficult for us to support our products.

We depend on other sole source suppliers to produce components for us without the benefit of long-term supply agreements or alternative source agreements.

Some of our sole source suppliers custom produce components for us based upon our specifications and designs while other of our sole source suppliers are the only manufacturers of certain components required by our products. We have not entered into any long-term supply agreements or alternative source agreements with our suppliers and while we maintain an inventory of components from single source providers, our inventory would likely not be sufficient in the event that we had to engage an alternate supplier of these single source components. In the event of any interruption in the supply of components from any of our sole source suppliers, we may have to expend significant time, effort and other resources in order to locate a suitable alternative manufacturer and secure replacement components. If no replacement components are available, we may be forced to redesign certain of our products. Any such new design may not be accepted by our customers. A prolonged disruption in supply may force us to redesign and retest our products. Any interruption in supply from any of these sources or an unexpected technical failure or termination of the manufacture of components could disrupt production, thereby adversely affecting our ability to deliver products and to support products previously sold to our customers.

In addition, if demand for telecommunications equipment increases, we may face a shortage of components from our suppliers. This could result in longer lead times, increases in the price of components and a reduction in our margins, all of which could adversely affect the results of our operations.

We have depended, and expect to continue to depend, on a small number of large customers. The loss of one of our large customers or the reduction in purchases by a significant customer or failure of such customer to pay for the products it purchases from us could have a material adverse effect on our revenues.

In 2022, 2021 and 2020, sales to Westcon Group, our largest customer in 2022, accounted for approximately 15.1%, 15.4% and 13.0%, respectively, of our total revenues, and sales to ScanSource Communications Group accounted for approximately 10.0%, 10.9% and 13.5%, respectively, of our total revenues. Both ScanSource and Westcon act as distributors or perform order fulfillment for smaller orders from other customers and do not purchase products for internal use. If we lose a large customer, or if purchases made by such customers are significantly reduced, or if a large customer fails to pay for the products it purchases from us, our revenues and results of operations could be adversely affected.

Our products generally have long sales cycles and implementation periods, which increase our costs in obtaining orders and reduce the predictability of our revenues.

Our products are technologically complex and are typically intended for use in applications that may be critical to the business of our customers. Prospective customers generally must make a significant commitment of resources to test and evaluate our products and to integrate them into larger systems. Many of our customers are large organizations with complex and lengthy evaluation, decision making and negotiation processes. As a result, our sales process is often subject to delays associated with lengthy approval processes that typically accompany the design and testing of new communications equipment. The sales cycles of our products to new customers are approximately Six to twelve months after a design win, depending on the type of customer and complexity of the product. This time period may be further extended because of internal testing, field trials and requests for the addition or customization of features or acceptance testing. This delays the time until we realize revenue and results in significant investment of resources in attempting to make sales.

Long sales cycles also subject us to risks not usually encountered in a short sales span, including customers' budgetary constraints, internal acceptance reviews and cancellation. In addition, orders expected in one quarter could shift to another because of the timing of customers' procurement decisions. The time required to implement our products can vary significantly with the needs of our customers and generally exceeds several months; larger implementations can take multiple calendar quarters. This complicates our planning processes and reduces the predictability of our revenues.

Our independent sales representatives may fail to market our products effectively.

A significant portion of our marketing and sales involves the aid of independent sales representatives that are not under our direct control. We cannot be certain that our current independent sales representatives will continue to distribute our products or that, even if they continue to distribute our products, they will do so successfully. These representatives are not subject to any minimum purchase requirements and can discontinue marketing our products at any time. In addition, these representatives often market products of our competitors. Accordingly, we must compete for the attention and sales efforts of our independent sales representatives.

Our products could contain defects, which would reduce sales of those products or result in claims against us.

We develop complex and evolving products. Despite testing by us and our customers, undetected errors or defects may be found in existing or new products. The introduction of products with reliability, quality or compatibility problems could result in reduced revenues, additional costs, increased product returns and difficulty or delays in collecting accounts receivable. The risk is higher with products still in the development stage, where full testing or certification is not yet completed. This could result in, among other things, a delay in recognition or loss of revenues, loss of market share or failure to achieve market acceptance. We could also be subject to material claims by customers that are not covered by our insurance.

Obtaining certification of our products by national regulators may be time-consuming and expensive. We may be unable to sell our products in markets in which we are unable to obtain certification.

Our customers may expect us to obtain certificates of compliance with safety and technical standards set by national regulators, especially standards set by U.S. or European regulators. There is no uniform set of standards, and each national regulator may impose and change its own standards. National regulators may also prohibit us from importing products that do not conform to their standards. If we make any change in the design of a product, we are usually required to obtain recertification of the product. The process of certification may be time-consuming and expensive and may affect the length of the sales cycle for a product. If we are unable to obtain certification of a product in a market, we may be unable to sell the product in that market.

The growth in our product portfolio means that we have to service and support more products. This may result in an increase in our expenses and an adverse effect on our results of operations.

The size of our product portfolio has increased and continues to increase. As a result, we are required to provide product support to our customers. Customers have requested that we provide a contractual commitment to support a product for a specified period of time. This period of time may exceed the working life of the product or extend past the period of time that we may intend to manufacture or support a product. We are dependent on our suppliers for the components (hardware and software) needed to provide support and may be unable to secure the components necessary to satisfy our service commitments. We do not have long-term contracts with our suppliers, and they may not be obligated to provide us with products or services for any specified period of time. We may need to purchase an inventory of replacement components and parts in advance in order to try to provide for their availability when needed. This could result in an increased risk of write-offs with respect to our replacement component inventory to the extent that we cannot accurately predict our future requirements under our customer service contracts. If any of our component suppliers cease production, cease operations or refuse or fail to make timely delivery of orders, we may not be able to meet our contractual commitments for product support. We may be required to supply enhanced components or parts as substitutes if the original versions are no longer available. Product support may be costly and any extra service revenues may not cover the hardware and software costs associated with providing long-term support.

As part of our go to market strategy, we have become certified solution partners of technological leaders such as Microsoft, Genesys and BroadSoft (acquired by Cisco). These companies change their go to market strategy and product mix and technology requirements often and do so on reasonably short notice. We may be unable or unwilling to change our products in time and as may be required in order to remain a certified partner.

In recent years we have invested heavily in our product offerings that meet the requirements of the Microsoft Skype for Business and Microsoft Teams ecosystems. The nature of this Microsoft solution is undergoing major change and, as part of this change, we are witnessing a shift from on-premises solutions to cloud-based or hybrid on-premises and cloud-based solutions. This directly impacts the suitability of our products to end-users and impacts end-user demand for products in a changing technical environment. In 2018, Cisco completed the acquisition of BroadSoft. This acquisition has impacted BroadSoft's directions and future developments, and, as a result, our investment in compatibility with the BroadSoft BroadWorks and BroadCloud solutions. These changes have affected, and may continue to affect, the revenues we derive from selling into BroadSoft/Cisco solutions. Genesys, a long-term partner of ours, is also in the process of shifting from on-premises solutions to cloud-based or hybrid on-premises and cloud-based solutions, with potential impact on the suitability and demand of our products in Genesys contact center deployments. We have little control and influence over the third parties with whom we engage, and therefore, any alterations or changes made by such third-party partners can negatively impact the results of our operations on reasonably short notice. We may be unable to recover or adapt to such changes.

Growing emphasis by the investment community, regulators and other stakeholders on environmental, social and governance-related matters could impact our business and operations.

As members of the investment community have started to heavily factor in a company's commitment to environmental, social and governance, or ESG related initiatives and sustainability performance as part of their overall investment thesis and strategy, such investors could elect to eventually forego their investment in us to the extent we fail to satisfy such metrics. Moreover, the increased focus by investors, regulators and other stakeholders on ESG related practices and disclosures has created, and will likely create for the foreseeable future, increased pressure regarding the enhancement of, and modification to, our disclosure and governance practices. Additionally, the SEC has exhibited a growing emphasis on each company's ESG disclosure practices, including through the establishment of a Climate and ESG Task Force in the Division of Enforcement. As a result of the foregoing, we currently face, and are likely to continue to face, increasing pressure regarding our ESG-related disclosures, practices, initiatives and sustainability performance in the near- and long-term.

Financial and Economic Risks

High rates of global inflation and the occurrence of a recession could have a material and adverse impact on our business, results of operations and financial condition.

During 2022, the global markets experienced, and continue to experience, higher rates of inflation as a result of several market factors, including in the form of increased costs pertaining to labor, materials, shipping and overhead. As a result of these inflationary pressures, governments in many countries have implemented tighter monetary policies, which could slow the growth rate of local economies and restrict the availability of credit. We believe that our financial condition and results of operations have thus far not been materially impacted by inflationary pressures. However, to the extent the current rates of inflation and shifts in fiscal and monetary policy result in prolonged and slower growth or a recession, it could have a material and adverse effect on the demand for our products and services and, in the process, our business, results of operations and financial condition as a whole, including with respect to general and administrative expenses as a percentage of total revenue. Moreover, in the event that a global recession was to occur, it could adversely impact the critical counterparties that we engage, including in the form of a decrease in the products and services they seek to obtain from us.

Material and adverse developments impacting the financial services industry at large, including the occurrence of actual (or widespread concerns regarding the potential occurrence of) defaults, illiquidity, operational failures and non-performance by financial institutions and critical counterparties, could have a material and adverse effect on our business, financial condition and results of operations.

The occurrence of actual (or widespread concerns regarding the potential occurrence of) illiquidity, operational failures, defaults, non-performance or other material and adverse developments that impact financial institutions and transactional counterparties, or other entities within the financial services industry at large, have previously caused, and could continue to cause, market-wide liquidity issues, bank-runs and general contagion across the global financial industry. For example, on March 10, 2023, Silicon Valley Bank, or SVB, was closed by the California Department of Financial Protection and Innovation and the Federal Deposit Insurance Corporation, or the FDIC, was subsequently appointed as a receiver. Similarly, on March 12, 2023, Signature Bank and Silvergate Capital Corp. were each placed into receivership. We did not maintain accounts with either bank. While the U.S. Federal Reserve Board, the FDIC and the U.S. Department of Treasury collectively agreed to guarantee all deposits, above and beyond the limit on insured deposits of \$250,000 at these financial institutions, there can be no assurance that there will not be additional bank failures or issues in the broader financial system. Likewise, there is no guarantee that any of the U.S. Department of Treasury, the FDIC or the Federal Reserve Board will provide access to any additional uninsured funds in the future in the event of the closure or failure of any other banks or financial institutions, or that they would do so promptly or in a timely fashion. Additionally, substantial and rapid increases in interest rates and inflation have led to a decline in the trading value of previously issued government securities with interest rates below current market interest rates. While the U.S. Department of Treasury, Federal Reserve Board and the FDIC have announced a program to provide up to \$25 billion of loans to financial institutions secured by certain of such government securities held by financial institutions to mitigate the risk of potential losses on the sale of such instruments, the liquidity needs of financial institutions, including as a result of widespread demands for customer withdrawals, may exceed the capacity of such program.

Furthermore, we and other parties with whom we conduct business and engage commercially may be unable to access critical funds in deposit accounts or other accounts held with a closed or failing financial institution or pursuant to lending arrangements with such financial institutions. Accordingly, in such instance, our ability to pay our obligations, and any of our counterparties' ability to pay their respective obligations, or enter into new commercial arrangements requiring additional payments, could be materially and adversely affected. Counterparties to SVB credit agreements and arrangements, and third parties such as beneficiaries of letters of credit, among others, could experience direct and indirect impacts from financial institutions in the future and uncertainty remains over liquidity concerns in the broader financial services industry. Any material and adverse effects from the foregoing could additionally impact the broader capital markets and, in turn, our ability to access those markets.

Our customers may require us to produce products or systems to hold in inventory in order to meet their “just in time,” or short lead time, delivery requirements. If we are unable to sell this inventory on a timely basis, we could incur charges for excess and obsolete inventory which would adversely affect our results of operations.

Our customers expect us to maintain an inventory of products available for purchase off the shelf subsequent to the initial sales cycle for these products. This may require us to incur the costs of manufacturing inventory without having a purchase order for the products. The VoIP industry is subject to rapid technological change and volatile customer demands, which result in a short product commercial life before a product becomes obsolete. If we are unable to sell products that are produced to hold in inventory, we will need to write-off all or a part of the inventory value of these products. Write-offs could adversely affect our operating results and financial condition. During the year ended December 31, 2022, the Group's inventory write off was immaterial. We wrote off inventory in an aggregate amount of \$1.7 million in 2021 and \$4.2 million in 2020. We have incurred write-offs as a result of slow-moving items, excess inventories, discontinued products and products with net realizable value lower than cost.

The right of our customers to return products and their right to exchange products may affect our ability to recognize revenues, which could adversely affect our results of operations.

Some of our customers expect us to permit them to return some or all of the products they purchase from us. If we contractually agree to allow a customer to return products, the customer may be entitled to a refund for the returned products or to receive credit for the purchase of replacement products. If we agree to this type of contractual obligation, it could affect our ability to recognize revenues. In addition, if we are not able to resell any products that are returned, we would have to write-off this inventory. This could adversely affect our results of operations.

We may need additional financing to operate or grow our business. We may not be able to raise additional financing for our capital needs on favorable terms, or at all, which could limit our ability to expand and to continue our long-term expansion plans.

We may need additional financing to operate our business, continue our longer-term expansion plans or acquire other businesses. To the extent that we cannot fund our activities and acquisitions through our existing cash resources and any cash we generate from operations, we may need to raise equity or debt funds through additional public or private financing. We cannot be certain that we will be able to obtain additional financing on commercially reasonable terms, or at all. This could inhibit our growth, increase our financing costs or cause us severe financial difficulties.

We have a limited order backlog and, therefore, if revenue levels for any quarter fall below our expectations, our results of operations will be adversely affected.

We have a limited order backlog, which makes revenues in any quarter substantially dependent on orders received and delivered in that quarter. A delay in the recognition of revenue, even from one customer, may have a significant negative impact on our results of operations for a given period. We base our decisions regarding our operating expenses on anticipated revenue trends. Our expense levels are relatively fixed and require some time for adjustment. Because only a small portion of our expenses varies with our revenues, if revenue levels fall below our expectations, our results of operations will be adversely affected.

Our gross margin could be negatively impacted by amortization expenses in connection with acquisitions, increased manufacturing costs and other factors, any of which could adversely affect our results of operations.

Our gross margin has fluctuated and been negatively affected in the past, and could continue to be negatively affected, by amortization expenses in connection with acquisitions, expenses related to share-based compensation, increases in manufacturing costs, a shift in our sales mix towards our less profitable products and services, increased customer demand for longer product warranties, fixed expenses that are applied to a lower revenue base, exchange rate fluctuations and increased cost pressures as a result of increased competition. Acquisitions of new businesses could also negatively affect our gross margin. A decrease in our gross margin could cause an adverse effect on our results of operations.

Uncertain economic conditions may adversely affect our business.

In the past, uncertain global and local economic conditions have had a significant impact on the technology industry and our major customers and potential customers. Conditions may continue to be uncertain or may be subject to deterioration, which could lead to a reduction in consumer and customer spending overall and result in an adverse impact on sales of our products. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses, which could lead to a significant reduction in their orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity. A significant adverse change in a customer's financial and/or credit position could also require us to assume greater credit risk relating to that customer's receivables or could limit our ability to collect receivables related to previous purchases by that customer. As a result, our allowance for credit losses and write-offs of accounts receivable could increase.

The ongoing trade war between China and the United States and its potential escalation may have an adverse effect on our business operations and revenues.

Starting in April 2018, the United States imposed a 25% tariff on steel and a 10% tariff on aluminum imports from other countries. On July 6, 2018, the United States imposed 25% tariffs on \$34 billion worth of Chinese goods. China instituted retaliatory tariffs on certain United States goods. In 2019, the United States and China implemented several rounds of tariff increases and retaliations. On January 15, 2020, the United States and China signed a Phase One trade deal pursuant to which, among other things, the United States will modify existing tariffs. Due to the dynamic nature of governmental actions and responses, we are subject to uncertainty as to whether and when proposed tariffs will come into effect. Since we operate in the United States and deliver products and services to customers in the United States, the trade war has adversely affected us, and especially if and when it is escalated, may cause global economic turmoil and adversely impact the supply chain for our products, the cost of our products and the demand for our products and, thus, may have a material adverse effect on our business and results of operations.

The prices of our products may become less competitive due to foreign exchange fluctuations.

Although we have operations throughout the world, the majority of our revenues and our operating costs in 2022 were denominated in, or linked to, the dollar. Accordingly, we consider the dollar to be our functional currency. However, a significant portion of our operating costs in 2022 (including our cost of revenues) were incurred in NIS. During 2022, the NIS depreciated against the dollar, which resulted in a decrease in the dollar cost of our operations in Israel. As a result of this differential, from time to time we may experience increases in the costs of our operations outside the United States, as expressed in dollars. If there is a significant increase in our expenses, we may be required to increase the prices of our products and may be less competitive. Currently, our international sales are denominated primarily in dollars. Therefore, any devaluation in the local currencies of our customers relative to the dollar could cause customers to decrease or cancel orders or default on payment.

Our sales to European customers denominated in Euros are increasing. Sales denominated in Euros could make our revenues subject to fluctuation in the Euro/dollar exchange rate. If the dollar appreciates against the Euro, we may be required to increase the prices of our products that are denominated in Euros. In 2022, the Euro depreciated against the dollar, which resulted in an increase in the prices of our products that are denominated in Euros.

The ongoing conflict in Ukraine, including the actual (or perceived threat of an) expansion or exacerbation of such conflict, and the actions undertaken by western nations (and their allies) in response to Russia's actions, has resulted, and could continue to result in, significant impacts on the global markets for the foreseeable future.

In February 2022, Russia launched a large-scale invasion of Ukraine, and Russia and Ukraine continue to engage in active and armed conflict. Such conflict has resulted, and will likely continue to result in, significant destruction of Ukraine's infrastructure and substantial casualties amongst military personnel and civilians. As a result of Russia's invasion of Ukraine, the governments of several nations have implemented commercial and economic sanctions against Russia (as well as certain banks, companies, government officials, and other individuals in Russia and Belarus). In addition to governmental entities, actors in the private sector, including, among others, tech firms, consumer brands and major manufacturers, have stopped, or publicly announced that they intend to stop, operations in Russia and cease their partnerships with Russian firms, and shippers, insurance companies and refiners have similarly indicated that they will no longer purchase or ship crude oil from Russia.

In March 2022, Israel's then Foreign Minister Mr. Yair Lapid indicated that Israel would not function as a route to bypass sanctions imposed on Russia by the United States and other western countries, and Israeli banks have elected to sever relationships with sanctioned Russian banks. Israel has not, as of the date of this Annual Report, imposed explicit sanctions on Russia or Belarus; however, it has publicly rejected Russia's annexation of the four occupied regions of Ukraine and voiced support for Ukraine's sovereignty and territorial integrity. Moreover, Israeli companies that have ties to the United States, the United Kingdom and the European Union could be indirectly subject to the measures imposed by such nations.

While it is not possible to predict or determine the ultimate consequences and impact of the conflict in Ukraine, such conflict could result in, among other things, significant regional instability and geopolitical shifts, and material and adverse effects on global macroeconomic conditions, financial markets, exchange rates and supply chains. To the extent negotiations between Russia and Ukraine are ultimately unsuccessful, the conflict in Ukraine could have a lasting impact in the near- and long-term on the financial condition, business and operations of our business (and the businesses of the counterparties with whom we engage), and the global economy at large.

Macroeconomic changes, including political disturbances, geopolitical instability, and trade wars, may adversely impact our business and operations.

Changes in regional and global politics are leading to changes in the globalization and harmonization trends that prevailed in recent decades. Threats of trade barriers, customs and duties and other political considerations, including mass strikes, wars, escalating or outbreak of armed hostilities, and other crises, are causing instability in the accepted world order and the stability of financial markets. This may impact both our ability to manufacture and sell our products and services which would affect our results of our operations and may also affect the price of our ordinary shares. Our business and operations are subject to uncertain macroeconomic changes, any of which could result in suspended operations, business interruptions, and impediments to our business. Moreover, we are subject to risks of hostilities, confiscation, deprivation of assets or military action that may directly or indirectly impact our operations, assets or financial performance in the areas where we operate. Most recently, for example, the conflict in Ukraine has resulted in, among other things, significant regional instability and geopolitical shifts, and material and adverse effects on global macroeconomic conditions, financial markets, exchange rates and supply chains. It is not possible at this time to predict or determine the ultimate consequences of the conflict in Ukraine, which could include, among other things, greater regional instability, geopolitical shifts and other material and adverse effects on macroeconomic conditions, currency exchange rates, supply chains and financial markets.

Terrorist attacks, or the threat of such attacks, may negatively impact the global economy which may materially adversely affect our business, financial condition and results of operation and may cause our share price to decline.

Financial, political, economic and other uncertainties following terrorist attacks throughout the world may negatively impact the global economy. As a result, many of our customers and potential customers have become much more cautious in setting their capital expenditure budgets, thereby restricting their telecommunications procurement. Uncertainties related to the threat of terrorism have had a negative effect on global economy, causing businesses to continue slowing spending on telecommunications products and services and further lengthen already long sales cycles. Any escalation of these threats or similar future events may disrupt our operations or those of our customers, distributors and suppliers, which could adversely affect our business, financial condition and results of operations.

Any shortages in, or increased costs of, semiconductors (and other components) could adversely impact our business and financial condition, including in the form of reduced revenues and increased costs and expenses.

Since the onset of COVID-19, the semiconductor industry has experienced, and continues to experience, significant shortages in capacity, which has resulted in the elongation of the lead time required to produce semiconductors. Given that semiconductors are a key component in our business, the inability to receive sufficient amounts of semiconductors on an expedited basis could impact our ability to deliver our products and services to third parties on a timely basis or could lead to an increase in the costs of inventory and overall purchase price of components. In the event that the capacity shortage in the semiconductor industry (and other components) continues for an extended period of time in the future, it could, among other things, have a material and adverse impact on (i) our manufacturing capabilities, (ii) our customer relationships, (iii) demand for our products and services and (iv) revenue and results of operations more generally. In the event that the semiconductor shortage improves in the near-term, such industry is historically cyclical and is characterized by rapid and recurring changes in technology, price erosion, short product life cycles, fluctuations in supply and demand, and product obsolescence. Therefore, another material shortage could occur in the future. Given the current uncertainty of the global markets, we are not able at this time to estimate the ultimate long-term impact that the shortage of semiconductors (or other components) will have on our business.

Risks Related to Operations in Israel

Conditions in Israel affect our operations and may limit our ability to produce and sell our products or raise finance and instability in the Middle East may adversely affect us.

We are incorporated under the laws of the State of Israel, and our principal executive offices and principal research and development facilities are located in the State of Israel. Political, economic and military conditions in Israel directly affect our operations. There has been an increase in unrest and terrorist activity in Israel, which has continued with varying levels of severity for many years through the current period of time. This has led to ongoing hostilities between Israel, the Palestinian Authority, other groups in the West Bank and the Gaza Strip, and the northern border with Lebanon, as well as in the Golan Heights. The future effect of these conflicts on the Israeli economy and our operations is unclear. The Israeli-Palestinian conflict may also lead to political instability between Israel and its neighboring countries. Ongoing violence between Israel and the Palestinians, as well as tension between Israel and its neighboring countries, may have a material adverse effect on our business, financial conditions and results of operations.

Political events in various countries in the Middle East, such as Syria, Iraq, Iran and Egypt, have weakened the stability of those countries, and have allowed extreme terrorists organizations, such as ISIS, to operate in certain territories in the Middle East. This instability may lead to deterioration of the geo-political conditions in the Middle East. In addition, this instability has affected the global economy and marketplace through fluctuations in oil and gas prices. Our headquarters and research and development facilities are located in the State of Israel. Any events that affect the State of Israel may impact us in unpredictable ways. For example, the global movement for a campaign of Boycott, Divestment and Sanctions (BDS) against Israel may adversely affect our sales in certain countries. We have contingency plans for alternative manufacturing and supply sources, but these plans may prove to be insufficient. Should our operations be impacted in a significant way, this may materially and adversely affect the results of our operations.

We cannot predict the effect on us of an increase in these hostilities or any future armed conflict, political instability or violence in the region. Additionally, some of our officers and employees in Israel are obligated to perform annual military reserve duty and are subject to being called for additional active duty under emergency circumstances. Some of our employees live within conflict area territories and may be forced to stay at home instead of reporting to work. We cannot predict the full impact of these conditions on us in the future, particularly if emergency circumstances or an escalation in the political situation occur. If many of our employees are called for active duty, or forced to stay at home, our operations in Israel and our business may be adversely affected.

A number of countries and organizations continue to restrict or ban business with Israel or Israeli companies or companies doing business with Israel or Israeli companies, which may limit our ability to make sales in those countries. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods based on Israeli government policies. Such actions, particularly if they become more widespread, may adversely impact our ability to sell our products.

We could also be materially and adversely impacted by the ongoing political climate in Israel. For example, in response to the Israeli government's recently proposed plan to overhaul the Israeli judiciary, Israeli labor unions have launched nationwide strikes, and airports, ports, major retailers and other public areas have been temporarily grounded as a result. We are unable at this time to determine the ultimate impact that these labor strikes and other developments relating to such policies will have on our business, operations and the Israeli economy at large. Furthermore, the Israeli government is currently pursuing extensive changes to Israel's judicial system. In response to the foregoing developments, certain leading international financial institutions, including investment banks, investors and key economists, have indicated several causes for concern, including that such proposed changes, if adopted, may cause a downgrade to Israel's sovereign credit rating and Israel's international standing, which would adversely affect the macroeconomic condition in which we operate, and also potentially deter foreign investment into Israel or Israeli companies, which may, among other things, hinder our ability to raise additional funds, if deemed necessary by our management and board of directors.

We are adversely affected by the changes in the value of the dollar against the NIS and could be adversely affected by the rate of inflation in Israel, and we may incur losses as a result of our forward contracts and other hedging activities.

We generate most of our revenues in dollars and, in 2022, a significant portion of our expenses, primarily salaries, related personnel expenses and the leases of our buildings in Israel, were incurred in NIS. We anticipate that a significant portion of our expenses will continue to be denominated in NIS.

[Table of Contents](#)

Our NIS related costs, as expressed in dollars, are influenced by the exchange rate between the dollar and the NIS. During 2022, the NIS depreciated against the dollar, which resulted in a decrease in the dollars cost of our operations in Israel and during 2021 and 2020, the NIS appreciated against the dollar, which resulted in an increase in the dollar cost of our operations in Israel. To the extent the dollar weakens against the NIS, we could experience an increase in the cost of our operations, which are measured in dollars in our financial statements, which could adversely affect our results of operations. In addition, in periods in which the dollar appreciates against the NIS, we bear the risk that the rate of inflation in Israel will exceed the rate of such devaluation of the NIS in relation to the dollar or that the timing of such devaluations lags considerably behind inflation, which will increase our costs as expressed in dollars.

A decrease in value of the dollar in relation to the NIS could have the effect of increasing the cost in dollars of these expenses. Our dollar-measured results of operations were adversely affected in 2021 and 2020 when the NIS appreciated substantially against the dollar. This could happen again if the dollar were to decrease in value against the NIS.

In order to manage the risks imposed by foreign currency exchange rate fluctuations, from time to time, we enter into currency forward and put and call options contracts to hedge some of our foreign currency exposure. While we have sought to hedge certain exposures to changes in foreign currency exchange rates through the use of such instruments, we cannot assure that foreign currency fluctuations will not have a material and adverse effect on our financial condition, results of operations and business. Our use of derivative transactions, including forward contracts, could additionally expose us to the risk of financial loss upon unexpected or unusual variations in the macroeconomy. Likewise, if we wish to maintain the dollar-denominated value of our products in non-U.S. markets, devaluation in the local currencies of our customers relative to the dollar may cause our customers to cancel or decrease orders or default on payment. We can provide no assurance that our hedging arrangements will be effective nor that the strategies underlying these arrangements will be successful, if at all. If any of the strategies we utilize to manage our exposure to various types of currency exchange risk is not effective, we may incur additional losses.

Because exchange rates between the NIS and the dollar fluctuate continuously, exchange rate fluctuations have an impact on our profitability and period-to-period comparisons of our results of operations. For example, in 2022, the value of the dollar increased in relation to the NIS by 13.2% and the inflation rate in Israel was 5.3%. In 2021, the value of the dollar decreased in relation to the NIS by 3.3% and the inflation rate in Israel was 2.8%. In 2020, the value of the dollar decreased in relation to the NIS by 7.0% and the deflation rate in Israel was 0.7%. Our results of operations may be adversely affected in case of a decrease in the value of the dollar to the NIS.

The government grants we have received for research and development expenditures limit our ability to manufacture products and transfer technologies outside of Israel and require us to satisfy specified conditions. If we fail to comply with or satisfy these conditions, we may be required to refund grants previously received together with interest and penalties and/or be charged with a criminal offense.

In connection with research and development grants we received from the Israel Innovation Authority, or the IIA, we must pay royalties to the IIA on the revenue derived from the sale of products, technologies and services developed with the grants from the IIA. The terms of the IIA grants and the law pursuant to which grants are made restrict our ability to manufacture products or transfer technologies outside of Israel if the IIA grants funded the development of the products or technology, without special approvals from the IIA. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with the IIA funding (such as a merger or similar transaction) may be reduced by an amount of up to six times of the amounts of grants that we received from the IIA the plus interest, less any royalties that we already paid. These restrictions may limit our ability to enter into agreements for such transactions without the IIA approval. We cannot be certain that any approval of the IIA will be obtained on terms that are acceptable to us, or at all.

As of December 31, 2022, we have a contingent obligation to pay royalties in the amount of approximately \$20.1 million, related to historical grants received by two of our subsidiaries.

It may be difficult to enforce a U.S. judgment against us, our officers and directors, assert U.S. securities law claims in Israel or serve process on substantially all of our officers and directors.

We are incorporated in Israel. Most of our executive officers and directors are nonresidents of the United States, and a majority of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any such persons or to effect service of process upon these persons in the United States. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws because Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel addressing these matters. Additionally, there is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel.

Israeli law and provisions in our articles of association may delay, prevent or make difficult a merger with or an acquisition of us, which could prevent a change of control and therefore depress the price of our shares.

Provisions of Israeli law may delay, prevent or make undesirable a merger or an acquisition of all or a significant portion of our shares or assets. Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our ordinary shares. In addition, our articles of association contain certain provisions that may make it more difficult to acquire us, such as a staggered board, the ability of our board of directors to issue preferred stock and limitations on business combinations with interested shareholders. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

The rights and responsibilities of our shareholders are governed by Israeli law which may differ in some respects from the rights and responsibilities of shareholders of U.S. corporations.

Since we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in United States corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at a general meeting of shareholders on certain matters, such as an amendment to a company's articles of association, an increase of a company's authorized share capital, a merger of a company and approval of related party transactions that require shareholder approval. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholders' vote or to appoint or prevent the appointment of an office holder in a company or has another power with respect to a company, has a duty to act in fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. Some of the parameters and implications of the provisions that govern shareholder behavior have not been clearly determined. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of United States corporations.

Regulatory, Legal and Tax Risks

Changes in governmental regulations in the United States or other countries could slow the growth of the VoIP telephony market and reduce the demand for our customers' products, which, in turn, could reduce the demand for our products.

VoIP and other services are not currently subject to all of the same regulations that apply to traditional telephony. Nevertheless, it is possible that foreign or U.S. federal or state legislatures may seek to impose increased fees and administrative burdens on VoIP, data, and video providers. The FCC requires VoIP service providers to meet various emergency service requirements relating to delivery of 911 calls, known as E911, and to accommodate law enforcement interception or wiretapping requirements, such as the Communications Assistance for Law Enforcement Act, or CALEA. In addition, the FCC may seek to impose other traditional telephony requirements such as disability access requirements, consumer protection requirements, number assignment and portability requirements, and other obligations, including additional obligations regarding E911 and CALEA. The cost of complying with FCC regulations or similar regulations in other countries could increase the cost of providing Internet phone service which could result in slower growth and decreased profitability for this industry, which would adversely affect our business.

The enactment of any additional regulation or taxation of communications over the Internet in the United States or elsewhere in the world could have a material adverse effect on our customers' (and their customers') businesses and could therefore adversely affect sales of our products. We do not know what effect, if any, possible legislation or regulatory actions in the United States or elsewhere in the world may have on private telecommunication networks, the provision of VoIP services and purchases of our products.

Use of encryption technology in our products is regulated by governmental authorities and may require special development, export or import licenses. Delays in the issuance of required licenses, or the inability to secure these licenses, could adversely affect our revenues and results of operations.

Growth in the demand for security features may increase the use of encryption technology in our products. The use of encryption technology is generally regulated by governmental authorities and may require specific development, export or import licenses. Encryption standards may be based on proprietary technologies. We may be unable to incorporate encryption standards into our products in a manner that will ensure interoperability. We also may be unable to secure licenses for proprietary technology on reasonable terms. If we cannot meet encryption standards, or secure required licenses for proprietary encryption technology, our revenues and results of operations could be adversely affected.

Our proprietary technology is difficult to protect, and our products may infringe on the intellectual property rights of third parties. Our business may suffer if we are unable to protect our intellectual property or if we are sued for infringing the intellectual property rights of third parties.

Our success and ability to compete depend in part upon protecting our proprietary technology. We rely on a combination of patent, trade secret, copyright and trademark laws, nondisclosure and other contractual agreements and technical measures to protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement, or to protect us from the claims of others.

Enforcement of intellectual property rights may be expensive and may divert attention of management and of research and development personnel away from our business. Intellectual property litigation could also call into question the ownership or scope of rights owned by us. Additionally, our products may be manufactured, sold, or used in countries that provide less protection to intellectual property than that provided under U.S. or Israeli laws or where we do not hold relevant intellectual property rights.

We believe that the frequency of third-party intellectual property claims is increasing, as patent holders, including entities that are not in our industry and that purchase patents as an investment or to monetize such rights by obtaining royalties, use infringement assertions as a competitive tactic and a source of additional revenue. Any intellectual property claims against us, even if without merit, could cost us a significant amount of money to defend and divert management's attention away from our business. We may not be able to secure a license for technology that is used in our products and we may face injunctive proceedings that prevent distribution and sale of our products even prior to any dispute being concluded. These proceedings may also have a deterrent effect on purchases by customers, who may be unsure about our ability to continue to supply their requirements. We may be forced to repurchase our products and compensate customers that have purchased such infringing products. We may be forced to redesign a product so that it becomes non-infringing, which may have an adverse impact on our results of our operations.

[Table of Contents](#)

In addition, claims alleging that the development, use, or sale of our products infringes third parties' intellectual property rights may be directed either at us or at our direct or indirect customers. We may be required to indemnify such customers against claims made against them. We may be required to indemnify them even if we believe that the claim of infringement is without merit.

Multiple patent holders in our industry may result in increased licensing costs.

There are a number of companies besides us that hold patents for various aspects of the technology incorporated in our industry's standards and our products. We expect that patent enforcement will be given high priority by companies seeking to gain competitive advantages or additional revenues. We have been sued a number of times in recent years for alleged patent infringement. If holders of patents take the position that we are required to obtain a license from them, we cannot be certain that we would be able to negotiate a license agreement at an acceptable price or at all. Our results of operations could be adversely affected by the payment of any additional licensing costs or if we are prevented from manufacturing or selling a product.

We are subject to regulations that require us to use components based on environmentally friendly materials. We may be subject to various regulations relating to management and disposal of waste with respect to electronic equipment. Compliance with these regulations has increased our costs. Failure to comply with these regulations could materially adversely affect our business and results of operations.

We are subject to an increasing number of directives and regulations requiring the use of environmentally-friendly materials. For example, pursuant to a European Community directive, equipment suppliers are required to stop using specified materials that are not environmentally friendly. Some of our customers may also require products that meet higher standards than those required by the directive, such as complete removal of additional harmful substances from our products. We are dependent on our suppliers for components and sub-system modules, such as semiconductors and purchased assemblies and goods, to comply with these requirements. This may harm our ability to sell our products in regions or to customers that may adopt such directives. Compliance with these directives has required us to incur significant expenses with respect to meeting the basic requirements and the updates of those regulations and of implementing new similar regulations and directives. In addition, we may be required to pay higher prices for components that comply with those directives. We may not be able to pass these higher component costs on to our customers. Compliance with these directives has increased and could continue to increase our product design and manufacturing costs. New designs may also require qualification testing with both customers and government certification boards.

Some of our operations use substances regulated under various federal, state, local and international laws governing the environment, including laws governing the management and disposal of waste with respect to electronic equipment. We could incur substantial costs, including fines and civil or criminal sanctions, if we were to violate or become liable under environmental laws or if our products become non-compliant with environmental laws. We also face increasing complexity in our product design and procurement operations as we adjust to new and future requirements relating to the materials that compose our products. The European Union, or the EU, has enacted the Waste Electrical and Electronic Equipment Directive which makes producers of electrical goods financially responsible for specified collection, recycling, treatment and disposal of past and future covered products. Similar legislation has been or may be enacted in other jurisdictions, including the United States, Canada, Mexico, China and Japan.

Our inability or failure to comply with these regulations could have a material adverse effect on our results of operations. In addition, manufacturers of components that do not meet the new requirements may decide to stop manufacturing those components prior to the required compliance date. These actions by manufacturers of components could result in a shortage of components that could adversely affect our business and results of operations.

Our use of open source software could materially and adversely affect our ability to offer our products, subject us to actual and threatened litigation, and cause substantial harm to our financial condition and operations, generally.

We have used, and could continue to use, open source software in connection with the development and deployment of our software products. To the extent we continue to utilize open source software in the future, it could in some instances subject us to certain unfavorable conditions, including requirements that we offer our products that incorporate the open source software for no cost, that we make publicly available all or part of the source code for any modifications or derivative works we create based upon, incorporating or using any such open source software, or that we license such modifications or derivative works under the terms of the particular open source license. Companies that have elected to incorporate open source software into their products have, from time to time, been subject to claims challenging the use of such open source software and compliance with the terms of such use. Accordingly, we could be made party to a lawsuit by a third party claiming ownership of what we believe to constitute open source software or otherwise asserting noncompliance with the terms of such use. While we seek to monitor and track our use of open source software in an attempt to mitigate the risk of needing to disclose any proprietary source code, or that would otherwise breach the terms of any open source agreement, we cannot guarantee that our efforts will be successful and that all open source software has been, or will be, reviewed prior to its incorporation into our products.

Given the lack of judicial precedent and guidance regarding each specific open software license type, there is a risk that open source software licenses that we utilize could be interpreted in a manner that imposes unanticipated conditions and restrictions on our ability to offer, provide and market our products and services. If we are ultimately found to have breached or failed to comply with any of the terms and conditions associated with any open source software license, we could be subject to, among other things, infringement claims and others forms of liability, or be required to obtain costly licenses from third parties to continue to provide our products and services on terms that are not economically advantageous or feasible, if at all. Additionally, use of open source software generally carries greater legal risks than does the use of third-party commercial software, and therefore, any open source software utilized will generally be provided without any contractual protections, warranties or other support. Any of the foregoing risks could materially and adversely affect our financial condition, results of operations and business.

We must comply with continually evolving privacy-related laws regulations in multiple jurisdictions.

Our use and handling of personally identifiable data is regulated at the international, federal and state levels. The regulatory environment surrounding information security and privacy is increasingly demanding. For example, the General Data Protection Regulation (GDPR), which came into effect on May 25, 2018, implemented stringent operational requirements for companies that are established in the EU or, where not established in the EU, offer goods or services to individuals in the EU or monitor the behavior of individuals in the EU. Failure to comply with the GDPR can result in fines of up to EUR 20 million or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher.

The requirements of the GDPR include, for example, expanded disclosures about how personal data is processed, mandatory data breach notification requirements, a strengthened data subject rights regime and higher standards for obtaining consent from individuals to process their personal data (including in certain circumstances for marketing), all of which involve significant ongoing expenditure. The principle of accountability likewise requires us to put significant documentation in place to demonstrate compliance. While the GDPR in large part harmonizes data protection requirements across EU countries, some provisions allow EU Member States to adopt additional or different requirements, which could limit our ability to use and share personal data or could require localized changes. We may also be affected by legal challenges to the validity of EU mechanisms for transfers of personal data outside the EU, and our business could be impacted by changes in law as a result of future review of these mechanisms by European regulators under the GDPR, as well as current challenges to these mechanisms in the European courts.

In addition, existing privacy-related laws and regulations in the United States and other countries are evolving and are subject to potentially differing interpretations, and various U.S. federal and state or other international legislative and regulatory bodies may expand or enact laws regarding privacy and data security-related matters. Due to the fact that privacy and information security laws and regulations are subject to change from time to time, our compliance with them may result in cost increases due to necessary systems changes and the development of new processes. If we fail to comply with these laws and regulations, we could be subjected to legal risk.

We are subject to taxation in several countries. Tax matters, including changes in tax laws or rates, adverse determinations by taxing authorities and imposition of new taxes could adversely affect our results of operations and financial condition.

Because we operate in several countries, we are subject to taxation in multiple jurisdictions, including Israel, the United States and certain other countries where we have operations. We are required to report to and are subject to local tax authorities in the countries in which we operate. In addition, our income that is derived from sales to customers in one country might also be subject to taxation in other countries. We cannot be sure of the amount of tax we may become obligated to pay in the countries in which we operate. The tax authorities in the countries in which we operate may not agree with our tax position. Our tax benefits from carryforward tax losses and other tax planning benefits, such as Israeli Technological Preferred Enterprise and Approved Enterprise programs, may prove to be insufficient due to Israeli tax limitations or may prove to be insufficient to offset tax liabilities from foreign tax authorities. Foreign tax authorities may also use our gross profit or our revenues in each territory as the basis for determining our income tax, and our operating expenses might not be considered for related tax calculations, which could adversely affect our results of operations.

U.S. shareholders face certain income tax risks in connection with their acquisition, ownership and disposition of our ordinary shares. In any tax year, we could be deemed a passive foreign investment company, which could result in adverse U.S. federal income tax consequences for U.S. shareholders.

Based on the composition of our gross income, the composition and value of our gross assets and the amounts of our liabilities for each taxable year from 2005 through 2022, we do not believe that we were a passive foreign investment company, or PFIC, for U.S. federal income tax purposes during any of such tax years. There can be no assurance that we will not become a PFIC in the current tax year or any future tax year in which, for example, the value of our assets, as measured by the public market valuation of our ordinary shares, declines in relation to the value of our passive assets (generally, cash, cash equivalents and marketable securities). If we are a PFIC for any tax year, U.S. shareholders who own our ordinary shares during such year may be subject to increased U.S. federal income tax liabilities and reporting requirements for such year and succeeding years, even if we cease to be a PFIC in such succeeding years. A U.S. holder of our ordinary shares will be required to file an information return containing certain information required by the U.S. Internal Revenue Service for each year in which we are treated as a PFIC with respect to such holder.

We urge U.S. holders of our ordinary shares to carefully review Item 10.E, “Additional Information—Taxation—U.S. Federal Income Tax Considerations” in this Annual Report and to consult their own tax advisors with respect to the U.S. federal income tax risks related to owning and disposing of our ordinary shares and the consequences of PFIC status.

If a United States person is treated as owning at least 10% of our ordinary shares, such holder may be subject to adverse U.S. federal income tax consequences.

If a United States person is treated as owning (directly, indirectly, or constructively) at least 10% of the value or voting power of our ordinary shares, such person may be treated as a “United States shareholder” with respect to us and each “controlled foreign corporation” in our group (if any). Because our group includes one or more U.S. subsidiaries, certain of our non-U.S. subsidiaries could be treated as controlled foreign corporations (regardless of whether or not we are treated as a controlled foreign corporation). A United States shareholder of a controlled foreign corporation may be required to report annually and include in its U.S. taxable income its pro rata share of “Subpart F income,” “global intangible low-taxed income,” and investments in U.S. property by controlled foreign corporations, regardless of whether we make any distributions. An individual that is a United States shareholder with respect to a controlled foreign corporation generally would not be allowed certain tax deductions or foreign tax credits that would be allowed to a United States shareholder that is a U.S. corporation. Failure to comply with these reporting obligations may subject a United States shareholder to significant monetary penalties and may prevent the statute of limitations with respect to such shareholder’s U.S. federal income tax return for the year for which reporting was due from starting. We cannot provide any assurances that we will assist investors in determining whether we or any of our non-U.S. subsidiaries is treated as a controlled foreign corporation or whether any investor is treated as a United States shareholder with respect to us or any such controlled foreign corporation or furnish to any United States shareholders information that may be necessary to comply with the aforementioned reporting and tax paying obligations. A United States investor should consult its advisors regarding the potential application of these rules to an investment in our ordinary shares.

We are subject to ongoing costs and risks associated with complying with extensive corporate governance and disclosure requirements.

As a foreign private issuer subject to U.S. federal securities laws, we spend a significant amount of management time and resources to comply with laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, as amended, or the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, or the Dodd-Frank Act, regulations promulgated by the United States Securities and Exchange Commission, or the SEC, and Nasdaq listing rules. While we have developed and instituted corporate compliance programs and continue to update our programs in response to newly implemented or changing regulatory requirements, we cannot provide assurance that we are or will be in compliance with all potentially applicable corporate regulations. If we fail to comply with any of these regulations, we could be subject to a range of regulatory actions, fines or other sanctions or litigation. In connection with our compliance with the internal control provisions of Section 404 and the other applicable provisions of the Sarbanes-Oxley Act, our management and other personnel devote a substantial amount of time, and may need to hire additional accounting and financial staff, to assure that we comply with these requirements. The additional management attention and costs relating to compliance with the Sarbanes-Oxley Act, the Dodd-Frank Act and other corporate governance requirements could materially and adversely affect our financial results.

The internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act may not prevent or detect misstatements because of certain of its limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. As a result, even effective internal controls may not provide reasonable assurances with respect to the preparation and presentation of financial statements. We cannot provide assurance that, in the future, our management will not find a material weakness in connection with its annual review of our internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act. We also cannot provide assurance that we could correct any such weakness to allow our management to assess the effectiveness of our internal control over financial reporting as of the end of our fiscal year in time to enable our independent registered public accounting firm to state that such assessment will have been fairly stated in our Annual Report on Form 20-F or state that we have maintained effective internal control over financial reporting as of the end of our fiscal year. Discovery and disclosure of a material weakness in our internal control over financial reporting could have a material impact on our financial statements and could cause our stock price to decline.

Risks Relating to the Ownership of our Ordinary Shares

The price of our ordinary shares may fluctuate significantly.

The market price for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. Between January 1, 2018 and April 18, 2023, the trading price of our shares on Nasdaq has fluctuated from a low of \$6.62 to a high of \$44.94. The following factors may cause significant fluctuations in the market price of our ordinary shares:

- fluctuations in our quarterly revenues and earnings or those of our competitors;
- shortfalls in our operating results compared to levels forecast by securities analysts or by us;
- announcements concerning us, our competitors or telephone companies;
- announcements of technological innovations;
- the introduction of new products;
- changes in product price policies involving us or our competitors;
- market conditions in the industry;
- integration of acquired businesses, technologies or joint ventures with our products and operations;
- the conditions of the securities markets, particularly in the technology and Israeli sectors; and

[Table of Contents](#)

- political, economic and other developments in the State of Israel and worldwide.

In addition, stock prices of many technology companies fluctuate significantly for reasons that may be unrelated or disproportionate to operating results. The factors discussed above may depress or cause volatility of our share price, regardless of our actual operating results.

Our quarterly results of operations have fluctuated in the past and we expect these fluctuations to continue. Any actual or anticipated fluctuations in our results of operations could require that we issue revised guidance, and the failure to meet the expectations of our investors or analysts could have a material and adverse impact on our share price.

We have experienced, and expect to continue to experience, significant fluctuations in our quarterly results of operations. For example, in April 2023, we announced that the guidance we previously issued for 2023 (with respect to revenues, net cash and net income per share) is to be lower than previously anticipated by us as a result of lower than expected revenues in the first quarter of 2023. In some periods, our operating results may be significantly below public expectations or below revenue levels and operating results reached in prior quarters or in the corresponding quarters of the previous year. If this occurs, the market price of our ordinary shares could be materially and adversely impacted. Accordingly, comparisons of our revenues and operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance.

The following factors, among others, have affected our quarterly results of operations in the past and are likely to affect our quarterly results of operations in the near- and long-term:

- size, timing and pricing of orders, including order deferrals and delayed shipments;
- launching of new product generations;
- length of approval processes or market testing;
- technological changes in the telecommunications industry;
- competitive pricing pressures;
- the timing and approval of government research and development grants;
- accuracy of telecommunication company, distributor and original equipment manufacturer forecasts of their customers' demands;
- changes in our operating expenses;
- disruption in our sources of supply;
- temporary or permanent reduction in purchases by our significant customers; and
- general economic conditions, including macroeconomic factors not within our control.

Accordingly, our operating results have been and may continue to be difficult to predict, even in the near term, and consequently, the results of any past periods should not be relied upon as an indication of our future performance.

Our actual financial results might vary from our publicly disclosed financial forecasts.

From time to time, we publicly disclose financial forecasts and other performance metrics. Our forecasts reflect numerous assumptions concerning our expected performance, as well as other factors which are beyond our control and which might not turn out to be correct. As a result, variations from our forecasts could be material. Our financial results are subject to numerous risks and uncertainties, including those identified throughout this “Risk Factors” section and elsewhere in this Annual Report. If our actual financial results are worse than our financial forecasts, the price of our ordinary shares may decline. A large portion of our sales is made during the last month of each quarter. As a result, any delay in our receipt of orders could affect our results for a quarter and the accuracy of our forecasts.

It is our policy that we will generally not provide quarterly forecasts of the results of our operations. This policy could affect the willingness of analysts to provide research with respect to our ordinary shares, which could affect the trading market for our ordinary shares.

It is our policy that we will generally not provide quarterly forecasts of the results of our operations. This could result in the reduction of research analysts who cover our ordinary shares. Any reduction in research coverage could affect the willingness of investors, particularly institutional investors, to invest in our shares which could affect the trading market for our ordinary shares and the price at which our ordinary shares are traded.

As a foreign private issuer whose shares are listed on Nasdaq, we follow certain home country corporate governance practices instead of certain Nasdaq requirements.

As a foreign private issuer whose shares are listed on Nasdaq, we are permitted to follow certain home country corporate governance practices instead of certain requirements contained in the Nasdaq listing rules. We do not comply with the Nasdaq requirement that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain share-based compensation plans. Instead, we follow Israeli law and practice which permits the establishment or amendment of certain share-based compensation plans to be approved by our board of directors without the need for a shareholder vote, unless such arrangements are for the compensation of directors or the chief executive officer, in which case they also require compensation committee and shareholder approval.

As a foreign private issuer listed on the Nasdaq, we may also elect in the future to follow home country practice with regard to, among other things, director nominations, composition of the board of directors and quorum at shareholders’ meetings, as well as not obtain shareholder approval for certain dilutive events. Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq’s corporate governance rules.

Our ordinary shares are listed for trading in more than one market and this may result in price variations.

Our ordinary shares are listed for trading on Nasdaq and on the Tel Aviv Stock Exchange Ltd., or the Tel Aviv Stock Exchange, or the TASE, under the Israeli regulatory “dual listing” regime that provides companies whose securities are listed both on Nasdaq and the TASE certain reporting leniencies. Trading in our ordinary shares on these markets is made in different currencies (dollars on Nasdaq and NIS on TASE), and at different times (resulting from different time zones, different trading days and different public holidays in the United States and Israel). Actual trading volume on the TASE is generally lower than trading volume on Nasdaq, and as such could be subject to higher volatility. The trading prices of our ordinary shares on these two markets often differ resulting from the factors described above, as well as differences in exchange rates. Any decrease in the trading price of our ordinary shares on one of these markets could cause a decrease in the trading price of our ordinary shares on the other market.

While our ordinary shares are currently listed on the TASE, there is no guarantee as to how long such listing will be maintained.

We plan to continuously examine the advisability of maintaining our listing on the TASE. We may in the future voluntarily delist our securities from the TASE, provided we furnish notice thereof at least 90 days in advance of such delisting. If our ordinary shares are delisted, some holders of our ordinary shares that are traded on the TASE may be required or will choose to sell their shares, which could result in a decrease in the trading price of our ordinary shares.

There can be no assurance that we will continue to declare cash dividends or continue repurchases of our ordinary shares.

Since July 2018, our Board of Directors have elected to declare cash dividends on our ordinary shares each year. Prior to the declaration of these dividends, we had never declared a cash dividend. Under the Israeli Companies Law, 1999, or the Companies Law, we may pay dividends only out of our profits as determined for statutory purposes, unless court approval is granted for the payment of dividends despite the lack of statutory profits. Accordingly, the declaration and payment of future dividends is subject to the Board's discretion and will be dependent upon future earnings, cash flows, the requirements of the Companies Law, the receipt of court approval, if required, and other factors. There can be no assurance that we will continue to declare cash dividends on our ordinary shares.

In addition, since 2014, we have received court approvals each year for share repurchases up to specified amounts. Our share repurchases have and will take place in open market transactions or in privately negotiated transactions and may be made from time to time depending on market conditions, share price, trading volume or other factors. The repurchase program does not require us to purchase a specific number of shares and may be suspended from time to time or discontinued. There can be no assurance that we will continue to seek court approval of, or that we will complete, additional share repurchases.

General Risk Factors

We have a significant presence in international markets and plan to continue to expand our international operations, which exposes us to a number of risks that could affect our future growth.

We have a worldwide sales, marketing and support infrastructure that is comprised of independent distributors and value-added resellers, and our own personnel resulting in a sales, marketing and support presence in many countries, including markets in North America, Western and Eastern Europe, the Asia Pacific region and Latin America. We expect to continue to increase our sales headcount, our applications development headcount, our field support headcount, our marketing headcount and our engineering headcount and, in some cases, establish new relationships with distributors, particularly in markets where we currently do not have a sales or customer support presence. As we continue to expand our international sales and operations, we are subject to a number of risks, including the following:

- greater difficulty in enforcing contracts and accounts receivable collection, as well as longer collection periods;
- increased expenses incurred in establishing and maintaining office space and equipment for our international operations;
- fluctuations in exchange rates between the dollar and foreign currencies in markets where we do business;
- greater difficulty in recruiting local experienced personnel, and the costs and expenses associated with such activities;
- general economic and political conditions in these foreign markets (for example changes in oil prices and the global economy have affected growth and ultimately the demand for our products in China);
- economic uncertainty around the world;
- management communication and integration problems resulting from cultural and geographic dispersion;
- risks associated with trade restrictions and foreign legal requirements (such as privacy and cyber security), including the importation, certification, and localization of our solutions required in foreign countries, such as high import taxes in Brazil and other Latin American markets where we sell our products;
- greater risk of unexpected changes in regulatory practices, tariffs, and tax laws and treaties;
- the uncertainty of protection for intellectual property rights in some countries;

[Table of Contents](#)

- greater risk of a failure of employees to comply with both U.S. and foreign laws, including antitrust regulations, the U.S. Foreign Corrupt Practices Act, or the FCPA, and any trade regulations ensuring fair trade practices; and
- heightened risk of unfair or corrupt business practices in certain regions and of improper or fraudulent sales arrangements that may impact financial results and result in restatements of, or irregularities in, financial statements.

Any of these risks could adversely affect our international operations, reduce our revenues from outside of the United States or increase our operating costs, adversely affecting our business, results of operations and financial condition and growth prospects. There can be no assurance that all of our employees and channel partners will comply with the formal policies we have and will implement, or applicable laws and regulations. Violations of laws or key control policies by our employees and channel partners could result in delays in revenue recognition, financial reporting misstatements, fines, penalties or the prohibition of the importation or exportation of our software and services and could have a material adverse effect on our business and results of operations.

We depend on a limited number of key personnel who would be difficult to replace.

The success of our business depends in large part upon the continuing contributions of our management and key personnel. Specifically, we rely heavily on the services of Shabtai Adlersberg, our President and Chief Executive Officer, and Lior Aldema, our Chief Business Officer. Mr. Adlersberg is also a director. If our President and Chief Executive Officer or our Chief Business Officer are unable or unwilling to continue with us, our results of operations could be materially and adversely affected. We do not carry key person insurance for our key personnel.

The success of our business also depends upon our continuing ability to attract and retain other highly-qualified management, technical, sales and marketing personnel. We require highly-qualified technical personnel who are capable of developing technologies and products and providing the technical support required by our customers. We experience competitive pressure with respect to retaining and hiring employees in the high technology sector in Israel. In 2022, Israel faced a shortage of qualified technical personnel with the requisite experience in the industry in which we operate. Specifically, there was a notable shortage of engineers who were familiar with the intricacies and bespoke aspects of our products and services. To the extent that such trends continue in 2023 (and beyond) and we fail to hire and retain skilled employees, our business may be adversely affected, including our ability to deliver products and services on a timely basis. Moreover, to the extent we are able to successfully recruit and retain additional technical personnel, we may be required to incur significant costs due to steep salary increases. Given the substantial demand for such services, we may be unsuccessful in attracting and retaining an adequate number of technical personnel to support our current operations and the potential expansion of our business.

Rising wages and other labor-related costs could materially and adversely affect our business.

The ability to execute our strategic plans is highly dependent on our ability to promote, retain and recruit a sufficient number of qualified personnel. Given the competition for qualified talent and rising wages in the technology industry in Israel, we face significant challenges in finding, hiring and retaining qualified and highly-trained personnel. The tight labor market has resulted in higher labor-related costs, increased attrition rates and fundamental changes in the labor market and expectations of employees. In particular, our desire to hire superior talent may require us to pay higher wages and provide enhanced benefits, which could cause us to incur higher labor-related costs as compared to our competitors. We expect wages to continue to rise in Israel in the near-term, which will continue to impact our overall financial condition, cash flows and operations. We cannot be assured that we will be successful in hiring, retaining, training and promoting our personnel at current wage rates given that we are currently operating in a highly competitive labor market and further increases in market compensation could adversely impact our business.

A data security or privacy breach could adversely affect our business and services.

The protection of customer, employee and company data is critical to our business and operations. Customers and other stakeholders have a high expectation that we will adequately protect and safeguard their personal data or other information from cyberattack or other security breaches. We rely on the information technology system that we manage, and those that are managed by third parties with whom we engage, to conduct our business and operations, and these systems are subject to cybersecurity risks, potential attacks and breaches due to human error. We are additionally increasingly incorporating open source software into our products and there may be vulnerabilities in open source software that may make our products susceptible to cyberattacks. Moreover, given the nature of cyberattacks, breaches and infiltration of our internal systems (or the systems of the third parties with whom we engage) could go unnoticed for extended periods of time and materially disrupt our operations, which could result in a material loss of revenue, substantial downtime and loss of critical information and data. We may incur higher costs in order to remediate or correct the effect of any such incidents. Likewise, because the methods used to obtain unauthorized access change frequently and may not be immediately detected, we may be unable to anticipate these methods or promptly implement preventative measures. Any such access, disclosure or other loss of information could therefore result in legal claims or proceedings, liability under laws that protect the privacy of personal information, disrupt our operations and the services we provide to customers and damage our reputation, which could adversely affect our business, revenues and competitive position. In addition to taking the necessary precautions ourselves, we require that third-party service providers implement reasonable security measures to protect our customers' identity and privacy. We do not, however, control these third-party service providers and cannot guarantee that no electronic or physical computer break-ins and security breaches will occur in the future.

Furthermore, a breach of customer, employee, or company data could also significantly damage our reputation and result in lost sales, fines, or lawsuits. Despite our security measures, our information technology and infrastructure and/or our products may be vulnerable to attacks by hackers or breaches due to employee error, malfeasance or other disruptions. Any such breach or attack could compromise our networks, or customer networks in whole or in part, and the information stored there could be accessed, publicly disclosed, lost or stolen.

Certain macroeconomic and geopolitical conditions, which are outside of our control, may also make us more susceptible to a cybersecurity attack. For example, growing tensions between Russia and several western nations (and their respective allies) in connection with Russia's invasion of Ukraine, in February 2022, could result in retaliatory actions being undertaken by supporters of Russia, including in the form of espionage, phishing campaigns and other forms of cyber-attacks. Moreover, pro-Russian ransomware cybercriminals and gangs have recently publicly threatened to augment their hacking efforts in response to the implementation of sanctions and other responsive actions taken by western countries (and their allies). Increasing costs associated with information security, such as increased investment in technology, the cost of compliance and costs resulting from consumer fraud could cause our business and results of operations to suffer materially.

We may desire to expand our business through acquisitions that could result in diversion of resources and extra expenses. This could disrupt our business and affect our results of operations.

Part of our strategy is to pursue acquisitions of, or investments in, businesses and technologies or to establish joint ventures to expand our business. The negotiation of acquisitions, investments or joint ventures, as well as the integration of acquired or jointly developed businesses or technologies, could divert our management's time and resources. Acquired businesses, technologies or joint ventures may not be successfully integrated with our products and operations. The markets for the products produced by the companies we acquire may take longer than we anticipated to develop and to result in increased sales and profits for us. We may not realize the intended benefits of any acquisition, investment or joint venture and we may incur losses from any acquisition, investment or joint venture.

Acquisitions could result in:

- substantial cash expenditures;
- potentially dilutive issuances of equity securities;
- the incurrence of debt and contingent liabilities;
- a decrease in our profit margins;

[Table of Contents](#)

- amortization of intangibles and potential impairment of goodwill and intangible assets;
- reduction of management attention to other parts of the business;
- failure to invest in different areas or alternative investments;
- failure to generate expected financial results or reach business goals;
- increased expenditures on human resources and related costs; and
- decreased growth of our professional services.

If acquisitions disrupt our sales or marketing efforts or operations, our business may suffer.

If we do not manage our operations effectively, our results of operations could be adversely affected.

We have expanded our operations in the past and may continue to expand them in the future. This expansion has required, and may continue to require, the application of managerial, operational and financial resources. We cannot be sure that we will continue to expand, or that we will be able to expand our operations successfully. In particular, our business requires us to focus on multiple markets, including the VoIP, wireline, cable, enterprise unified communications and wireless markets. In addition, we work simultaneously with a number of large OEMs and network equipment providers each of which may have different requirements for the products that we sell to them. We may not have sufficient personnel, or may be unable to devote our personnel when needed, to address the requirements of these markets and customers. If we are unable to manage our operations effectively, our revenues may not increase, our cost of operations may rise and our results of operations may be adversely affected.

As we grow, we may need new or enhanced systems, procedures or controls. The transition to such systems, procedures or controls, as well as any delay in transitioning to new or enhanced systems, procedures or controls, may seriously harm our ability to accurately forecast sales demand, manage our product inventory and record and report financial and management information on a timely and accurate basis.

ITEM 4. INFORMATION ON THE COMPANY

A. HISTORY AND DEVELOPMENT OF THE COMPANY

AudioCodes Ltd. was incorporated in 1992 under the laws of the State of Israel. We initially concentrated on low-bit-rate speech compression technology, later moving into voice over packet, or VoP, chips, VoIP communication modules, blades and boards. In 2001, we released an analog media gateway based on blade and chip technologies. This was followed by a family of VoIP media gateways combining analog and digital telephony interfaces. We then began developing high density VoIP media gateways and media servers. As the decade progressed, we expanded our product portfolio with session border controllers (2006), multi-service business routers and gateways (2008) and IP phones (2011).

Over the last decade, AudioCodes has developed a range of software-based voice productivity solutions through our Voice.AI business line. These include the Voca range of conversational artificial intelligence, or AI, related solutions that incorporate voice recognition, AI and machine learning technologies, SmartTAP 360° Live, an intelligent, secure enterprise compliance recording solution, Meeting Insights, an innovative tool for easily capturing and organizing all meeting-generated content and Voice.AI Connect a cloud-based solution that simplifies the integration of any cognitive voice service and bot framework with any voice or telephony channel to deliver an enhanced customer service experience.

[Table of Contents](#)

The advent of communications products running as software in virtualized environments or in the cloud required us to adapt our VoIP and digital signal processing, or DSP, technologies – including media processing, call signaling and management suite – to run on COTS servers and become cloud-friendly and elastic, while maintaining the real-time characteristics needed for voice communications. In line with this trend, we adapted many of our products to the virtualized datacenters and cloud, including Mediant session border controllers, or SBCs, and management applications, allowing for rapid deployment and true elasticity in private and public clouds.

In addition to SBCs and Voice.AI solutions, our varied software offerings include the One Voice Operations Center, or OVOC, for network and device configuration, monitoring and management, the Device Manager for administering business phones and meeting room solutions, and the AudioCodes Routing Manager, or ARM, for handling call routing in complex VoIP networks. In addition, the User Management Pack™ 365 simplifies user lifecycle and identity management across Microsoft Teams and Skype for Business deployments.

Today, we supply end-to-end solutions for the enterprise, contact center and service provider markets, with a strong focus on accelerating the voice-enablement of Microsoft Teams. These solutions include AudioCodes Live for Microsoft Teams, a flexible portfolio of fully managed services for simplifying Teams adoption.

Acquisitions have played a key role in our development and growth strategy. For example, in 2004 we entered the field of call recording when we acquired Ai-Logix, a leading provider of advanced voice recording technology and integration cards for the call recording and voice/data logging industries. In 2015, we acquired Active Communications Europe to further strengthen our ability to provide advanced software solutions for the then emerging Microsoft Skype for Business online application, including CloudBond 365 and User Management Pack™ 365. In 2021, we acquired Callverso Ltd. a company with conversational AI solutions. Callverso was subsequently merged into AudioCodes.

Our principal executive offices are located at 1 Hayarden Street, Airport City, Lod, 7019900 Israel. Our registration number with the Israeli Registrar of Companies is 520044132. Our telephone number is +972-3-976-4099. Our U.S. subsidiary, AudioCodes Inc., 80 Kingsbridge Road, Piscataway, New Jersey 08854, serves as our agent in the United States.

Our website address is www.audiocodes.com. The information contained on or available through our website is not incorporated by reference into and should not be considered a part of this Annual Report on Form 20-F. The SEC also maintains an Internet website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Our filings with the SEC are also available to the public through the SEC's website at www.sec.gov.

MAJOR DEVELOPMENTS SINCE JANUARY 1, 2022

AudioCodes Live Offerings for Microsoft Teams

During 2022, we continued to expand and enhance our AudioCodes Live for Microsoft Teams portfolio of managed services aimed at removing the complexity involved in integrating Microsoft Teams collaboration, unified communications, or UC, and enterprise telephony. We offer AudioCodes Live services on a monthly subscription basis with minimal upfront costs, enabling customers to benefit from Teams collaboration and voice services without having to make significant capital investments.

The AudioCodes Live for Microsoft Teams portfolio includes three offerings for enterprise customers:

- Live Teams Essentials: Teams Direct Routing connectivity delivered as a service.
- Live Teams Pro: extended the Live Team Essentials offering to include tenant onboarding and management with periodic reporting and a self-service portal to easily manage on-boarding, user moves/adds/changes/deletions, or MACD, and device management.
- Live Teams Premium: a fully managed service that covers both cloud and premise aspects of Microsoft Teams integration and management.

[Table of Contents](#)

Enterprise customers can complement AudioCodes Live for Microsoft Teams with our monitoring and management tools, and service-enhancing applications. AudioCodes Live for Microsoft Teams is delivered by AudioCodes global professional services teams and is also available through our global network of telecom and Microsoft 365 partners.

For the service provider market, we offer AudioCodes Live Cloud for Microsoft Teams, a managed service which simplifies the creation and operation of multi-tenant Teams offerings, including enterprise telephony. With AudioCodes Live Cloud for Microsoft Teams, service providers can reduce time-to-market for offering hosted Teams services to small and medium sized businesses, or SMBs, without the need for investing in building costly infrastructure or for specialist technical knowledge. AudioCodes Live Cloud for Microsoft Teams is delivered as a white-label service on a monthly subscription basis and is available in two variants:

- Hosted Essentials: Microsoft Teams Direct Routing SBC as a service with automated SBC configuration and ongoing management.
- Hosted Essentials+: PSTN connectivity configuration and automation for both Microsoft Operator Connect and Direct Routing, and comprehensive cloud-based management tools and portals that enable the service provider to simplify Microsoft Teams tenant onboarding and management, user MACD and device management.
- Hosted Pro: Hosted Essential+ enhanced with Advanced lifecycle management' user policy and automation management, monitoring and Teams Quality or Experience, or QoE, reporting with powerful AudioCodes applications.

In 2022 our Live Cloud solution was certified for the for the Microsoft Operator Connect Accelerator, providing a suite of capabilities, including managed SBC as a service, API bridging that uses the Operator Connect APIs, integration into operator OSS and BSS platforms, and more, for connectivity into the Microsoft Teams cloud. These offerings allow eligible operators to onboard faster to Operator Connect and provide services to their customers.

In 2022 we also introduced Live Express - a new SaaS solution that enables partners to onboard and manage their business customers' Microsoft Teams connectivity to the PSTN. The new solution includes Direct Routing for PSTN connectivity and management automation to simplify daily operations for partners and their customers. Partners can swiftly onboard new customers using the solution's portal and automation capabilities, thus providing connectivity of the customer's trunks to Microsoft Teams, control of dial plans and advanced call policies management. The service also provides a customer portal enabling moves, adds, changes, and deletes by the end customer.

Solutions for Work-from-Home Agents and Contact Centers

In 2022, many of our developments for the contact center market were focused on expanding the functionality of our WebRTC solutions to overcome the challenges posed by the COVID-19 pandemic and the rise of the Work-from-Home model.

VoiceAI Business Line

Our Voice.AI business line is focusing on content gathering and providing insights and predictions based on the content by using AI and machine learning.

SmartTAP 360° Live

SmartTAP 360° Live is an intelligent, secure enterprise compliance recording solution for automatically capturing and indexing all types of internal and customer organizational interactions on voice, video and instant messaging (IM).

Following its official certification for Microsoft Teams, we rebranded SmartTAP as a recording as a service solution, available from either the customer's cloud or the AudioCodes cloud. We continue to work with our traditional Microsoft channels to offer SmartTAP 360° Live to enterprise customers worldwide who are migrating to Teams.

[Table of Contents](#)

As a result of the shift to Teams and the Work-from-Home model, we see many more customers wanting to record video to meet their compliance requirements and to share the recorded content internally to drive collaboration and productivity improvements.

Voca

Voca is an agile conversational Interactive Voice Response, or IVR, solution for automating main-line call flows, capable of understanding and mastering unique organizational vocabularies. Customizing and managing Voca is straightforward due to its real-time, self-service web management interface, with no prior technical knowledge required.

The voice recognition technology behind Voca is based on an engine from Microsoft Azure Cognitive Services. For additional speech capabilities, such as language support, natural language understanding and more, Voca uses the speech cognitive services extension from Microsoft Azure. Major developments in 2022 include adding: (i) call functionality; and (ii) real-time reporting and skill-based routing.

VoiceAI Connect

The AudioCodes VoiceAI Connect Enterprise Edition extends chat and voice bot functionality to telephony communications, by connecting the bots to any type of telephony channel and thus allowing customers to talk naturally with bots for a voice-centric user experience. VoiceAI Connect supports multiple bot use cases, including conversational IVR (replacing DTMF-based legacy IVR systems), Virtual agent (offloading live agents), Agent assist (virtual assistant for live agents) and outbound campaign (calls initiated by the bot).

During 2022, we enhanced the integration with leading bot frameworks, including Microsoft PVA, Google Dialogflow and Amazon Lex and exposed APIs for voice streaming and fetching information such as call transcription.

The AudioCodes VoiceAI Connect Cloud Edition is the self-service portal version of VoiceAI Connect Enterprise in which the bot developer can immediately connect the bot to a public phone number, supplied by AudioCodes, to be able to call and speak with a bot in just a few clicks.

During 2022, we expanded the capabilities of VoiceAI Connect Cloud to non-bot use cases by adding Bring-Your-Own-SIP (BYOS) enabling connecting SIP Trunks to contact centers, unified communications or any other SIP based telephony solution. Additionally, we added support for customers to add their speech recognition and text to speech providers.

VICA

VICA is an Intelligent Virtual agent for contact centers that enhances customer experience while reducing operating costs.

Meeting Insights

Meeting Insights leverages AudioCodes' voice expertise and state-of-the-art Voice.AI technology to effortlessly record any meeting, presentation or lecture via Microsoft Teams, regardless of whether the attendees are in the room or participating through a conference call.

Based upon feedback we received during our successful early adoption program that ended in the third quarter of 2020, we recently upgraded Meeting Insights with powerful new capabilities requested by our users, including:

- Native Microsoft Teams integration;
- The ability to capture meeting recaps using spoken words;
- An action items summary report enabling users to follow up on their action items; and
- Enabling each user to capture private highlights.

Product and Technology Developments

SBC Developments

During 2022, we continued to improve our SBCs' performance, capacity and resiliency in virtual and cloud environments, and invested in advanced security certifications such as FIPS140-3.

IP Phones and Meeting Room Solutions

During 2022, we continued developing our range of IP phone devices and Room Experience, or RX, meeting room suite offering for Microsoft Teams environments. The advent of COVID-19 and the resulting global switch to working from home, or WFH, played a significant role in adapting our strategy to suit the "new normal", leading to the introduction of high-quality video solutions for Teams meetings.

With increasing demand for video support in Teams meetings, we launched a new video collaboration bar designed for Microsoft Teams, enabling customers to add high-quality video in huddle rooms and small meeting spaces. We introduced a broad set of RX video devices and solutions enabling us to offer video solutions suitable for all room sizes from huddle rooms up to large conference rooms.

As WFH and remote meetings became more prevalent, we also introduced a range of attractively priced personal audio and video solution bundles comprising a high-quality personal camera and one of our native Teams phones. Our native Teams phones include a low-cost device, a touch-screen phone with a reduced footprint and an executive model complete with expansion module.

Management Solutions

During 2022, we focused on developing functionalities for AudioCodes Live and Live Cloud. In particular, we developed onboarding, reporting and tools for our professional services to be able to provide managed services.

We also began developing a microservices holistic architecture to be used by OVOCaaS and our managed service platforms (live and Live Cloud).

Moreover, we developed a generic analytics platform based on Azure synapse capabilities. The new generic analytics platform can provide insights and predications based on MS teams call information integrated w/ SBC and MGW quality of services information. Moreover, the system analyzes the alarms to be used for fault predictions.

To combat the growing issue of spamming and robocalls, which constitutes a growing problem in public networks, ARM now offers security-based routing as part of the integration with SecureLogix's Orchestra One™ CAS (Call Authentication Service). In addition to the already-supported basic authentication with Orchestra One server, ARM now has an advanced mode which verifies calls with Verizon Call Verification Service. This service is available for markets in the United States. In addition, ARM supports Emergency Call Users in Microsoft Teams. During 2022, we established a joint cloud service with SecureLogix to provide voice firewall, robocall prevention and branded call verification services.

Multi-Service Business Routers and Universal CPE

During 2022, we developed a new product to support 5G access to our MSBR platforms. This product enables us to promote our routers and gateways to new installations, where physical access (such as xDSL or fiber) are not possible or very costly.

In parallel, we saw our universal CPE (uCPE) gain further market traction, due in part to our ability to provide a unique combination of voice application and various access methods. In particular, we experienced a notable enterprise win, utilizing our global presence and support to provide a complete, global solution.

Cloud and Managed Services Infrastructure

In 2022, we continued to enhance our cloud and managed services delivery platform in North America, Europe and Asia Pacific. The platform support multi UCaaS solution including Microsoft Teams (Direct Route and Operator connect), Zoom Phone, WebEx calling and more and is certified for Microsoft operator Connect Accelerate.

The platform comprises AudioCodes products such as our virtualized SBC, AudioCodes Routing Manager, network management and monitoring, and Teams user management. It also includes self-developed and third-party solutions that together enable network connectivity, service automation, service monitoring, CPE management, high availability and much more for seamless service delivery.

The platform allows Operators and other hosting partners to onboard customers with minimal investment and time. On top it offers add-on services such as Meeting Room monitor, user device management and monitor, Compliance recording, Interaction Center, and more.

PRINCIPAL CAPITAL EXPENDITURES

We have made and expect to continue to make capital expenditures in connection with expansion of our operation and production capacity. The table below sets forth our principal capital expenditures incurred for the periods indicated (amounts in thousands):

	Year Ended December 31,		
	2022	2021	2020
Computers and peripheral equipment	\$ 1,015	\$ 592	\$ 931
Office furniture and equipment	281	546	539
Leasehold improvements	191	36	60
Total	<u>\$ 1,487</u>	<u>\$ 1,174</u>	<u>\$ 1,530</u>

B. BUSINESS OVERVIEW

INDUSTRY BACKGROUND AND MARKET TRENDS

Impact of COVID-19 on Our Markets

The COVID-19 pandemic has impacted, and could continue to impact, the markets that we serve, and the products and services we offer. In particular, the COVID-19 pandemic resulted in an unprecedented shift to Work-from-Home for many enterprises and contact centers, and a need to enable remote teams and agents to communicate and collaborate, regardless of their location. Moreover, there has also been a significant increase in the consumption of online services resulting from lockdowns in many countries, thus increasing the load on support centers.

The initial IT priority was focused on supporting remote work and expanding network capacities. After systems had been improved to meet the immediate needs of the crisis, enterprises aimed to create a more efficient and effective Work-from-Home environment by modernizing the way employees communicate and collaborate internally and with third parties, including customers.

The COVID-19 pandemic has driven, and could continue to drive, customers to reevaluate the tools that they use to provide calling, video-enabled meetings and team messaging. Organizations are now more widely seeking solutions that provide an integrated user experience, allowing easy integration with business applications and workflow processes. In particular, we have noted (and anticipate continued) customer interest in applications that integrate with existing on-premises platforms, as well as new cloud-based capabilities, including video conferencing and integrated messaging.

Enterprise Unified Communications

In 2021 and 2022, the demand for UC continued to accelerate as the pandemic drove businesses towards cloud UC services, while on-premises UC adoption, as well as the PBX market, slowed down. UC functions are easily deployed through cloud services, along with access to continual updates and improvements and with native support for work-from-anywhere.

The shift to cloud-based UC or UCaaS has been driven by companies like Microsoft and Zoom.

Contact Centers and Customer Service

The contact center is rapidly evolving into the interaction hub of the digital enterprise, covering sales, support, education and more. It encompasses all aspects of the customer experience, while gathering data on customer satisfaction and needs. Although the migration of contact center technologies to the cloud will deliver far more flexibility and enable support for service delivery anywhere, and on any available media, many enterprises are retaining their existing (usually on-premises) systems to avoid the high costs involved in such a change. In such cases, companies are looking to introduce innovation to their existing contact center platform.

In 2022, driven by the COVID-19 pandemic, contact centers continued to adapt to allowing their agents to work from home. In parallel, the on-going growth in online consumer services drove expansion in many contact centers as they adapted to the dramatic changes wrought by the pandemic. This required high numbers of agents working remotely, while customers were offered omnichannel engagement, enabling customers to get in touch not just by phone but also via the web or dedicated mobile applications.

Another key driver in 2022 was contact center automation. We saw increased interest in virtual agents, conversational IVR and virtual agent assistants in this market as enterprises sought cost optimization through increasing live agent productivity and automation of the customer engagement while retaining and improving the customer experience.

Service Provider All-IP Transformation

In 2021 and for portions of 2022, we observed several telecom operators slowing down deployments due to the COVID-19 pandemic. However, during the second half of 2022, several of our service provider customers began to resume deployment and pressed ahead and completed their business customer migrations. In countries where the migration was completed, smaller tier 2 and tier 3 service providers expedited their ISDN contract cancellation following the incumbent's switch to all-IP. In the UK, we saw a pickup in migration pace, moving towards PSTN shutdown in 2025. Among the factors that drive telecom operators to replace legacy networks are the traditional TDM switches reaching end of life, the need to free up the real estate occupied by these switches, energy savings and the importance of competing with the growing numbers of alternative service providers.

Service providers typically apply two strategies for the business sector in the move towards all-IP networks. The first is deploying customer premises equipment (CPE) – such as VoIP media gateways, session border controllers or multi-service business routers – to connect the customers' legacy or IP systems to their IP networks. The second is aggregating a large number of TDM links, primarily ISDN PRI, at centralized points of presence utilizing high-capacity VoIP media gateways.

We also observed an increase in the need for speed to CPEs, driving the need to support Fiber connectivity (up to 1GB), as well as 4G LTE (up to 300MB) and upcoming 5G. The Work From Home activity drives integration of such interfaces in our lower-end CPEs.

BUSINESS STRATEGY

AudioCodes' business strategy is focused on increasing its position as a leading communications software vendor of advanced UC and contact center voice solutions, voice networking, all-IP voice network migration and Voice AI solutions for the digital workplace. The following are key elements of our strategy:

[Table of Contents](#)

Maintain and extend technological leadership. We intend to continue to capitalize on our expertise in voice compression technology and voice signaling protocols and proficiency in designing voice communications systems. We continually upgrade our product lines with additional functionalities, interfaces, densities and compatibility with the leading UC, CC and SIP solutions in the market. We are also adapting our product functionality to be software-based and run natively in cloud environments, to comply with the industry trend of migrating to private and public clouds. We have invested heavily and are committed to continued investment in developing technologies that are key to providing high performance voice, data and fax transmission over IP networks and to be at the forefront of technological evolution in our industry.

Strengthen and expand strategic relationships with key partners and customers. We sell our products and solutions to service providers and enterprises worldwide, leading enterprise channels, regional and global system integrators, global equipment manufacturers and VARs, in the telecommunications and networking industries and establish and maintain long-term working relationships with them. We work closely with our customers to engineer products, solutions and services that meet their specific needs. The ongoing development and integration cycles frequently result in close working relationships with our customers and partners. By focusing on leading solution vendors, system integrators and channels with large volume potential, we believe that we reach a substantial segment of our potential customer base while controlling the cost and complexity of our marketing efforts. Our partners and customers are located around the world, and we are better able to serve them by being close by. For this reason, we are investing in building local operations in key countries and regions, including sales, marketing and support resources to closely serve our partners and customers.

Develop a network of strategic solution partners. We sell our products through, or in cooperation with, partners that can offer or certify our products as part of a complete solution to their customers. We expect to further develop our strategic partner relationships with solution providers in order to increase our customer base. Our strategic partners include companies such as Microsoft, Zoom and Genesys (including Interactive Intelligence).

Engage enterprise customers in direct sales effort. We are pursuing a strategy of engaging large enterprise customers on a global level, as part of the AudioCodes product fit within leading enterprise solutions, mainly with Microsoft and Genesys. Our ability to engage these enterprises directly enhances our ability to influence solution design and procurement decisions. This, in turn, is designed to increase demand, which we expect our business partners to fulfill based on their relationship with AudioCodes.

Expand and enhance the development of highly integrated products. We plan to continue designing, developing and introducing new product lines, product features and services that address the increasingly sophisticated needs of our customers. We believe that our knowledge of core technologies and system design expertise enable us to offer better solutions that are more complete and contain more features than those available in competitive alternatives. For example, our Live Teams business increased from approximately \$7 Million in 2020, to approximately \$15 million in 2021, and exceeded approximately \$39 million as of December 31, 2022. We believe that the best opportunities for our growth and profitability will come from offering a broad range of highly integrated network product lines, product features, professional services, integration of data routing and switching services into our VoIP products, and the expansion into the service providers and carriers IP networks, unified communications and contact center markets.

Expand and enhance our solution offering. While the market is constantly looking for advanced, open communications and collaboration solutions, integration of multi-vendor products into a working solution is a complex task that enterprises, system integrators, service and cloud providers are challenged with. Over the years, we have developed a broad portfolio of products and invested in lifecycle management platforms (day 1 and day 2 operations) for our products that form a comprehensive solution, considerably simplifying the integration efforts required for setting up working unified communications, contact center or hosted business solutions. Customers and partners realize and appreciate the advantages our solutions offer, and we plan to keep expanding them with more products, management applications and enterprise productivity solutions.

Build upon existing technologies to penetrate new markets. The technology we developed originally for the service provider, enterprise, and OEM markets can also be used to create application-specific products and solutions, which helps us penetrate and serve various types of customers. Key segments that we focus on are unified communications, contact centers, SIP trunking and hosted services markets that have been adopting VoIP solutions.

[Table of Contents](#)

Develop and expand professional services and managed services offering. We are planning to expand our product-led services offering in line with our new products and solutions. AudioCodes has a rich portfolio of managed services. We offer our customers expert professional services to assist them with design, implementation, support and management of our products. System integrators, VARs and service providers are able to leverage AudioCodes professional and managed services to complement their own, and are able to offer them under their own brand to the end customers.

Expand our investments in the Voice.AI space. We will seek to leverage our relationship with our voice connectivity customers to upsell Voice.AI solutions, such as Voca and SmartTAP.

Acquire complementary businesses and technologies. We may pursue the acquisition of complementary businesses and technologies or the establishment of joint ventures to broaden our product offerings, enhance the features and functionality of our systems, increase our penetration in targeted markets and expand our marketing and distribution capabilities.

AUDIOCODES SOLUTIONS, PRODUCTS AND SERVICES

Solutions

Enterprise Business

Unified Communications

Our enterprise business is driven primarily by our solutions for UC environments. Beginning in 2020, we noted a clear shift towards UCaaS solutions as enterprises continue to migrate their IT infrastructure, in general, and UC solutions, in particular, to the cloud. We expect that trend to continue in 2023 and beyond, and consequently we plan to focus on providing solutions that ensure a smooth migration to cloud-based UC and offer operational simplicity, high quality and reliability.

Our efforts in the UCaaS arena are focused on a number of key partnerships, predominantly with Microsoft, who reported substantial growth in the active users of their Teams UC and collaboration solution from 2020 through 2022. We expect our certified support for Teams Direct Routing, our growing offering of audio and video devices and meeting room solutions, and our additional communications software solutions (call recording, Voca Conversational Interaction Center and Meeting Insights productivity solution) to continue to be focus areas for us as enterprises migrate from Skype for Business and other UC solutions, and adopt Microsoft Teams.

We believe that our AudioCodes Live for Microsoft Teams managed services offering will continue to gain traction as enterprises look to streamline their UC operations. Consumed on a monthly subscription basis, AudioCodes Live for Microsoft Teams enables enterprises to benefit from Teams voice calling services without having to make capital investments in hardware and software and without the need for specialized, in-house technical expertise.

In addition to Microsoft, we also built up our collaborations with Zoom Phone and Cisco Webex.

Contact Centers

As contact center vendors turn their focus to cloud services, our approach is to engage with enterprises who prefer to undertake a smoother and controlled journey to the cloud at their own pace. We work with system integrators to help those enterprises introduce innovation to their existing contact centers by modernizing their capabilities with technology such as click-to-call, Work-from-Home agent access and conversational AI solutions. Additionally, we work with Cloud Contact Center vendors to enhance their offering and get listed in their marketplaces.

VoiceAI Business Line

In the last few years, dramatic leaps forward in machine learning and AI have driven a revolution in the way enterprises boost engagement with their customers. These significant advances mean that businesses can now utilize conversational AI technologies offered by various providers to automate their customer service departments and train bots to give callers a high level of service whenever they get in touch. As voice is the most fundamental and intuitive method of conversation, we are focusing on enabling engagement of voice and telephony to various AI-based applications and implementing voice-based use cases, leveraging on the investment made in AI and voice applications. We began investing in these applications in 2018 and we believe opportunities will develop across products-accordingly, we anticipate that these applications will become a new growth engine for our business in the near- and long-term.

Service Provider Business

In the service provider market, our go-to-market strategy concentrates on outreach to small and medium sized businesses (SOHO, SMB, SME) with our VoIP gateways, SBCs and routers. We engage directly with service providers worldwide and supply them with our versatile range of products to suit different business scenarios. This includes the ability to enable Microsoft Teams voice connectivity through the Direct Routing feature, which allows companies to connect on-premises IP-PBX and UC platforms to the cloud-based Teams service.

Products

Networking

Our Mediant family of SBCs, media gateways, or MGWs, and MSBRs is a line of versatile IP communications platforms that deliver seamless VoIP connectivity.

Our Mediant SBCs include hardware and software platforms that offer cost-efficient, scalable SBC and hybrid SBC-MGW functionality (SIP to TDM, SIP to SIP) for enterprises, service providers and cloud deployments. Our software SBCs are cloud-native and deliver elasticity and high scale on all current major cloud platforms. SBCs are deployed at the border between the enterprise and the service provider, as well as between the networks of different service providers. Our media gateways serve as an efficient junction between VoIP networks, legacy TDM equipment, and the PSTN.

AudioCodes MediaPack 1xx analog VoIP gateways are cost-effective, stand-alone VoIP devices for connecting legacy telephones, fax machines and PBX systems with IP telephony networks and IP-based PBX systems. The MediaPack 1288 is a high-density analog media gateway for organizations that need to integrate large numbers of analog devices into their new all-IP infrastructure.

Our family of MSBRs offers service providers a range of all-in-one SOHO, SMB and SME routers that combine access, data, voice and security in a single device. These platforms are designed for managed data, SIP trunking, hosted PBX, and cloud-based communications services, and allow service providers to deploy flexible and cost-effective solutions.

Applications

AudioCodes offers a wide range of value-added voice applications to boost productivity and ensure a superior user experience.

SmartTAP

SmartTAP 360° Live is an intelligent, secure enterprise compliance recording solution for automatically capturing and indexing all types of internal and customer organizational interactions, including voice, video and instant messaging (IM). SmartTAP is available for deployment in customers' datacenters and private clouds, or from the AudioCodes cloud.

SmartTAP 360° Live integrates seamlessly with Microsoft Teams to record all voice, video and IMs interactions for later-stage AI analysis and for meeting regulatory compliance demands.

Voca

AudioCodes Voca enables businesses to upgrade their calling experience rapidly and easily, by allowing callers to talk their way through an IVR menu. By combining Voice.AI and voice networking technologies, our agile conversational IVR solution features advanced, enterprise-grade voice recognition capabilities that instantly automate calling journeys for both customers and internal users with simple, intuitive voice requests. Voca's out-of-the-box experience is mainly targeted at companies serving a large number of callers on their main line.

For contact center partners and system integrators, Voca is an easy, go-to solution for adding conversational capabilities to existing IVR systems, avoiding the complexities of dealing with a dedicated speech technology vendor, reducing the dependency on professional services, and maintaining high sales margins.

Voca enables a rich IVR experience in UC ecosystems by utilizing flexible hybrid connectivity capabilities with multiple telephony environments. Its multi-tenant service capability allows large customers to manage dedicated conversational IVRs for each of their sites, with easy role-based access for each site's administrators.

Voca's marketing and sales efforts are growing rapidly in North America, Germany, the United Kingdom, the Caribbean and Latin America region and Brazil, with plans to expand regional activity, mainly in the French, Nordics and Benelux markets. Voca's key partners and channels include NTT, NEC Cloud, ScanSource, Nextpointe and ETKn.

VoiceAI Connect

AudioCodes VoiceAI Connect extends chat and voice bot functionality to telephony communications by connecting bots to any type of telephony channel, thus allowing customers to talk naturally with bots for a voice-centric user experience. We work primarily with bot framework vendors to enable and promote creation of voice-bots by adding voice and telephony functionality to their bot framework platforms. In 2021, we extended the supported bot frameworks, including Microsoft PVA and others.

We also initiated collaborations with a wide variety of market players, such as speech services providers, bot developers, system integrators and advisors. We intend to leverage these alliances to create significant voice-bot opportunities for us, especially in the contact center domain.

The VoiceAI Connect Cloud Edition is the self-service SaaS version of VoiceAI Connect Enterprise, and serves as a primary tool for exposing the bot development ecosystem to a wide array of voice-bot use cases via trials and proof of concept projects.

Meeting Insights

AudioCodes Meeting Insights is an enterprise solution designed specifically for the meeting-technology world. It captures and organizes all meeting-generated content, from team collaboration and training sessions to sales and recruitment calls.

During meetings, Mia, a unique in-meeting voice assistant, takes notes, defines action items and marks important moments, either by text or with built-in AudioCodes Voice.AI technology.

Having made many user-driven product enhancements in 2020, we launched a new early adoption program in the first quarter of 2021. Meeting Insights will continue to be promoted worldwide through Microsoft partners.

Management and Operations

AudioCodes' management and operations tools are designed for deployment within large-scale cloud or premises-based UC deployments. They enable the management, monitoring and operation of the entire AudioCodes portfolio, including SBCs, media gateways, Microsoft-specific appliances and IP phones.

[Table of Contents](#)

OVOC is a voice network management solution that combines management of voice network devices and quality of experience monitoring into a single, intuitive web-based application. OVOC enables administrators to adopt a holistic approach to network lifecycle management by simplifying everyday tasks and assisting in troubleshooting all the way from detection to correction. OVOC's clear GUI design allows administrators to manage the full lifecycle of VoIP devices and elements from a single centralized location, saving time and costs.

AudioCodes Device Manager is a powerful and intuitive lifecycle management tool for enterprise IP phone deployments that enables administrators to deliver a reliable desktop phone service within their organization. With the ability to deploy and monitor AudioCodes 400HD IP phones, identify problems, and then fix them rapidly and efficiently, AudioCodes Device Manager increases employee satisfaction and productivity and lowers IT expenses.

Managing the dial plan and call routing rules of multi-site, multi-vendor enterprise VoIP networks can be extremely complicated. ARM delivers a highly effective, innovative solution to this problem by enabling centralized control of all session routing decisions. Through ARM's highly intuitive graphical user interface, system administrators can design and modify their voice network topologies and call routing policies from a single location, resulting in significant time and cost savings. Time-consuming tasks such as adding a new PSTN or SIP trunk interconnection, adding a new branch office or modifying individual users' calling privileges can be carried out simply and rapidly.

Devices

The AudioCodes 400HD series of IP phones includes a range of easy-to-use, feature-rich products for the enterprise unified communications, or UC, service provider, hosted UC services and contact center markets. Based on the same advanced, field-proven underlying technology as our other VoIP products, our high-quality IP phones enable systems integrators and end-customers to build end-to-end VoIP solutions. Our IP phone portfolio includes devices built specifically for Microsoft Teams environments with full Teams integration and a native Teams interface.

The AudioCodes Room Experience, or RX, suite delivers productive meeting room experiences regardless of room size. It combines a range of software and audio/video products from different UC solution vendors for effective voice-only conference calls and video-enabled collaboration sessions.

Our RX suite currently participates in the Microsoft Teams Room (MTR) program. Our RX products are certified under the MTR program which adds Teams to meeting rooms.

Services

Professional Services

We provide a modular portfolio of professional services to our partners and customers by delivering a complete voice network lifecycle model that is based on the three basic phases of Plan, Implement and Operate. Our professional services portfolio delivers seamless integration, high availability, and vast scalability to meet business and network demands.

Managed Services

We offer a range of managed services enabling our customers to deploy complex solutions solely by relying on the knowledge of our voice experts. These include providing our applications (such as SmartTAP, Voca, Meeting Insights and management applications) as managed services and a range of product-led services, such as managed SBCs and managed gateways.

AudioCodes Live for Microsoft Teams

AudioCodes Live for Microsoft Teams is a portfolio of managed services that removes complexity from the integration of Teams collaboration, UC and enterprise telephony. It provides a seamless, rapid and cost-effective migration to Teams for high quality voice and video collaboration.

[Table of Contents](#)

This fully managed service is complemented by devices-as-a-service, monitoring and management tools, and service enhancing applications. AudioCodes Live is also available through our global network of telecom and Microsoft 365 partners.

AudioCodes Live Cloud

AudioCodes Live Cloud is a SaaS solution that enables service providers to offer their business customers a seamless migration to UCaaS solutions, such as Microsoft Teams and Zoom Phone.

AudioCodes Live Teams Cloud includes all the necessary services for Microsoft Teams Direct Routing and Operator Connect, as well as Zoom Phone Provider Exchange, enabling service providers to reduce their initial investment.

AudioCodes provides the voice connectivity infrastructure setup (SBCs), customer onboarding, user lifecycle management and tools for monitoring, reporting and analytics, to help get the service up and running expeditiously and effectively, with the service provider supplying the data connectivity and SIP trunk minutes.

Sales and Marketing

Our sales and marketing strategy is focused on ways to obtain direct touch with the end customers, enterprises and service providers, enabling us to offer solutions best suited to solving the challenges the customer is facing. This approach also enables us to better understand the customer network and upsell additional products and capabilities that provide an optimal solution for the customer's needs.

In parallel, we engage with the leading channels, VARs and system integrators in each region, partner with leading application vendors and achieve design wins with system integrators and VARs in our targeted markets. We select our partners based on their ability to provide effective field sales, end-customer engagement, marketing communications and technical support to our customers.

Prospective customers and channels generally must commit resources to test and evaluate our products and to integrate them into larger systems, networks and applications. As a result, our sales process is often subject to delays associated with lengthy approval processes that typically accompany the design and testing of new communications equipment. For these reasons, the sales cycles of our products to new customers are often lengthy, averaging approximately six to twelve months after achieving a design win. This time may be further extended because of internal testing, field trials and requests for the addition or customization of features.

We market our products in the North America, Europe, Asia, Latin America and Israel through a direct sales force approaching channel partners and end users. We have invested significant resources in setting up local sales forces giving us a presence in relevant markets. We have placed particular emphasis on emerging markets such as Asia and India, in addition to continuing to sell our products in developed countries.

We have generally entered into non-exclusive sales representation/distribution agreements with customers in each of the major countries in which we do business. These agreements are typically for renewable 12-month terms or are terminable at will by us upon 90 days' notice, and do not commit the customer to inventory or to any minimum sales of our products to third parties. Some of our customers have the ability to return some of the products they have previously purchased and purchase more up-to-date models.

In 2022, we continued to enhance our field marketing efforts with direct touch enterprise engagements, along with channel recruitment and generic marketing activities, including tradeshows (mainly on a virtual basis), webinars, seminars, and online and social marketing.

Customers

Our customers consist of enterprises (with direct and indirect relationships), service providers (with direct and indirect relationships), and a small percentage of OEM customers.

[Table of Contents](#)

Our enterprise customers include a range of Fortune 1000 organizations, as well as smaller enterprises that use our equipment to primarily enable their UC solutions. Our solutions are sold to enterprise customers through a wide network of resellers and distributors and the bulk of our business is carried out in a two-tier model in over 100 countries. AudioCodes solutions enable enterprises to smoothly migrate their communications infrastructure to all-IP UC solutions. Our sales in this segment are based on two major business offerings: the traditional model including equipment, maintenance contracts and, optionally, day-1 professional services, on the one hand, and a full “as-a-service” solution or managed service that includes the equipment, maintenance, day-1 and day-2 professional services, on the other. The latter offering promises higher revenues and profits over time.

Our service provider customers include a range of tier 1, 2 and 3 service providers that deploy our solution as part of their voice, UC, SIP trunk or other offerings for their business customers. Our solutions are primarily deployed at the customer premises and less commonly at the service provider core to provide connectivity and high-quality voice services. AudioCodes’ broad range of products, broad functionality (SBC, media gateway, routing, multiple WAN and PSTN interfaces) and wide interoperability allows service providers to deploy our solutions in practically any third-party solution environment (for example, Cisco, Huawei, Alcatel, and others) and for a wide range of customers. Our solutions have been sold to service provider customers in 100 countries, mainly through a wide range of distributors and some via direct sales.

AudioCodes’ OEM customers include vendors that leverage AudioCodes’ technology and quality to deliver VoIP products and solutions. Historically, a substantial portion of our revenue has been derived from OEM customers that sold our technology products as part of their own voice solutions.

Manufacturing

Some of our components are obtained from single suppliers. For example, Texas Instruments Incorporated supplies all of our DSP components, while Motorola and Cavium Networks provide embedded CPU and network processors. Other components are generic in nature and we believe they can be obtained from multiple suppliers.

We have not entered into any long-term supply agreements. However, we have worked for years in several countries with established global manufacturing leaders such as Flex and have had significant experience with their level of commitment and ability to deliver. To date, we have been able to obtain sufficient amounts of these components to meet our needs and do not foresee any supply difficulty in obtaining timely delivery of any parts or components. However, an interruption in supply from any of these sources, especially with regard to DSP components from Texas Instruments Incorporated and CPU and network processors from both Cavium Networks and Motorola, or an unexpected termination of the manufacture of certain electronic components, could disrupt production, thereby adversely affecting our results. We generally maintain an inventory of critical components used in the manufacture and assembly of our products although our inventory of signal processor chips would likely not be sufficient in the event that we had to engage an alternate supplier for these components.

We utilize contract manufacturing for virtually all our manufacturing processes. Most of our manufacturing is carried out by third-party subcontractors in China and Israel. Our internal manufacturing activities consist primarily of the production of prototypes, test engineering, materials purchasing and inspection, final product configuration and quality control and assurance.

In addition, we have engaged several ODMs based in Asia to design and manufacture some of our products. We may engage additional ODMs in the future. Termination of our commercial relationship with an ODM or the discontinuance of manufacturing of products by an ODM would negatively affect our business operations.

We are obligated under certain agreements with our suppliers to purchase goods and to purchase excess inventory. Aggregate non-cancellable obligations under these agreements as of December 31, 2022 were approximately \$39.8 million.

Industry Standards and Government Regulations

Our products must comply with industry standards relating to telecommunications equipment. Before completing sales in a country, our products must comply with local telecommunications standards, recommendations of quasi-regulatory authorities and recommendations of standards-setting committees. In addition, public carriers require that equipment connected to their networks comply with their own standards. Telecommunication-related policies and regulations are continuously reviewed by governmental and industry standards-setting organizations and are always subject to amendment or change. Although we believe that our products currently meet applicable industry and government standards, we cannot be sure that our products will comply with future standards.

We are subject to telecommunication industry regulations and requirements set by telecommunication carriers that address a wide range of areas including quality, final testing, safety, packaging and use of environmentally friendly components. We comply with the European Union's Restriction of Hazardous Substances Directive (under certain exemptions) that requires telecommunication equipment suppliers to not use some materials that are not environmentally friendly. These materials include Cadmium, Hexavalent chromium, Lead, Mercury, Polybrominated biphenyls, Polybrominated diphenyl ethers Bis (2-ethylhexyl) phthalate, benzyl utyl phthalate, Dibutyl phthalate and Diisobutyl phthalate. We expect that other countries, including countries we operate in, will adopt similar directives or other additional directives and regulations.

Competition

Competition in our industry is intense and we expect competition to increase in the future. Our competitors currently sell products that provide similar benefits to those that we sell. There has been a significant amount of merger and acquisition activity, frequently involving major telecommunications equipment manufacturers acquiring smaller companies, as well as strategic alliances entered into by competitors. We expect that these activities will result in an increasing concentration of market share among these companies, many of whom are our customers.

In the following sections we list competing vendors and providers in each of our main product and service categories:

Networking Solutions

In the area of enterprise session border controllers, we compete with Oracle, Ribbon Communications, Metaswitch (acquired by Microsoft), TE-Systems and Ingate.

In the area of low and mid-density digital gateways we face competition from companies such as Ribbon Communications, Cisco, Dialogic, NewRock, Patton, Ferrari and Sangoma.

Our competitors in the area of multi-service business routers are companies such as Cisco, Juniper, Adtran, One-Access (acquired by Ekinops), Patton, Huawei, HP/3COM and Alcatel-Lucent.

Applications

Our competitors in the area of call recording are companies such as Verint, NICE, ACS, Red Box, Teleware and Dubber.

Our competitors in the area of Conversational IVR and Speech Attendants include, but are not limited to, Nuance, Parlance and other contact center vendors which provide IVR solutions.

Our competitors in the area of applications leveraging speech recognition and conversational AI technology include companies such as Twilio, Nuance and IBM, as well as Contact Center vendors such as Genesys, NICE and Five9s. Some public cloud providers offer technology and services that partially overlap with ours and several smaller startup companies are also developing competing solutions.

Our competitors in the area of SmartTAP360 live, which focuses mainly on compliance and quality recording in conjunction with Microsoft Teams, include, among others, ASC, Redbox, NICE and Verint. Such competitors are currently listed in the certified list of Microsoft vendors although we mainly see their presence in mid-market projects.

[Table of Contents](#)

Our competitors in the area of Meeting Insights, which is focused on productivity enhancement and organization repository in the Microsoft environment, include, but are not limited to, Avoma, Otter and (at times) Microsoft (with Stream or Teams premium). *Devices*

Our principal competitors in the area of IP phones and meeting room devices are “best-of-breed” IP phone vendors and end-to-end IP telephony vendors. “Best of breed” IP phone vendors sell standards-based SIP phones that can be integrated into any standards-based IP-PBX or hosted IP telephony system. These competitors include Poly (acquired by HPQ), Yealink, Grandstream, Logitech, Crestron, VTEC (which acquired Snom Technology) and many others.

AudioCodes Live for Microsoft Teams Managed Services

Our main competitor in the area of Live is the in-house implementation of projects (after buying products either directly or through an integrator). Competition is also exhibited in the form of system integrators, such as Converge One, NTT and BT, among several others, in various sizes, locations and specialties.

Some of our competitors have the ability to offer vendor-sponsored financing programs to customers. Those with broad product portfolios may also be able to offer lower prices on products that compete with ours because of their ability to recoup a loss of margin through sales of other products or services. Additionally, voice, audio and other communications alternatives that compete with our products are constantly being introduced.

Some of our competitors are also customers of our products and technologies.

In the future, we may also develop and introduce other products or services with new or additional telecommunications capabilities or services. As a result, we may compete directly with VoIP companies, system integrators, VARs and other telecommunications infrastructure and solution providers, some of which may be our current customers. Additional competitors may include companies that currently provide communication software products and services. The ability of some of our competitors to bundle other enhanced services or complete solutions with VoIP products could give these competitors an advantage over us.

Intellectual Property and Proprietary Rights

Our success is dependent in part upon proprietary technology. We rely primarily on a combination of patent, copyright and trade secret laws, as well as confidentiality procedures and contractual provisions, to protect our proprietary rights. We also rely on trademark protection concerning various names and marks that serve to identify us and our products. While our ability to compete may be affected by our ability to protect our intellectual property, we believe that because of the rapid pace of technological change in our industry maintaining our technological leadership and our comprehensive familiarity with all aspects of the technology contained in our signal processors and communication boards is also significant to our success.

We own U.S. patents that relate to our technologies. We also actively pursue patent protection in selected other countries of interest to us. In addition to patent protection, we seek to protect our proprietary rights through unregistered copyright protection and through restrictions on access to our trade secrets and other proprietary information which we impose through confidentiality agreements with our customers, suppliers, employees and consultants.

There are a number of companies besides us who hold or may acquire patents for various aspects of the technology incorporated in the ITU's standards or other industry standards or proprietary standards, for example, in the fields of wireless and cable. While we have obtained cross-licenses from some of the holders of these other patents, we have not obtained a license from all of the holders. The holders of these other patents from whom we have not obtained licenses may take the position that we are required to obtain a license from them. Companies that have submitted their technology to the ITU (and generally other industry standards making bodies) for adoption as an industry standard are required by the ITU to undertake to agree to provide licenses to that technology on reasonable terms. Accordingly, we believe that even if we were required to negotiate a license for the use of such technology, we would be able to do so at an acceptable price. Similarly, third parties who also participate with respect to the same standards-setting organizations as do we may be able to negotiate a license for use of our proprietary technology at a price acceptable to them, but which may be lower than the price we would otherwise charge.

[Table of Contents](#)

Third parties have claimed, and from time to time in the future may claim, that our past, current or future products infringe their intellectual property rights. Intellectual property litigation is complex and there can be no assurance of a favorable outcome of any litigation. Any future intellectual property litigation, regardless of outcome, could result in substantial expense to us and significant diversion of the efforts of our technical and management personnel. Litigation could also disrupt or otherwise severely impact our relationships with current and potential customers as well as our manufacturing, distribution and sales operations in countries where relevant third-party rights are held and where we may be subject to jurisdiction. An adverse determination in any proceeding could subject us to significant liabilities to third parties, require disputed rights to be licensed from such parties, assuming licenses to such rights could be obtained, or require us to cease using such technology and expend significant resources to develop non-infringing technology. We may not be able to obtain a license at an acceptable price.

In the past, we have entered into technology licensing fee agreements with third parties. Under these agreements, we agreed to pay these third parties royalties, based on sales of relevant products.

C. ORGANIZATIONAL STRUCTURE

AudioCodes Ltd. is the parent company of a group that consists of AudioCodes Ltd. and over 20 subsidiaries worldwide. AudioCodes Inc., our wholly-owned U.S. subsidiary incorporated in Delaware, is a significant subsidiary based in Piscataway, New Jersey.

D. PROPERTY, PLANTS AND EQUIPMENT

We lease our main office and warehouse facilities, located in Airport City, Lod, Israel, which occupy approximately 274,000 square feet for annual lease payments of approximately \$6.5 million (including management fees). The term of this lease extends until January 31, 2024. In November 2022, we entered into new lease agreement in Park Naymi, which is located near Messubim Junction in Israel, or the New Lease Agreement. The New Lease Agreement will replace the current lease agreement of our main offices in Israel. Pursuant to the New Lease Agreement, we will lease from the landlord an approximately 10,000 square foot facility, or the Premises. The lease of the Premises, which is still under construction, is expected to commence in 2023. The initial lease term under the New Lease Agreement is for seven years, commencing upon the transfer of possession of the Premises. We additionally hold options under the New Lease Agreement to extend the lease term for additional periods of up to 12 years.

We also lease offices in Beer Sheva, Israel, or the Beer Sheva Lease. The annual lease payments in 2022 (including management fees) for Beer Sheva Lease was approximately \$418,000.

Our U.S. subsidiary, AudioCodes Inc., previously leased an approximately 15,400 square foot facility in Somerset, New Jersey, or the Prior New Jersey Lease. On May 13, 2022, we entered into a new leasing arrangement for an approximately 14,706 square foot facility in Piscataway, New Jersey, or the Current New Jersey Lease.

AudioCodes Inc. also leases offices in Morrisville, North Carolina, or the North Carolina Lease. The annual lease payments in 2022 (including management fees) for all our offices in the United States were approximately \$237,000.

In October 2021, we entered into a termination agreement effectively terminating the Prior New Jersey Lease, or the Termination Agreement. Pursuant to the Termination Agreement, we agreed to terminate the Prior New Jersey Lease prior to its original expiration date. The termination is subject to our receipt of a termination payment from the landlord in the aggregate amount of \$1.5 million (which is to be paid in two equal installments of \$750,000) *minus* minor electricity payments to be paid by us. We received the first payment in October 2021 and the remaining payment in August 2022. We recorded lease income related to the Termination Agreement in the approximate amounts of \$1,093,000 and \$382,000 in the years ended December 31, 2022 and 2021, respectively.

We lease additional offices in Israel as well as for our international offices; however, we do not believe the lease agreements for these offices are material.

We believe that these properties are sufficient to meet our current needs. However, we may need to increase the size of our current facilities, seek new facilities, close certain facilities or sublease portions of our existing facilities in order to address our needs in the future.

ITEM 4.A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

Our management has reviewed our critical accounting policies and related disclosures with our Audit Committee. See Note 2 to our Consolidated Financial Statements included elsewhere in this Annual Report, which contains additional information regarding our accounting policies and other disclosures required by U.S. GAAP.

On an ongoing basis, management evaluates its estimates and judgments. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Management believes the significant accounting policies that affect its more significant judgments and estimates used in the preparation of its consolidated financial statements and are the most critical to aid in fully understanding and evaluating AudioCodes' reported financial results include the following:

- Revenue recognition and allowance for sales returns;
- Allowance for credit losses;
- Inventories;
- Intangible assets;
- Goodwill;
- Income taxes and valuation allowance;
- Share-based compensation; and
- Contingent liabilities.

The extent of the impact of current macroeconomic conditions, including, but not limited to, rising inflation, an overall global economic slowdown and the ongoing conflict in Ukraine, on our business, financial condition and results of operations will depend on future developments, which are highly uncertain at this time. Accordingly, we face a greater degree of uncertainty than normal in making the judgments and estimates needed to apply certain of our significant accounting policies.

Revenue Recognition and Allowance for Sales Returns

We generate our revenues primarily from the sale of software licenses, equipment, and related services through a direct sales force and sales representatives. Our products are delivered to our customers, which include original equipment manufacturers, or OEMs, network equipment providers, systems integrators, enterprises, carriers and distributors in the telecommunications and networking industries, all of whom are considered end-users.

[Table of Contents](#)

Revenues are recognized in accordance with Accounting Standards Codification, or ASC, 606, “*Revenue from Contracts with Customers*”. As such, we identify a contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation in the contract and recognize revenues when (or as) we satisfy its performance obligations.

We enter into contracts that can include combinations of products and services that are capable of being distinct and accounted for as separate performance obligations. The software licenses and equipment are distinct as the customer can derive the economic benefit of it without any additional services. We allocate the transaction price to each performance obligation, based on its relative standalone selling price out of the total consideration of the contract.

Software license and equipment revenues are recognized at the point of time when control is transferred, the product has been delivered and the benefit of the asset has been transferred.

Revenues from maintenance and support services are recognized over time ratably over the term of the contract.

We enter into contracts that included combinations of products and services that are capable of being distinct and accounted for as separate performance obligations. The software licenses and equipment are distinct as the customer can derive the economic benefit of it without any additional services. We allocate the transaction price to each performance obligation, based on its relative standalone selling price out of the total consideration of the contract.

As we generally do not sell the products separately on a standalone basis, the standalone selling prices are not directly observable. Therefore, we make estimates, based on reasonably available information. The estimated selling price is established considering multiple factors such as historical selling prices, internal pricing practices, gross margin objectives and discount policy.

We grant to certain customers a right of return or the ability over a limited period to exchange for other products a specific percentage of the total price paid for products they have purchased. We maintain a provision for product returns and exchanges and other incentives, based on our experience with historical sales returns, analysis of credit memo data and other known factors, all in accordance with ASC 606. This provision is deducted from revenues and amounted to approximately \$2.7 million and \$3.5 million as of December 31, 2022 and 2021, respectively. This provision was recorded as part of other payables and accrued expenses.

In instances of contracts where revenue recognition differs from the timing of invoicing, the Company generally determined that those contracts do not include a significant financing component. The primary purpose of the invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, not to receive or provide financing. The Company uses the practical expedient and does not assess the existence of a significant financing component when the difference between payment and revenue recognition is a year or less.

Deferred revenues include amounts invoiced to customers for which revenue has not yet been recognized. Deferred revenues are recognized as (or when) we perform the performance obligations under the contract.

Allowance for Doubtful Accounts

Our trade receivables are derived from sales to customers located primarily in the Americas, the Far East, Israel and Europe. We perform ongoing credit evaluations of our customers and to date have not experienced any material losses from uncollected receivables. An allowance for doubtful accounts is determined with respect to those amounts that we have recognized as revenue and determined to be doubtful of collection. We usually do not require collateral on trade receivables because most of our sales are made to large and well-established companies. On occasion we may purchase credit insurance to cover credit exposure for a portion of our sales and this may mitigate the amount we need to write off as a result of doubtful collections.

[Table of Contents](#)

Inventories

Inventories are stated at the lower of cost or net realizable value. Cost is determined using the “weighted average cost” method for raw materials and finished products. We periodically evaluate the quantities on hand relative to current and historical selling prices and historical and projected sales volume and technological obsolescence. Based on these evaluations, inventory write-offs are provided to cover risks arising from slow-moving items, technological obsolescence, excess inventories, discontinued product lines and market prices lower than cost. During the year ended December 31, 2022, the Group's inventory write off was immaterial. We wrote off inventory in a total amount of approximately \$1.7 million and \$4.2 million in the years ended December 31, 2021, and 2020, respectively.

Intangible Assets

As a result of our acquisitions, our balance sheet included acquired intangible assets in the aggregate amount of approximately \$1.6 million and \$2.4 million as of December 31, 2022 and 2021, respectively.

We allocated the purchase price of the companies we acquired to the tangible and intangible assets acquired and liabilities assumed based on their estimated fair values. These valuations require management to make significant estimations and assumptions, especially with respect to intangible assets. Critical estimates in valuing intangible assets include future expected cash flows from technology acquired, trade names, backlog and customer relationships. In addition, other factors considered are the brand awareness and market position of the products sold by the acquired companies and assumptions about the period of time the brand will continue to be used in the combined company's product portfolio. Management's estimates of fair value are based on assumptions believed to be reasonable, but such assumptions are inherently uncertain and unpredictable.

If we did not appropriately allocate these components or we incorrectly estimate the useful lives of these components, our computation of amortization expense may not appropriately reflect the actual impact of these costs over future periods, which could materially and adversely affect our operating results.

Intangible assets are comprised of acquired technology, customer relations and licenses. Intangible assets that are not considered to have an indefinite useful life are amortized using the straight-line basis over their estimated useful lives, which range from four and a half to ten years. Recoverability of these assets is measured by a comparison of the carrying amount of the asset to the undiscounted future cash flows expected to be generated by the assets. If the assets are considered to be impaired, the amount of any impairment is measured as the difference between the carrying value and the fair value of the impaired assets.

During the years ended December 31, 2022, 2021 and 2020, no impairment charges were identified.

Goodwill

As a result of our acquisitions, our balance sheet included acquired goodwill in the aggregate amount of approximately \$37.6 million as of December 31, 2022 and 2021. Goodwill represents the excess of the purchase price and related costs over the fair value of net tangible and identifiable intangible assets of businesses acquired and accounted for under the purchase method. In accordance with ASC 350, “Intangible, Goodwill and Other,” goodwill is not amortized and is tested for impairment at least annually. Our annual impairment test is performed at the end of the fourth quarter each year. If events or indicators of impairment occur between the annual impairment tests, we perform an impairment test of goodwill at that date.

ASC 350, “Intangibles – Goodwill and Other”, prescribes a two-phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment. Goodwill impairment is deemed to exist if the net book value of a reporting unit exceeds its estimated fair value. In such case, the second phase is then performed, and we measure impairment by comparing the carrying amount of the reporting unit's goodwill to the implied fair value of that goodwill. An impairment loss is recognized in an amount equal to the excess. We have an option to perform a qualitative assessment to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount prior to performing the two-step goodwill impairment test. If this is the case, the two-step goodwill impairment test is required. If it is more-likely-than-not that the fair value of a reporting unit is greater than its carrying amount, the two-step goodwill impairment test is not required.

During the years ended December 31, 2022, 2021 and 2020, no impairment losses were identified with respect to intangible assets.

[Table of Contents](#)

Income Taxes and Valuation Allowance

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax expense in each of the jurisdictions in which we operate. This process involves us estimating our actual current tax exposure, which is accrued as taxes payable, together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets, which are included within our consolidated balance sheet. We may record a valuation allowance to reduce our deferred tax assets to the amount of future tax benefit that is more likely than not to be realized.

Although we believe that our estimates are reasonable, there is no assurance that the final tax outcome and the valuation allowance will not be different from those which are reflected in our historical income tax provisions and accruals.

We have filed or are in the process of filing U.S. federal, state and foreign tax returns and Israel tax returns, that might be subject to audit by the respective tax authorities. Although the ultimate outcome is unknown, we believe that adequate amounts have been provided for and any adjustments that may result from tax return audits are not likely to materially adversely affect our consolidated results of operations, financial condition or cash flows.

Share-based Compensation

We account for share-based compensation in accordance with ASC 718, "Compensation – Stock Compensation". We utilize the Black-Scholes option pricing model to estimate the fair value of share-based compensation at the date of grant. The Black-Scholes model requires subjective assumptions regarding dividend yields, expected volatility, expected life of options and risk-free interest rates. These assumptions reflect management's best estimates. Changes in these inputs and assumptions can materially affect the estimate of fair value and the amount of our share-based compensation expenses relating to stock options. We recognized share-based compensation expense of \$15.1 million, \$14.1 million and \$8.8 million in the years ended December 31, 2022, 2021 and 2020, respectively. As of December 31, 2022, there was approximately \$16.5 million of total unrecognized share-based compensation expense related to non-vested share-based compensation arrangements granted by us. As of December 31, 2022, such expense is expected to be recognized over a weighted-average period of 2.89 years.

Contingent Liabilities

We are, from time to time, involved in claims, lawsuits, government investigations, and other proceedings arising from the ordinary course of our business. We record a provision for a liability when we believe that it is both probable that a liability has been incurred, and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. Such legal proceedings are inherently unpredictable and subject to significant uncertainties, some of which are beyond our control. Should any of these estimates and assumptions change or prove to have been incorrect, it could have a material impact on our results of operations, financial position and cash flows. No provision was recorded as of December 31, 2022.

Recently Issued and Adopted Accounting Pronouncements

See Note 2aa to our Consolidated Financial Statements included elsewhere in this Annual Report.

New Accounting Pronouncements Not Yet Effective

Not applicable.

A. OPERATING RESULTS

You should read this discussion with the consolidated financial statements and other financial information included in this Annual Report.

Overview

AudioCodes is a leading vendor of advanced communications software, products and productivity solutions for the digital workplace. Our products are deployed on-premises or delivered from the cloud. Providing software communications, cloud-based platforms, customer premise equipment and software applications, our solutions and products are geared to meet the growing needs of enterprises and service providers realigning their operations towards the transition to all-IP networks and hosted unified communications and collaboration business services. In addition, we offer a complete suite of professional and managed services that allow our partners and customers to choose a service packages (or complement their own offering) from a modular portfolio of professional services.

Our products are deployed globally in enterprise and service provider cloud networks. Our products include session border controllers, or SBC, life cycle management solutions, VoIP network routing solutions, media gateways, multi-service business routers, IP phones, value added applications and professional services. Our high-definition VoIP technologies and products provide enhanced intelligibility and a better end user experience in emerging voice communications services. We have tens of millions of SBC, media gateway and media server sessions deployed in over 100 countries across the globe. Our high availability platforms cover the spectrum of low, mid and high-density applications for service providers and large enterprises.

With over 25 years in the telecommunications market, we offer a broad range of solutions and services for both enterprise and service provider deployments. These solutions are built around our field-proven VoIP product range. Our VoIP technology contains voice quality enhancements and best-of-breed VoIP network elements and applications, and has a proven track record in product and network interoperability with the industry's leading companies. With full support for industry standard protocols such as SIP, and proven interoperability with industry leading soft switches, private branch exchanges, or PBXs, IP-PBXs, unified communications and contact center platforms, we deliver innovative solutions for virtually any voice communications environment, offering reduced total cost of ownership, enhanced features, and superior voice quality.

We have invested significant development resources in complying with Microsoft's requirements for the purpose of becoming a Microsoft recognized partner for their unified communication solutions for the enterprise market, which are known as Microsoft Skype for business and Microsoft Teams. We have adapted some of our gateway products, IP phones, session border controllers, survivable branch applications, value added applications and professional services to operate in the Microsoft Skype for business and Microsoft Teams environment. Our products to the Skype for Business and Microsoft Teams Unified Communications market are sold primarily to our channel partners.

In November 2019, we and our former Israeli subsidiary, AudioCodes Development Ltd. (which was merged into our company effective January 1, 2020), entered into a royalty buyout agreement, or the Royalty Buyout Agreement with the IIA relating to certain grants they had received from the IIA. The contingent net royalty liability to the IIA at the time of the Royalty Buyout Agreement with respect to these grants was approximately \$49 million, or in this section, the Debt, including interest to the date of the Royalty Buyout Agreement. As part of the Royalty Buyout Agreement, we agreed to pay approximately \$32.2 million to the IIA (to settle the Debt in full) in three annual installments starting in 2019. The annual installments were linked to the NIS and bore interest. Pursuant to the Royalty Buyout Agreement, we eliminated all royalty obligations related to our future revenues with respect to these grants. In December 2021, December 2020, and November 2019, we paid three installments of approximately \$12.2, \$11.6 and \$10.7 million, respectively, due under the Royalty Buyout Agreement.

We offer a comprehensive professional services program intended to provide responsive, preventive, and consultative support of our networking products. Our professional services support networking devices, applications and infrastructures, allowing large organizations and service providers to realize the potential of a high-performance multi-service network.

Our headquarters and research and development facilities are located in Israel with research and development extensions in the U.S. and China. We have other offices located in Europe, Asia, Latin America and Australia.

[Table of Contents](#)

Historically, a substantial portion of our revenue has been derived from large purchases by a limited number of OEMs, NEPs, systems integrators and distributors. Westcon Group, our largest customer, accounted for approximately 15.1%, 15.4% and 13.0% of our revenues in the years ended December 31, 2022, 2021 and 2020, respectively. In addition, ScanSource Communications Group accounted for approximately 10.0%, 10.9% and 13.5%, of our revenues in the years ended December 31, 2022, 2021 and 2020, respectively. Our top five customers accounted for approximately 38.2%, 38.7% and 37.7% of our revenues in the years ended December 31, 2022, 2021 and 2020, respectively. If we lose a large customer and fail to add new customers to replace the associated lost revenue, or the revenue derived from any such customers materially decreases, our operating results may be materially adversely affected.

Revenues, based on the location of our customers for the last three fiscal years, are as follows:

	Year Ended December 31,		
	2022	2021	2020
Americas	50.7 %	46.5 %	46.7 %
Far East	15.3	15.7	16.3
Europe	31.9	35.6	34.3
Israel	2.1	2.2	2.7
Total	100.0 %	100.0 %	100.0 %

Beyond repeated business from distributors and service providers, we believe that prospective customers are generally required to make a significant commitment of resources to test and evaluate our products and to integrate them into their larger systems. Our sales process is often subject to delays associated with lengthy approval processes that typically accompany the design and testing of new communications equipment. For these reasons, the sales cycles of our products to new customers are often lengthy, averaging approximately six to twelve months. As a result, we may incur significant selling and product development expenses prior to generating revenues from sales.

The currency of the primary economic environment in which our operations are conducted is the dollar and, as such, we use the dollar as our functional currency. Transactions and balances originally denominated in dollars are presented at their original amounts. All transaction gains and losses from the premeasurement of monetary balance sheet items denominated in non-dollar currencies are reflected in the statement of operations as financial income or expenses, as appropriate.

The demand for VoIP technology has increased during recent years. In recent years, the shift from traditional circuit-switched networks to next generation packet-switched networks continued to gain momentum. As data traffic becomes the dominant factor in communications, service providers are building and maintaining converged networks for integrated voice and data services. In developed countries, traditional and alternative service providers have adopted bundled triple play (voice, video and data) and quadruple play (voice, video, data and mobile) offerings. This trend, enabled by voice and multimedia over IP, has fueled competition among cable, wireline, ISP and mobile operators, increasing the pressure for adopting and deploying VoIP networks. In addition, underdeveloped markets without basic wire line service in countries such as China and India and certain countries in Eastern Europe are adopting the use of VoIP technology to deliver voice and data services that were previously unavailable.

The general economic uncertainty, including disruptions in the world credit and equity markets, has had and continues to have a negative impact on business around the world. This economic environment has had an adverse impact on the technology industry and our major customers. Conditions may continue to be uncertain or may be subject to deterioration which could lead to a reduction in consumer and customer spending overall, which could have an adverse impact on sales of our products. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity. In addition, any disruption in the ability of customers to access liquidity could lead customers to request longer payment terms from us or long-term financing of their purchases from us. Granting extended payment terms or a significant adverse change in a customer's financial and/or credit position could also require us to assume greater credit risk relating to that customer's receivables or could limit our ability to collect receivables related to purchases by that customer. As a result, our allowance for doubtful accounts and write-offs of accounts receivable could increase.

Impact of the COVID-19 Pandemic on Our Business and Operations

The COVID-19 pandemic has impacted, and continues to impact, the markets that we serves. In particular, the COVID-19 pandemic resulted in an unprecedented shift to work-from-home for many enterprises and contact centers, and a need to enable remote teams and agents to communicate and collaborate, regardless of their location. Moreover, there has also been a significant increase in the consumption of online services resulting from lockdowns in many countries, thus increasing the load on support centers. The COVID-19 pandemic has disrupted supply chains and affected production and sales across a range of industries, including the industry in which we operates. While we has previously managed, and will continue to actively manage, our business in an attempt to mitigate the impacts of the COVID-19 pandemic, we cannot at this time estimate the duration or full magnitude that the COVID-19 pandemic could ultimately have on our business, results of operations and financial condition.

Ongoing Conflict in Ukraine

In February 2022, Russia launched a large-scale invasion of Ukraine, and Russia and Ukraine continue to engage in active and armed conflict. Such conflict has resulted, and will likely continue to result in, significant destruction of Ukraine's infrastructure and substantial casualties amongst military personnel and civilians. As a result of Russia's invasion of Ukraine, the governments of several nations have implemented commercial and economic sanctions against Russia (as well as certain banks, companies, government officials, and other individuals in Russia and Belarus). In addition to governmental entities, actors in the private sector, including, among others, tech firms, consumer brands and major manufacturers, have stopped, or publicly announced that they intend to stop, operations in Russia and cease their partnerships with Russian firms, and shippers, insurance companies and refiners have similarly indicated that they will no longer purchase or ship crude oil from Russia. In March 2022, Israel's then Foreign Minister Mr. Yair Lapid indicated that Israel would not function as a route to bypass sanctions imposed on Russia by the United States and other western countries, and Israeli banks have elected to sever relationships with sanctioned Russian banks. While Israel has not, as of the date of this Annual Report, imposed explicit sanctions on Russia or Belarus, it has publicly rejected Russia's annexation of the four occupied regions of Ukraine and voiced support for Ukraine's sovereignty and territorial integrity. Moreover, Israeli companies who hold ties to the United States, the United Kingdom and the European Union could be indirectly subject to the measures imposed by such nations.

While it is not possible to predict or determine the ultimate consequences and impact of the conflict in Ukraine, such conflict could result in, among other things, significant regional instability and geopolitical shifts, and material and adverse effects on global macroeconomic conditions, financial markets, exchange rates and supply chains. To the extent negotiations between Russia and Ukraine are ultimately unsuccessful, the conflict in Ukraine could have a lasting impact in the near- and long-term on the financial condition, business and operations of our business (and the businesses of the counterparties with whom we engage), and the global economy at large.

Results of Operations

The following table sets forth the results of operations in dollars and as a percentage of total revenues for the periods indicated:

	Year ended December 31,			
	2022		2021	
	Amount	% of Revenues	Amount	% of Revenues
Revenues:				
Products	\$ 164,302	59.7 %	\$ 155,089	62.3 %
Services	110,791	40.3	93,831	37.7
Total revenues	<u>275,093</u>	<u>100.0</u>	<u>248,920</u>	<u>100.0</u>
Cost of revenues:				
Products	63,686	23.1	52,750	21.2
Services	32,629	11.9	25,279	10.2
Total cost of revenues	<u>96,315</u>	<u>35.0</u>	<u>78,029</u>	<u>31.3</u>
Gross profit	178,778	65.0	170,891	68.7
Operating expenses:				
Research and development, net	59,842	21.8	53,396	21.5
Selling and marketing	70,123	25.4	62,057	24.9
General and administrative	17,494	6.4	15,914	6.4
Total operating expenses	<u>147,459</u>	<u>53.6</u>	<u>131,367</u>	<u>52.8</u>
Operating income	31,319	11.4	39,524	15.9
Financial income (expenses), net	2,864	1	123	0.1
Income before taxes on income	34,183	12.4	39,647	16.0
Taxes on income	(5,717)	(2.1)	(5,896)	(2.4)
Net income	<u>\$ 28,466</u>	<u>10.3 %</u>	<u>\$ 33,751</u>	<u>13.6 %</u>

Year Ended December 31, 2022 Compared to Year Ended December 31, 2021

Revenues. Revenues increased 10.5% to \$275.1 million in the year ended December 31, 2022, from \$248.9 million in the year ended December 31, 2021.

Our revenues from sales of products in the year ended December 31, 2022 increased by 5.9% to \$164.3 million, or 59.7% of total revenues, from \$155.1 million, or 62.3% of total revenues, in the year ended December 31, 2021. The increase in revenues from sales of products was primarily attributable to the increased adoption of unified communications and collaboration solutions by enterprises (specifically, Microsoft Teams), which account for a large portion of our revenues, and to a lesser extent the increased migration by Contact Center customers moving to IP. The increased adoption of UC and CC solutions and the migration to all-IP voice networks positively affected the demand for our products, specifically supporting high growth of our Devices and SBC products.

Our revenues from sales of services in the year ended December 31, 2022 increased by 18.1% to \$110.8 million, or 40.3% of total revenues, from \$93.8 million, or 37.7% of total revenues, in the year ended December 31, 2021. The increase in revenues from sales of services was primarily driven by the growth of our professional and managed services offerings. At the core of this growth is our continued progress in pivoting to recurring revenues with strong execution in our operation of the AudioCodes Live offering. The growth in product support services was attributable to sales of products in prior periods that resulted from an increase of our renewal rate of support agreements in some regions and from support services for a larger number of products being supported. The growth in sales of professional services was attributable to offering more managed services with larger contract value as part of our AudioCodes Live offering and a broader portfolio of professional services offered by us and an increase in demand for such services in the Enterprise UC market (mainly Microsoft Teams).

[Table of Contents](#)

Cost of Revenues and Gross Profit. Cost of revenues includes the cost of hardware, quality assurance, overhead related to professional and support customer services, overhead related to manufacturing activity, technology licensing and royalty fees payable to third parties and to the IIA. Gross profit increased to \$178.8 million in the year ended December 31, 2022, from \$170.9 million in the year ended December 31, 2021. Gross profit as a percentage of total revenues was 65.0% in the year ended December 31, 2022, compared to 68.7% in the year ended December 31, 2021. The decrease in the gross profit as a percentage of total revenues is primarily attributable to higher supply chain costs on products and less favorable product mix. Expenses included in cost of revenues related to share-based compensation were \$0.4 million in each of the years ended December 31, 2022 and 2021.

Cost of revenues related to sales of products increased by 20.7% to \$63.7 million in the year ended December 31, 2022, from \$52.8 million in the year ended December 31, 2021. Gross margin percentage from products was 61.2% in the year ended December 31, 2022 and 66.0% in the year ended December 31, 2021. This decrease is primarily attributable to higher supply chain costs and less favorable product mix.

Cost of revenues related to sales of services in the year ended December 31, 2022 increased by 29.1% to \$32.6 million, from \$25.3 million in the year ended December 31, 2021. This increase is primarily attributable to higher support personnel expenses associated with providing services and implementation of our products with service providers as well as enterprise customers. In the year ended December 31, 2022, the gross margin percentage from sales of services decreased to 70.5%, from 73.1% in the year ended December 31, 2021.

Research and Development Expenses, net. Research and development expenses, net, consist primarily of salaries and related costs of employees engaged in ongoing research and development activities, development-related raw materials and the cost of subcontractors, less grants from the IIA. Research and development expenses increased by 12.1% in the year ended December 31, 2022 to \$59.8 million, from \$53.4 million in the year ended December 31, 2021. As a percentage of total revenues, research and development expenses, net increased to 21.8% in the year ended December 31, 2022, from 21.5% in the year ended December 31, 2021. The increase on an absolute basis is primarily due to an increase in the total number of our employees and related expenses. In addition, in the year ended December 31, 2022, expenses included in research and development expenses related to share-based compensation were \$3.5 million, compared to \$2.8 million in the year ended December 31, 2021. IIA grants recognized were \$0.6 million in each of the years ended December 31, 2022 and 2021.

Selling and Marketing Expenses. Selling and marketing expenses consist primarily of salaries and related costs (including sales commissions) of sales and marketing personnel, as well as exhibition, travel and related expenses. Selling and marketing expenses increased by 13.0% in the year ended December 31, 2022 to \$70.1 million, from \$62.1 million in the year ended December 31, 2021. As a percentage of total revenues, selling and marketing expenses increased to 25.5% in the year ended December 31, 2022, from 24.9% in the year ended December 31, 2021. The increase on an absolute basis is primarily due to an increase in the total number of our employees and related expenses associated with such employees. We added employees in an effort to increase our market share in the areas in which we sell our products and services, mainly due to our continued progress in pivoting to recurring revenues. In addition, in the year ended December 31, 2022, expenses included in selling and marketing expenses related to share-based compensation were \$6.0 million, compared to \$6.2 million in the year ended December 31, 2021.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related costs of finance, human resources and general management personnel, rent, network and allowance for credit losses, as well as insurance and consultant services expenses. General and administrative expenses increased by 9.9% to \$17.5 million in the year ended December 31, 2022, from \$15.9 million in the year ended December 31, 2021. As a percentage of total revenues, general and administrative expenses were 6.4% in each of the years ended December 31, 2022 and 2021. The increase on an absolute basis is primarily due to an increase in payroll expenses. In addition, in the year ended December 31, 2022, expenses included in general and administrative expenses related to share-based compensation were \$5.2 million compared to \$4.8 million in the year ended December 31, 2021.

Financial Income (Expenses), Net. Financial income (expenses), net consists primarily of interest earned on cash and cash equivalents, marketable securities and bank deposits, gains from financial investments, net of interest on our bank loans and bank charges, exchange rate differences and linkage differences to the Israeli consumer price Index, or Israeli CPI, and amortization of marketable securities premiums and accretion of discounts, net. Financial income, net, in the year ended December 31, 2022 was \$2.9 million, compared to financial income, net of \$0.1 in the year ended December 31, 2021. The increase in financial expenses, net in the year ended December 31, 2022 was primarily due to (i) lower expenses related to exchange rate fluctuations; and (ii) higher interest income recorded with respect to marketable securities and financial investments.

[Table of Contents](#)

Taxes on Income. Taxes on income in the year ended December 31, 2022, were \$5.7 million, compared to \$5.9 million in the year ended December 31, 2021. The decrease in the net income tax expenses is primarily a result of lower utilization of deferred tax assets.

A discussion with respect to a comparison of the results of operations for the year ended December 31, 2021, compared to the year ended December 31, 2020 is contained under the heading “Results of Operations” in Item 5 of our Annual Report on Form 20-F for the year ended December 31, 2021, or the 2021 20-F.

Impact of Inflation, Devaluation and Fluctuation of Currencies on Results of Operations, Liabilities and Assets

Since the majority of our revenues are denominated in or linked to the dollar, we believe that inflation and fluctuations in the NIS/dollar exchange rate have no material impact on our revenues. However, a majority of the costs of our Israeli operations, mainly personnel and facility-related, is incurred in NIS. Inflation in Israel and dollar exchange rate fluctuations have some influence on our expenses and, as a result, on our net income. Our NIS costs, as expressed in dollars, are influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation or appreciation of the NIS in relation to the dollar.

To protect against the changes in value of forecasted foreign currency cash flows resulting from payments in NIS, we may maintain a foreign currency cash flow hedging program. We hedge portions of our forecasted expenses denominated in foreign currencies with forward contracts. These measures may not adequately protect us from material adverse effects due to the impact of inflation in Israel.

Rising inflation in the United States and other markets in which we operate (or derive revenue) may impact the economy and ultimately the demand for our products and services. See “Risk Factors – High rates of global inflation and the occurrence of a recession could have a material and adverse impact on our business, results of operations and financial condition” for further information regarding the risks associated with such inflation.

The following table presents information about the rate of inflation in Israel, the rate of devaluation of the NIS against the dollar, and the rate of inflation in Israel adjusted for the devaluation:

Year Ended December 31,	Israeli inflation rate %	NIS devaluation or appreciation rate %	Israeli inflation adjusted for devaluation or appreciation %
2022	5.3	13.2	7.9
2021	2.8	(3.3)	(6.1)
2020	(0.7)	(7.0)	(6.3)

B. LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations for the last two years primarily from our cash and cash equivalents, bank deposits, bank borrowings and cash from operations.

As of December 31, 2022, we had \$124.3 million in cash and cash equivalents, short-term and long-term marketable securities, short-term and long-term financial investments and bank deposits, a decrease of \$50.5 million from \$174.8 million of cash and cash equivalents and bank deposits at December 31, 2021. As of December 31, 2021, we were restricted with respect to using approximately \$5.1 million of our cash as a result of a lease agreement. As of December 31, 2022, we have no restricted cash.

Our material cash requirements from known contractual and other obligations include our lease commitments and purchasing commitments. For additional information on the foregoing commitments and purchasing commitments, see note 10 and note 11a to our Consolidated Financial Statements included elsewhere in this Annual Report.

Share Repurchase Program and Cash Dividends

In January, July and December 2021 and in June 2022, we received court approval to purchase up to \$30 million, \$35 million, \$35 million and \$35 million of our ordinary shares, respectively. In addition, in January 2023, we received court approval to purchase up to an additional \$25 million of our ordinary shares. The most recent court approvals allowed us to use the approved amounts for share repurchases or cash dividends. The Israeli court generally limits its approval to six months from the date of application. As a result, although the program does not have a set end date, it requires renewal every six months by submitting a new court application, based on the then prevailing facts. No shares were repurchased during the year ended December 31, 2022 (other than through the repurchase program). Share purchases have and will take place in open market transactions or in privately negotiated transactions and may be made from time to time depending on market conditions, share price, trading volume or other factors. The repurchase program does not require us to purchase a specific number of shares and may be suspended from time to time or discontinued.

During the year ended December 31, 2022, we acquired an aggregate of 1,513,207 of our ordinary shares for approximately \$38.1 million and declared and paid cash dividends in the aggregate amount of \$11.6 million. During the year ended December 31, 2021, we acquired an aggregate of 1,325,078 of our ordinary shares for approximately \$41.8 million and declared and paid a cash dividend in the aggregate amount of \$10.9 million. In February 2023, we declared a cash dividend in the aggregate amount of \$5.7 million. As of April 18, 2023, we had approximately \$19.3 million available for share repurchases or dividends under the most recent court approval granted in January 2023.

Cash Flows from Operating Activities

Our operating activities provided cash in the approximate amount of \$8.3 million in the year ended December 31, 2022, primarily due to net income of \$28.5 million, an increase of \$3.5 million in trade payables, non-cash charges of \$3.0 million for depreciation and amortization and \$15.1 million for share-based compensation expenses and a decrease of \$1.8 million in deferred tax assets, partially offset by an increase of \$20.6 million in trade receivables, an increase of \$12.7 million in inventories, a decrease of \$4.1 million in other payables and accrued expenses and a decrease of \$2.0 million in deferred revenues.

Our operating activities provided cash in the approximate amount of \$47.3 million in the year ended December 31, 2021, primarily due to net income of \$33.8 million, an increase of \$5.5 million in deferred revenues, a decrease of \$4.5 million in inventories, an increase of \$9.6 million in other payables and accrued expenses, non-cash charges of \$2.4 million for depreciation and amortization and \$14.2 million for share-based compensation expenses and a decrease of \$3.4 million in deferred tax assets, partially offset by a decrease of \$11.7 million in the royalty buyout liability and an increase of \$14.4 million in trade receivables. Our deferred revenues increased mainly due to the increase in the revenues derived from services in the past years and the deferred tax assets decreased as a result of utilization of these assets and update of temporary tax differences.

Cash Flows from Investing Activities

In the year ended December 31, 2022, our investment activities used cash in the amount of \$19.7 million, primarily as a result of \$16.6 million purchase of financial investments and \$5.0 million investment in short-term and restricted bank deposits.

In the year ended December 31, 2021, our investment activities provided cash in the amount of \$42.6 million, primarily as a result of a decrease of \$84.6 million in short-term bank deposits, partially offset by the purchase of \$43.8 million of marketable securities.

Cash Flows from Financing Activities

In the year ended December 31, 2022, we used \$48.6 million of cash in financing activities, primarily as a result of \$38.1 million used to repurchase our shares and \$11.6 million used to pay cash dividends to our shareholders, partially offset by \$1.1 million of proceeds from the issuance of shares upon exercise of stock options.

In the year ended December 31, 2021, we used \$51.5 million of cash in financing activities, primarily as a result of \$41.8 million used to repurchase our shares, \$10.9 million used to pay cash dividends to our shareholders and \$1.2 million used for repayment of bank loans, partially offset by \$2.4 million of proceeds from the issuance of shares upon exercise of stock options.

[Table of Contents](#)

Financing Needs

We anticipate that our operating expenses will be a material use of our cash resources for the foreseeable future. We believe that our current working capital is sufficient to meet our operating cash requirements for at least the next twelve months. Part of our strategy is to pursue acquisition opportunities. If we do not have available sufficient cash to finance our operations and the completion of additional acquisitions, we may be required to obtain additional debt or equity financing. We cannot be certain that we will be able to obtain, if required, additional financing on acceptable terms or at all.

Information with respect to Liquidity and Capital Resources as of December 31, 2021 and for the year then ended is contained under the heading “Liquidity and Capital Resources” in Item 5 of our 2021 20-F.

C. *RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES, ETC.*

Research and Development

In order to accommodate the rapidly changing needs of our markets, we place considerable emphasis on research and development projects designed to improve our existing products and to develop new ones. We invest in cloud and virtualization technologies, making sure our products and technologies suit and are optimized to cloud and hosted services environments. We are also further developing our SaaS offers with solutions like SmartTAP, VoiceAI Connect and Voca. We are developing productivity solutions, and specialized appliances and applications for Microsoft Teams such as Direct Routing Survivable Branch Appliances (SBA). We are constantly enhancing our session border controllers and digital media gateways for carrier and enterprise deployments, multi-service business routers, IP phones and meeting room devices, and management applications with increased capacity, new functionalities and compliance with the latest relevant standards and protocols.

In addition, we continue to maintain our analog and digital media gateways for carrier and enterprise applications, multi-service business routers and develop further our session border controllers, IP phones, management routing and productivity applications, as well as specialized appliances for Microsoft Skype/Teams for Business such as SBA, CCE and CloudBond 365. Our platforms are expected to feature increased session capacity, new functionalities, enhanced signaling software and compliance with new protocols, as well as new management and productivity applications. We also invest in cloud and virtualization technologies, making sure our products and technologies suite are optimized for cloud and hosted services. As of December 31, 2022, 339 of our employees were engaged primarily in research and development on a full-time basis.

Our net research and development expenses were approximately \$59.8 million in the year ended December 31, 2022, compared to \$53.4 million in the year ended December 31, 2021, and \$46.1 million in the year ended December 31, 2020. From time to time we have received royalty-bearing grants from the IIA. As a recipient of grants from the IIA, we are obligated to perform all manufacturing activities for projects subject to the grants in Israel unless we receive an exemption. Know-how from research and development which is used to produce products may not be transferred to third parties without the approval of the IIA and may require significant payments. The IIA approval is not required for the export of any products resulting from such research or development.

As described above, in November 2019, we and our former Israeli subsidiary, AudioCodes Development Ltd. (which was merged into our company effective January 1, 2020), entered into the Royalty Buyout Agreement with the IIA relating to certain grants we had received from the IIA. The contingent net royalty liability to the IIA at the time of the Royalty Buyout Agreement with respect to these grants was approximately \$49 million, including interest to the date of the Royalty Buyout Agreement. As part of the Royalty Buyout Agreement, we agreed to pay approximately \$32.2 million to the IIA (to settle the debt in full) in three annual installments starting in 2019. The annual installments were linked to the NIS and bore interest. Pursuant to the Royalty Buyout Agreement, we eliminated all royalty obligations related to our future revenues with respect to these grants. In December 2021, December 2020 and November 2019, we paid the three installments of approximately \$12.2 million, \$11.6 million and \$10.7 million, respectively, due under the Royalty Buyout Agreement.

[Table of Contents](#)

Through December 31, 2022, we had obtained grants from the IIA aggregating approximately \$7.3 million for certain of our research and development projects related to our other Israeli subsidiaries. We are obligated to pay royalties to the IIA (not covered by the Royalty Buyout Agreement), amounting to 3% to 5% of the revenues from the sales of the products and other related revenues generated from such projects, up to 100% of the grants received, if no additional payments are required, linked to the dollar and bearing interest at the rate of LIBOR at the time of grant. The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales no payment is required. If we transfer our manufacturing outside of Israel, the rate of royalties will increase.

As of December 31, 2022, our other Israeli subsidiaries have a contingent obligation to pay royalties in the amount of approximately \$20.1 million.

D. TREND INFORMATION

There is a growing global trend of use of AI and machine learning, and we have started implementing these capabilities in our Voice.AI products. The Voice.AI product suite is focusing on content gathering and providing insights and predictions based on the content by using AI and machine learning.

Using content gathering within organizations for AI analysis has several benefits, including:

- Improved decision-making;
- Cost savings;
- Increased accuracy;
- Scalability; and
- Competitive advantage.

Some of the latest trends in conversational AI include:

- *Multimodal Conversational AI*: Conversational AI is moving beyond text and voice to include other forms of interaction, such as images, videos and augmented reality. This allows for more natural and intuitive conversations.
- *Personalized Conversational AI*: Personalized conversational AI systems are becoming more prevalent, leveraging user data and machine learning algorithms to provide more personalized and relevant responses.
- *Increased Adoption of Conversational AI*: As conversational AI technology becomes more advanced and accessible, it is being adopted across a range of industries and use cases, including customer service, healthcare and education.

Another ongoing trend is the global migration to All-IP, which continues to impact our business as it has done for several years, with the shift from traditional communications systems to IP communications and unified communications. The COVID-19 pandemic expedited this trend, as many organizations accelerated their plans for migration and moved their employees to a Work from Home environment or Hybrid Workplace environment.

The continued growth of private and public cloud-based services in the telecommunications industry has continued to impact our business. Adopting cloud services, such as Microsoft Teams, is an attractive proposition for enterprises and service providers, with the potential to deliver significant operational and capital cost savings, as well as increased productivity and flexibility. We offer a range of software-based products and solutions designed with the cloud in mind. While we predict sales of these software-based solutions to increase, this may result in lower revenues from our hardware-based session border controller products.

As data traffic becomes the dominant factor in communications, service providers are building and maintaining converged networks for integrated voice and data services. This is driving integration of new data networking technologies, such as SD-WAN and the adoption of integrated devices supporting these capabilities. Additionally, aging legacy TDM switches, high-cost maintenance contracts and regulatory guidelines are driving service providers worldwide to announce “PSTN shutdown” and migrate their telephony services to IP communication.

[Table of Contents](#)

We are experiencing decreasing demand for our technology products from customers who previously manufactured network equipment products based on our enabling technology. These customers are migrating from our enabling technology products to diverse integrated comprehensive solutions and, as a result, the demand for our technology products is being adversely affected.

In addition, see the section “Impact of COVID-19 on Our Business and Operations” in Item 5.A above.

E. CRITICAL ACCOUNTING ESTIMATES

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States of America, or U.S. GAAP. These accounting principles require management to make certain estimates, judgments and assumptions based upon information available at the time that they are made, historical experience and various other factors that are believed to be reasonable under the circumstances. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented.

Our management has reviewed our critical accounting policies and related disclosures with our Audit Committee. See the section entitled “Critical Accounting Estimates” above in this Item 5 as well as Note 2 to our Consolidated Financial Statements included elsewhere in this Annual Report, which contains additional information regarding our accounting policies and other disclosures required by U.S. GAAP.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. DIRECTORS AND SENIOR MANAGEMENT

The following table sets forth certain information with respect to our directors, senior executive officers and key employees at April 18, 2023:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Stanley B. Stern	65	Chairman of the Board of Directors
Shabtai Adlersberg	70	President, Chief Executive Officer and Director
Niran Baruch	52	Vice President Finance and Chief Financial Officer
Lior Aldema	57	Chief Business Officer
Ofer Nimtsovich	54	Chief Operating Officer
Yair Hevdeli	58	Vice President, Research and Development
Eyal Frishberg	64	Vice President, Operations
Yehuda Herscovici	56	Vice President, Products
Tal Dor	53	Vice President, Human Resources
Shaul Weissman	57	Vice President, Business Development
Joseph Tenne ⁽¹⁾⁽²⁾⁽³⁾	67	Director
Dr. Eyal Kishon ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	63	Director
Doron Nevo ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	67	Director
Zehava Simon ⁽²⁾⁽³⁾	64	Director
Shira Fayans Birenbaum ⁽¹⁾	59	Director

- (1) Member of Audit Committee
(2) Member of Nominating Committee
(3) Member of Compensation Committee
(4) Outside Director under Israeli Law

[Table of Contents](#)

Stanley Stern became a director and our Chairman of the Board in December 2012. Since 2013, Mr. Stern has served as the president of Alnitak Capital, a private merchant bank and strategic advisory firm. From 2004 until 2013, Mr. Stern served in various positions at Oppenheimer & Co., including as a Managing Director and Head of Investment Banking, Technology, Israeli Banking and FIG. From 2002 until 2004, he was a Managing Director and the Head of Investment Banking at C.E. Unterberg, Towbin where he focused on technology and defense related sectors. From January 2000 until January 2002, Mr. Stern was the President of STI Ventures Advisory USA Inc., a venture capital firm focusing on technology investments. Prior to his term at STI Ventures, he spent over 20 years at CIBC Oppenheimer in the investment banking department and started the technology banking group in 1990. From 2002 until 2012, Mr. Stern served as the Chairman of the Board of Directors of Tucows, Inc., an internet service provider that was then a public traded company on the American Stock Exchange (and is now traded on the Nasdaq Capital Market), and, from 2012 until 2013, he served as a Director of Tucows. From 2012 until February 2014, he served as a director of Given Imaging Ltd., a manufacturer of medical devices, until Given Imaging was acquired by another company. From 2004 until 2009, he served as a director of Odimo Inc. (DBA Diamond.com), an online jewelry vendor. From 2005 until its sale in 2011, he served as a director and Chairman of the Audit Committee of Fundtech Ltd. Mr. Stern received his M.B.A. from Harvard Business School and a B.S. from Queens College.

Shabtai Adlersberg co-founded AudioCodes in 1993, and has served as our President, Chief Executive Officer and a director since inception. Until December 2012, Mr. Adlersberg also served as the Chairman of our Board of Directors. Mr. Adlersberg co-founded DSP Group, a semiconductor company, in 1987. From 1987 to 1990, Mr. Adlersberg served as the Vice President of Engineering of DSP Group, and from 1990 to 1992, he served as Vice President of Advanced Technology. As Vice President of Engineering, Mr. Adlersberg established a research and development team for digital cellular communication which was spun-off in 1992 as DSP Communications. Mr. Adlersberg holds a M.Sc. in Electronics and Computer Engineering from Tel Aviv University and a B.Sc. in Electrical Engineering from the Technion-Israel Institute of Technology, or the Technion.

Niran Baruch has served as our Vice President Finance and Chief Financial Officer since July 2016 after serving as our Vice President Finance and Chief Accounting Officer since May 2015. He joined AudioCodes in 2005 as Director of Finance and became Vice President Finance in 2011, responsible for the management of the finance department. Mr. Baruch has 20 years of experience with Nasdaq traded public companies, and is a Certified Public Accountant (CPA) with a B.A. in Business Management and Accounting.

Lior Aldema has served as Chief Business Officer (CBO) since January 2018, previously served as a director from July 2018 through September 2022, and as our Chief Operating Officer and Head of Global Sales from April 2012 to December 2017. Previously, he served as our Vice President, Product Management from 2002 until 2009, as well as our Vice President Marketing from February 2003 until 2009. He has been employed by us since 1998, when he was team leader and later headed our System Software Group in our research and development department. Prior to 1998, Mr. Aldema served as an officer in the Technical Unit of the Intelligence Corps of the Israeli Defense Forces (Major), heading both operational units and large development groups related to various technologies. Mr. Aldema holds an M.B.A. from Tel Aviv University and a B.Sc. from the Technion.

Ofer Nimtsovich has served as our Chief Operating Officer since January 2018 and as Vice President, Global Services from March 2013 to December 2018. From 2000 until February 2013, Mr. Nimtsovich served in various executive positions at Retalix, including Chief Information Officer, Executive Vice President of Global Services and, most recently as the head of the Software as a Service division of Retalix. From 1994 until 2000, Mr. Nimtsovich worked for Scitex Corporation Ltd., where he held various technical and management positions, including as the Global Microsoft Infrastructure manager for Scitex. Mr. Nimtsovich graduated from the Business Administration College in Israel in 1997 with a B.A. in Business Administration and Marketing, and also holds an M.B.A. degree from the University of Texas.

Yair Hevdeli joined AudioCodes in July 2013 as Vice President, Research and Development. From 2003 until 2013, Mr. Hevdeli served in various executive positions at Veraz/Dialogic, including Global Vice President, Research and Development and, most recently, as Senior Vice President, Research and Development and General Manager, Bandwidth Optimization BU. From 1998 until 2003, Mr. Hevdeli worked for ECI Ltd., where he held various technical and management positions. Mr. Hevdeli has over 20 years of experience leading large multidisciplinary global research and development teams in the telecom industry. Mr. Hevdeli graduated in 1995 with an M.B.A. in Business Management from Bar Ilan University, Israel and in 1992 received his B.A. in Computer Science and Economics, from Bar Ilan University.

[Table of Contents](#)

Eyal Frishberg has served as our Vice President, Operations since October 2000. From 1997 to 2000, Mr. Frishberg served as Associate Vice President, SDH Operations in ECI Telecom Ltd., a major telecommunication company. From 1987 to 1997, Mr. Frishberg worked in various operational positions in ECI Telecom including as manager of ECI production facility and production control. Mr. Frishberg worked from 1994 until 1997 for ELTA, part of Israel Aerospace Industries, in the planning and control department. Mr. Frishberg holds a B.Sc. in Industrial Engineering from Tel Aviv University and an M.B.A. from Ben-Gurion University of the Negev.

Yehuda Herscovici has served as our Vice President, Products, overseeing Product Management and Product Marketing since 2010. From 2003 till 2010, Mr. Herscovici served as our Vice President, Systems Group since 2003. From 2001 to 2003, Mr. Herscovici served as our Vice President, Advanced Products. From 2000 to 2001, Mr. Herscovici served as our Director of Advanced Technologies. From 1994 to 1998 and during 1999, Mr. Herscovici held a variety of research and development positions at Advanced Recognition Technologies, Ltd., a voice and handwriting recognition company, heading its research and development from 1999 to 2000 as Vice President, Research and Development. From 1998 to 1999, Mr. Herscovici was engaged in developing various wireless communication algorithms at Comsys, a telecommunications company. Mr. Herscovici holds an M.Sc. and a B.Sc. from the Technion, both in the area of Telecommunications.

Tal Dor has served as our Vice President of Human Resources since March 2000. Prior to March 2000, Ms. Dor acted for several years as a consultant in Israel to, among others, telephone and cable businesses, as well as health and social service organizations. Ms. Dor holds a B.A. in Psychology, from Ben-Gurion University of the Negev and an M.A. in Psychology from Tel Aviv University.

Shaul Weissman has served as our Vice President, Business Development since January 2014. Mr. Weissman has been with AudioCodes since 1994, serving in various positions. From 2007 until 2014, Mr. Weissman served as our Residential Business Line Manager. In addition, Mr. Weissman has served as our Vice President and Manager of our chip business line since 2006. From 2001 until 2005, Mr. Weissman served as our Support and Professional Services Manager for our chip business line; and from 1994 until 2000 he served as a digital signal processing engineer. Prior to joining AudioCodes, Mr. Weissman served as Captain in the Israeli Air Force. Mr. Weissman holds an M.Sc. and a B.Sc., from the Technion, both in the area of Telecommunications.

Joseph Tenne has served as one of our directors since June 2003. Since May 2017, Mr. Tenne has served as a financial executive at Itamar Medical Ltd. (NASDAQ and TASE: ITMR, (until December 2021)). Mr. Tenne serves as a director of MIND CTI Ltd. (NASDAQ: MNDO), OPC Energy Ltd. (TASE: OPCE), Sapir Corp Ltd. (TASE: SPIR), Highcon Systems Ltd. (TASE: HICN), Electreon Wireless Ltd. (TASE: ELWS) and Tarya Israel Ltd. (TASE: TRA). From August 2014 to April 2017, Mr. Tenne served as the Vice President Finance and Chief Financial Officer of Itamar Medical Ltd. From March 2005 until April 2013, Mr. Tenne served as the Chief Financial Officer of Ormat Technologies, Inc. (NYSE and TASE: ORA). From 2003 to 2005, Mr. Tenne was the Chief Financial Officer of Treofan Germany GmbH & Co. KG, a German company. From 1997 until 2003, Mr. Tenne was a partner in Kesselman & Kesselman, Certified Public Accountants in Israel (PwC Israel) and a member of PricewaterhouseCoopers International Limited. Mr. Tenne holds a B.A. in Accounting and Economics and an M.B.A. from Tel Aviv University. Mr. Tenne is also a Certified Public Accountant in Israel.

Dr. Eyal Kishon has served as one of our directors since 1997. Since 2013, Dr. Kishon has served as a director of Riskified Ltd. (NYSE: RSKD). Since 2007, Dr. Kishon has served as a director of Valens Semiconductor Ltd. (NYSE: VLN). Since 1996, Dr. Kishon has been Managing Partner of Genesis Partners, an Israel-based venture capital fund. From 1993 to 1996, Dr. Kishon served as Associate Director of Dovrat-Shrem/Yozma-Polaris Fund Limited Partnership. Prior to that, Dr. Kishon served as Chief Technology Officer at Yozma Venture Capital from 1992 to 1993. From 1991 to 1992, Dr. Kishon was a Research Fellow in the Multimedia Department of IBM Science & Technology. From 1989 to 1991, Dr. Kishon worked in the Robotics Research Department of AT&T Bell Laboratories. Dr. Kishon holds a B.A. in Computer Science from the Technion - Israel Institute of Technology and an M.Sc. and a Ph.D. in Computer Science from New York University.

[Table of Contents](#)

Doron Nevo has served as one of our directors since 2000. Mr. Nevo is the CEO of MultiVu, a 3D imaging company, which he co-founded in 2019. From 2001 to 2018, Mr. Nevo was co-Founder, President and CEO of KiloLambda Technologies. From 1999 to 2001, Mr. Nevo was involved in fund raising activities for Israeli-based startup companies. From 1996 to 1999, Mr. Nevo served as President and CEO of NKO, Inc. Mr. Nevo established NKO in early 1995 as a startup subsidiary of Clalcom, Ltd. NKO designed and developed a full scale, carrier grade, IP telephony system platform and established its own IP network. From 1992 to 1996, Mr. Nevo was President and CEO of Clalcom Ltd. Mr. Nevo established Clalcom in 1992 as a telecom service provider in Israel. He also serves as a director of Hadasit Bio-Holdings (TASE: HBL) and of a number of private companies. Mr. Nevo holds a B.Sc. in Electrical Engineering from the Technion – Israel Institute of Technology and an M.Sc. in Telecommunications Management from Brooklyn Polytechnic.

Zehava Simon was appointed as a director in February 2014. Ms. Simon served as a Vice President of BMC Software Inc. from 2000 until September 2013, most recently as Vice President, Corporate Development. From 2002 to 2011, Ms. Simon served as Vice President and General Manager of BMC Software in Israel. Prior to joining BMC Software, Ms. Simon held a number of executive positions at Intel Corporation. In her last position at Intel, she led Finance and Operations and Business Development for Intel in Israel. Ms. Simon has served as a board member of various companies, including Tower Semiconductor from 1999-2004, M-Systems from 2005-2006 and InSightec from 2005-2012. Ms. Simon is also a board member at Nova Measuring Instruments Ltd. (NASDAQ: NVMI), Amiad Water System Ltd. (TASE: AMD) and NICE Ltd. (NASDAQ: NICE). Ms. Simon holds a bachelor's degree in Social Sciences from the Hebrew University, a law degree (LL.B.) from the Interdisciplinary Center in Herzlia and a master's degree in Business and Management from Boston University.

Shira Fayans Birenbaum was appointed as a director in March 2022. Ms. Shira Fayans Birenbaum holds the position of President Global of CYMPIRE Ltd., a cyber simulation platform, as well as serving as a board member at ION Acquisition Corp (NYSE: IACC), a SPAC's franchise company, at POMVOM Ltd. (TASE: PMVM), at Cyber Innovative Technologies as an advisory board member. Ms. Fayans Birenbaum has 25 years of experience as a Board Member in publicly traded companies such as investment houses, banks, insurance, real estate, manufacturers, semiconductor and educational institutions. In the years 2014-2019, Ms. Fayans Birenbaum held the position of COO and CMO of Microsoft Israel (NASDAQ: MSTF) leading Digital Transformation. Ms. Fayans Birenbaum has extensive experience in Executive C Level positions in her previous roles. Ms. Fayans Birenbaum holds an MBA and BA both from Tel Aviv University and Marketing management certification studies from The College of Management Academic studies.

B. COMPENSATION

The table and summary below outline the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2022. We refer to the five individuals for whom disclosure is provided herein as our "Covered Executives."

For purposes of the table and the summary below, "compensation" includes base salary, discretionary and non-equity incentive bonuses, share-based compensation, payments accrued or paid in connection with retirement or termination of employment, and personal benefits and perquisites such as car, phone and social benefits paid to or earned by each Covered Executive during the year ended December 31, 2022.

<u>Name and Principal Position</u>	<u>Salary</u>	<u>Bonus (1)</u>	<u>Share-Based Compensation (2)</u>	<u>All Other Compensation (3)</u>	<u>Total</u>
Shabtai Adlersberg – President and CEO	\$ 393,126	\$ 1,000,000	\$ 2,229,551	\$ 209,403	\$ 3,832,080
Lior Aldema – CBO	\$ 280,853	\$ 262,295	\$ 1,240,097	\$ 106,677	\$ 1,889,922
Niran Baruch – VP Finance and CFO	\$ 242,200	\$ 117,880	\$ 760,734	\$ 83,431	\$ 1,204,245
Ofer Nimitsovich – COO	\$ 223,367	\$ 67,883	\$ 677,144	\$ 92,548	\$ 1,060,942
Yehuda Herscovici – VP Products	\$ 221,580	\$ 37,507	\$ 650,100	\$ 85,856	\$ 995,043

- (1) Amounts reported in this column represent annual incentive bonuses granted to the Covered Executives based on performance-metric formulas set forth in their respective employment agreements.
- (2) Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2022, with respect to share-based compensation granted to the Covered Executive.

[Table of Contents](#)

(3) Amounts reported in this column include personal benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to the respective Covered Executive, payments, contributions and/or allocations for savings funds (e.g., Managers Life Insurance Policy), education funds (referred to in Hebrew as “Keren Hishtalmut”), pension, severance, vacation, car or car allowance, medical insurance and benefits, risk insurance (e.g., life insurance or work disability insurance), telephone expense reimbursement, convalescence or recreation pay, relocation reimbursement, payments for social security, and other personal benefits and perquisites consistent with our guidelines. All amounts reported in the table represent incremental cost to us.

The aggregate direct remuneration paid during the year ended December 31, 2022 to the 16 persons who served in the capacity of director, senior executive officer or key employee during 2022 was approximately \$5.6 million, including approximately \$0.5 million which was set aside for pension and retirement benefits. The compensation amounts do not include amounts expended by us for automobiles made available to our officers, expenses (including business, travel, professional and business association dues and expenses) reimbursed to officers and other fringe benefits commonly reimbursed or paid by companies in Israel.

We currently pay each of our non-employee directors an annual fee of approximately \$41,240 and a fee of \$1,240 for each board meeting or committee meeting attended. In the event that a director attends a meeting by phone or a resolution is adopted by written consent, then the fee is reduced to 60% and 50% of the regular meeting fee, respectively. Such fees are in accordance with the rates prescribed by the Companies Law Regulation for fees of outside directors. Only directors who are not officers receive compensation for serving as directors. Our director, Mr. Adlersberg, who also serves as our President and Chief Executive Officer and our director, Mr. Aldema, who also serves as our Chief Business Officer, do not receive board meeting fees. Instead, each of them receives compensation in accordance with the terms of his respective employment agreement.

Upon election or reelection to the board of directors for a term of three years, each non-employee director is granted 7,500 restricted share units, or RSUs, each year that vest over a three year period from the grant date.

Options to purchase our ordinary shares granted under our 2008 Equity Incentive Plan to persons who served in the capacity of director or executive officer are generally exercisable at the fair market value at the date of grant and expire seven years from the date of grant. The options generally vest in four equal annual installments, commencing one year from the date of grant.

A summary of our stock option and RSU activity and related information for the years ended December 31, 2022, 2021 and 2020 for the persons who served in the capacity of director, senior executive or key employee officer during those years is as follows:

	Year Ended December 31,					
	2022		2021		2020	
	Number of Options and RSUs	Weighted Average Exercise Price	Number of Options and RSUs	Weighted Average Exercise Price	Number of Options and RSUs	Weighted Average Exercise Price
Outstanding at the beginning of the year	984,838	\$ 3.17	1,209,768	\$ 3.97	1,445,248	\$ 4.30
Granted	315,150	\$ 0.00	293,735	\$ 0.00	279,500	\$ 0.72
Cancelled	—		(26,250)		—	
Options exercised / RSUs vested	(405,091)	\$ 3.19	(492,415)	\$ 3.19	(514,980)	\$ 3.12
Outstanding at the end of the year	<u>894,897</u>	<u>\$ 3.17</u>	<u>984,838</u>	<u>\$ 3.17</u>	<u>1,209,768</u>	<u>\$ 3.97</u>

As of December 31, 2022, options to purchase 215,479 ordinary shares were exercisable by the 15 persons who served as an officer or director during the year ended December 31, 2022 at an average exercise price of \$9.19 per share. As of December 31, 2022, the 15 persons who served as an officer, director or key employee during the year ended December 31, 2022 held an aggregate of 651,604 RSUs.

C. *BOARD PRACTICES*

Corporate Governance Practices

We are incorporated in Israel and therefore are subject to various corporate governance practices under the Companies Law, relating to such matters as outside directors, the audit committee, compensation committee, the internal auditor and approvals of interested party transactions and of compensation of officers and directors. These matters are in addition to the ongoing listing conditions of the Nasdaq Global Select Market and other relevant provisions of U.S. securities laws. Under the Nasdaq rules, a foreign private issuer may generally follow its home country rules of corporate governance in lieu of the comparable Nasdaq requirements, except for certain matters such as composition and responsibilities of the audit committee and the independence of its members. For further information, see Item 16.G, “Corporate Governance.”

Independent Directors

Under the Companies Law, Israeli companies such as AudioCodes that have offered securities to the public in or outside of Israel are required to appoint at least two “outside” directors, unless AudioCodes elects to exempt itself. The Board of Directors decided to remain subject to this requirement. Doron Nevo and Dr. Eyal Kishon currently serve as our outside directors. Under the requirements for listing on the Nasdaq Global Select Market, a majority of our directors are required to be independent as defined by Nasdaq rules. Doron Nevo, Dr. Eyal Kishon, Zehava Simon, Stanley Stern, Joseph Tenne and Shira Fayans Birenbaum qualify as independent directors under the applicable SEC and Nasdaq rules, as well as under the Companies Law.

Under the Companies Law, a person may not serve as an outside director if at the date of the person’s election or within the prior two years the person is a relative of the company’s controlling shareholder, or the person or his or her relatives, partners, employers, supervisors or entities under the person’s control, have or had any affiliation with us or with a controlling shareholder or relatives of a controlling shareholder, and, in the case of a company without a controlling shareholder or a shareholder holding at least 25% of the voting rights, any affiliation, at the time of election, to the chairman of the board of directors, the chief executive officer, an interested party or the company’s most senior finance officer. Under the Companies Law, “affiliation” includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder, excluding service as a director in a private company prior to the first offering of its shares to the public if such director was appointed or elected as a director of the private company in order to serve as an outside director following the initial public offering.

In addition, a person may not serve as an outside director:

- if the person or his or her relatives, partners, employers, supervisors or entities under the person’s control, maintains a business or professional relationship with the company, even if such relationship is not on a regular basis, other than a negligible business or professional relationship; or
- if the person received compensation as an outside director in excess of the amounts permitted by the Companies Law and regulations thereunder.

[Table of Contents](#)

In addition, no individual may serve as an outside director if the individual's position or other activities create or may create a conflict of interest with his or her role as an outside director or are likely to interfere with his or her ability to serve as a director. Until the lapse of two years from the termination of office, the company, a controlling shareholder and entities under the company's control may not grant the outside director or any of his or her relatives, directly or indirectly, any benefit, or engage the outside director or his or her relatives as an office holder of the company, of a controlling shareholders or of an entity under the company's control, and may not employ or receive services from the outside director or any of his or her relatives, either directly or indirectly, including through a corporation controlled by that person. The restriction on a relative that is not the spouse or child of the outside director is limited to one year from the termination of office instead of two years. Pursuant to the Companies Law, at least one of the outside directors appointed by a publicly-traded company must have "financial and accounting expertise." The other outside directors are required to possess "financial and accounting expertise" or "professional expertise," as these terms are defined in regulations promulgated under the Companies Law. Joseph Tenne is designated as the "audit committee financial expert" as that term is defined in the rules promulgated by the SEC.

Outside directors are elected by a majority vote at a shareholders' meeting. In addition to the majority vote, the shareholder approval of the election of an outside director must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders other than our controlling shareholders or shareholders who have a personal interest in the election of the outside directors (excluding a personal interest that is not related to a relationship with the controlling shareholders); or
- the total number of shares held by non-controlling shareholders and disinterested shareholders that voted against the election of the outside director does not exceed 2% of the aggregate voting rights of our company.

The initial term of an outside director is three years and may be extended for up to two additional three-year terms. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the audit committee and the board of directors confirm that, in light of the outside director's expertise and special contribution to the work of the Board of Directors and its committees, the reelection for such additional period is beneficial to the company. Reelection of an outside director may be effected through one of the following mechanisms: (1) the board of directors proposed the reelection of the nominee and the election was approved by the shareholders by the majority required to appoint outside directors for their initial term; or (2) one or more shareholders holding one percent or more of a company's voting rights or the outside director proposed the reelection of the nominee, and the reelection is approved by a majority of the votes cast by the shareholders of the company, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relations with the controlling shareholders, provided that the aggregate votes cast in favor of the reelection by such non-excluded shareholders constitute more than two percent of the voting rights in the company.

Pursuant to the Companies Law, an Israeli company whose shares are publicly traded may elect to adopt a provision in its articles of association pursuant to which a majority of its board of directors (or a third of its board of directors in case the company has a controlling shareholder) will constitute individuals complying with certain independence criteria prescribed by the Companies Law. Pursuant to the related regulations, directors who comply with the independence requirements of the Nasdaq and SEC regulations are deemed to comply with the independence requirements of the Companies Law. We have not included such a provision in our articles of association since our board of directors complies with the independence requirements of the Nasdaq and SEC regulations described above. In any event, as described above, a majority of our board of directors and all members of our audit committee are directors who comply with the independence criteria prescribed by the Companies Law.

An outside director is entitled to compensation as provided in the regulations adopted under the Companies Law and is otherwise prohibited from receiving any other compensation, directly or indirectly, from the company. In accordance with such regulations, our shareholders approved that our outside directors are to receive compensation equal to that paid to the other members of the board of directors. For further information, please see Item 6.B, "Directors, Senior Management and Employees—Compensation" in this Annual Report.

Audit Committee

Under the Companies Law and the requirements for listing on the Nasdaq Global Select Market, our board of directors is required to appoint an audit committee. Our audit committee must be comprised of at least three directors, including all of the outside directors (one of whom must serve as the chair of the audit committee), and a majority of the committee members must comply with the director independence requirements prescribed by the Companies Law. The audit committee consists of: Doron Nevo, Dr. Eyal Kishon, Joseph Tenne and Shira Fayans Birenbaum with Doron Nevo serving as the chairman of the audit committee. Our board of directors has determined that Joseph Tenne is an “audit committee financial expert” as defined in SEC rules and that all members of the audit committee are independent under the applicable SEC rules, Nasdaq rules and provisions of the Companies Law.

The audit committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose income is primarily dependent on a controlling shareholder, and may not include a controlling shareholder or any relatives of a controlling shareholder. Individuals who are not permitted to be audit committee members may not participate in the committee’s meetings other than to present a particular issue. However, an employee who is not a controlling shareholder or relative may participate in the committee’s discussions but not in any vote, and the company’s legal counsel and corporate secretary may participate in the committee’s discussions and votes if requested by the committee.

Under the Companies Law, a meeting of the audit committee is properly convened if a majority of the committee members attend the meeting, and in addition a majority of the attending committee members are independent directors within the meaning of the Companies Law and include at least one outside director.

We have adopted an audit committee charter as required by Nasdaq rules. The audit committee’s duties include providing assistance to the board of directors in fulfilling its legal and fiduciary obligations in matters involving our accounting, auditing, financial reporting, internal control and legal compliance functions by approving the fees of, and services performed by, our independent accountants and reviewing their reports regarding our accounting practices and systems of internal accounting controls. The audit committee also oversees the audit efforts of our independent accountants and takes those actions as it deems necessary to satisfy itself that the accountants are independent of management. Under the Companies Law, the audit committee also is required to monitor deficiencies in the administration of our company, including by consulting with the internal auditor and independent accountants, to review, classify and approve related party transactions and extraordinary transactions, to review the internal auditor’s audit plan and to establish and monitor whistleblower procedures.

Nominating Committee

Nasdaq rules require that director nominees be selected or recommended for the board’s selection either by a committee composed solely of independent directors or by a majority of independent directors. Our nominating committee assists the board of directors in its selection of individuals as nominees for election to the board of directors and/or to fill any vacancies or newly created directorships on the board of directors. The nominating committee consists of Doron Nevo, Dr. Eyal Kishon, Joseph Tenne and Zehava Simon, with Doron Nevo serving as the chairman of the nominating committee. All members of the nominating committee are independent under the applicable Nasdaq rules and provisions of the Companies Law.

Compensation Committee

Under the Companies Law, the board of directors of any public company must establish a compensation committee. The compensation committee must consist of at least three directors, include all of the outside directors (including one outside director serving as the chair of the compensation committee), and a majority of the committee members must comply with the director independence requirements prescribed by the Companies Law. Similar to the rules that apply to the audit committee, the compensation committee may not include the chairman of the board, or any director employed by us, by a controlling shareholder or by any entity controlled by a controlling shareholder, or any director providing services to us, to a controlling shareholder or to any entity controlled by a controlling shareholder on a regular basis, or any director whose primary income is dependent on a controlling shareholder, and may not include a controlling shareholder or any of its relatives. Individuals who are not permitted to be compensation committee members may not participate in the committee's meetings other than to present a particular issue; *however*, an employee who is not a controlling shareholder or relative may participate in the committee's discussions, but not in any vote, and the company's legal counsel and corporate secretary may participate in the committee's discussions and votes if requested by the committee.

The compensation committee's duties include recommending to the board of directors a compensation policy for executives and monitor its implementation, approve compensation terms of executive officers, directors and employees affiliated with controlling shareholders, make recommendations to the board of directors regarding the issuance of equity incentive awards under our equity incentive plan and exempt certain compensation arrangements from the requirement to obtain shareholder approval under the Companies Law. The compensation committee meets at least twice a year, with further meetings to occur, or actions to be taken by unanimous written consent, when deemed necessary or desirable by the committee or its chairperson. For information regarding the compensation policy for executives, see Item 10.B, "Additional Information – Memorandum and Articles of Association – Compensation of Executive Officers and Directors; Executive Compensation Policy."

The compensation committee consists of Doron Nevo, Dr. Eyal Kishon, Joseph Tenne and Zehava Simon, with Doron Nevo serving as the chairman of the compensation committee. All members of the compensation committee are independent under the applicable SEC rules, Nasdaq rules and provisions of the Companies Law.

Internal Auditor

Under the Companies Law, our board of directors is also required to appoint an internal auditor proposed by the audit committee. The internal auditor may be our employee, but may not be an interested party or office holder, or a relative of any interested party or office holder, and may not be a member of our independent accounting firm. The role of the internal auditor is to examine, among other things, whether our activities comply with the law and orderly business procedure. Mr. Oren Grupi of KPMG Somekh Chaikin, Israel has been our internal auditor since July 2018.

Board Classes

Pursuant to our articles of association, our directors, other than our outside directors, are classified into three classes (classes I, II and III). The members of each class of directors and the expiration of his or her current term of office are as follows:

Zehava Simon	Class I	2025
Shira Fayans Birenbaum	Class II	2023
Joseph Tenne	Class II	2023
Shabtai Adlersberg	Class III	2024
Stanley B. Stern	Class III	2024

Our outside directors under the Companies Law, Doron Nevo and Dr. Eyal Kishon, are not members of any class and serve in accordance with the provisions of the Companies Law. Mr. Nevo's term ends in 2024 and Dr. Kishon's term ends in 2023.

Chairman of the Board

Under the Companies Law, the chief executive officer of a company (or a relative of the chief executive officer) may not serve as the chairman of the board of directors, and the chairman of the board of directors (or a relative of the chairman of the board of directors) may not serve as the chief executive officer, unless approved by the shareholders by a special majority vote prescribed by the Companies Law. The shareholder vote cannot authorize the appointment for a period of longer than three years, which period may be extended from time to time by the shareholders with a similar special majority vote. The chairman of the board of directors shall not hold any other position with the company (except as chief executive officer if approved in accordance with the above procedure) or in any entity controlled by the company, other than as chairman of the board of directors of a controlled entity, and the company shall not delegate to the chairman duties that, directly or indirectly, make him or her subordinate to the chief executive officer. Stanley B. Stern is our chairman of the board and Shabtai Adlersberg is our President and Chief Executive Officer.

D. EMPLOYEES

We had the following number of employees as of December 31, 2022, 2021 and 2020 in the departments set forth in the table below:

	As of December 31,		
	2022	2021	2020
Research and development	339	316	277
Sales and marketing, technical service and support	495	443	374
Operations	88	84	83
Management and administration	44	42	39
	<u>966</u>	<u>885</u>	<u>773</u>

Our employees were located in the following areas as of December 31, 2022, 2021 and 2020.

	As of December 31,		
	2022	2021	2020
Israel	491	456	412
United States	200	182	152
Europe	108	96	73
Far East	136	127	121
Latin America	31	24	15
	<u>966</u>	<u>885</u>	<u>773</u>

Israeli labor laws and regulations are applicable to our employees in Israel. These laws principally concern matters such as paid annual vacation, paid sick days, length of the workday, pay for overtime, insurance for work-related accidents, severance pay and other conditions of employment. Israeli law generally requires severance pay, which may be funded by Manager's Insurance, described below, upon the retirement or death of an employee or termination of employment without cause (as defined under Israeli law). Furthermore, Israeli employees and employers are required to pay predetermined sums to the National Insurance Institute, which include payments for national health insurance. The payments to the National Insurance Institute currently range from approximately 7.05% to 19.6% of wages up to specified wage levels, of which the employee contributes approximately 60% and the employer contributes approximately 40%.

Our employees in Israel are subject to certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists Associations) by order of the Israeli Minister of Economy and Industry (formerly known as Minister of Industry, Trade and Labor). These provisions principally concern cost of living increases, recreation pay and other conditions of employment. We generally provide our employees with benefits and working conditions above the required minimums. Our employees, as a group, are not currently represented by a labor union. To date, we have not experienced any work stoppages.

[Table of Contents](#)

Pursuant to an order issued by the Israeli Minister of Industry, Trade and Labor, provisions relating to pension arrangements in the collective bargaining agreements between the Histadrut and the Coordination Bureau of Economic Organizations apply to all employees in Israel, including our employees in Israel. We regularly contribute to a “Manager’s Insurance Fund” or to a privately managed pension fund on behalf of our employees located in Israel. These funds provide employees with a lump sum payment upon retirement (or a pension, in case of a pension fund) and severance pay, if legally entitled thereto, upon termination of employment. We provide for payments to a Manager’s Insurance Fund and pension fund contributions in the amount of 14.83% of an employee’s salary on account of severance pay and provident payment or pension, with the employee contributing 6.0% of his salary. We also pay an additional amount of up to 2.5% of certain of our employees’ salaries in connection with disability payments. In addition, we administer an Education Fund for our Israeli employees and pay 7.5% of these employees’ salaries thereto, with the employees contributing 2.5% of their salary.

E. SHARE OWNERSHIP

The following table sets forth the share ownership of our directors and officers as of April 18, 2023 and the outstanding number of options and RSUs held by them that vest within 60 days of April 18, 2023.

Name	Total Shares Beneficially Owned	Percentage of Ordinary Shares	Number of Options and RSUs
Shabtai Adlersberg	4,497,439	14.1 %	220,293
Stanley B. Stern	*	*	*
Niran Baruch	*	*	*
Lior Aldema	*	*	*
Ofer Nimitsovich	*	*	*
Yair Hevdeli	*	*	*
Eyal Frishberg	*	*	*
Yehuda Herscovici	*	*	*
Tal Dor	*	*	*
Shaul Weissman	*	*	*
Joseph Tenne	*	*	*
Dr. Eyal Kishon	*	*	*
Doron Nevo	*	*	*
Zehava Simon	*	*	*
Shira Fayans Birenbaum	*	*	*

* Represented less than one percent.

Our officers and directors have the same voting rights as our other shareholders.

The following table sets forth information with respect to the options to purchase our ordinary shares held by Mr. Adlersberg as of April 18, 2023.

Number of Options	Grant Date	Exercise Price	Exercised	Cancelled	Vesting	Expiration Date
95,293	March 20, 2017	\$ 6.90	—	—	4 years	March 20, 2024
15,000	December 14, 2017	\$ 7.13	—	—	4 years	December 14, 2024
15,000	March 14, 2018	\$ 7.56	—	—	4 years	March 14, 2025
15,000	June 14, 2018	\$ 7.33	—	—	4 years	June 14, 2025
15,000	September 14, 2018	\$ 10.59	—	—	4 years	September 14, 2025
15,000	December 14, 2018	\$ 10.66	—	—	4 years	December 14, 2025
15,000	March 14, 2019	\$ 13.27	—	—	4 years	March 14, 2026
15,000	June 14, 2019	\$ 15.93	—	—	4 years	June 14, 2026

[Table of Contents](#)

The following table sets forth information with respect to the RSUs granted to Mr. Adlersberg as of April 18, 2023. These RSUs vest quarterly over a four-year period from the date of grant, subject to his continuing service to us.

Number of RSUs	Grant Date	Issued
80,000	September 14, 2019	70,000
80,000	September 14, 2020	50,000
80,000	September 14, 2021	30,000
80,000	September 14, 2022	10,000

Employee Share Plans

We have an Equity Incentive Plan for the granting of options, RSUs and restricted shares to our employees, officers, directors and consultants. Our 2008 Equity Incentive Plan is pursuant to the Israeli Income Tax Ordinance, entitling the beneficiaries who are our employees to tax benefits under Israeli law. There are various conditions that must be met in order to qualify for these benefits, including registration of the options in the name of a trustee for each of the beneficiaries who is granted options. For tax benefits each option, and any ordinary shares acquired upon the exercise of the option, must be held by the trustee at least for a period commencing on the date of grant and ending no later than 24 months after the date of grant, in accordance with the period of time specified by Section 102 of Israel's Income Tax Ordinance, and deposited in trust with the trustee.

2008 Equity Incentive Plan

We adopted an equity incentive plan under Section 102 of the Israeli Income Tax Ordinance, or Section 102, which provides certain tax benefits in connection with share-based compensation to employees, officers and directors. This plan, our 2008 Equity Incentive Plan, was approved by the Israel Tax Authority.

Under our equity incentive plan, we may grant our directors, officers and employees restricted shares, restricted share units and options to purchase our ordinary shares under Section 102. We may also grant other persons awards under our equity incentive plan. However, such other persons (controlling shareholders and consultants) will not enjoy the tax benefits provided by Section 102. The total number of ordinary shares that were originally available for grant under the 2008 Plan was 2,009,122, which was increased to 4,009,122 in 2010, 6,009,122 in 2013, 8,009,122 in 2016, 10,009,122 in 2019 and 12,009,122 in 2022. This number is reduced by one share for each equity grant we make under the 2008 Plan. During 2022, options to purchase 3,000 ordinary shares and 544,686 restricted share units were granted under the 2008 Plan. As of December 31, 2022, 2,290,337 ordinary shares remained available for grant under the 2008 Plan. As of December 31, 2022, there are 361,343 options to purchase ordinary shares and 1,186,809 restricted share units outstanding under the plan.

The Israel Tax Authority approved the 2008 Plan under the capital gains tax track of Section 102. Based on Israeli law currently in effect and the election of the capital gains tax track, and provided that options, restricted shares and restricted shares units granted or, upon their exercise or vesting, the underlying shares, issued under the plan are held by a trustee for the two years following the date in which such awards are granted, our employees, officers and directors will be (i) entitled to defer any taxable event with respect to the awards until the underlying ordinary shares are sold, and (ii) subject to capital gains tax of 25% on the sale of the shares. However, if we grant awards at a value below the underlying shares' market value at the date of grant, the 25% capital gains tax rate will apply only with respect to capital gains in excess of the underlying shares' market value at the date of grant and the remaining capital gains will be taxed at the grantee's regular tax rate. We may not recognize a tax benefit pertaining to the employees' restricted shares, restricted share units and options for tax purposes except in the events described above under which the gain is taxed at the grantee's regular tax rate.

Restricted shares, restricted share units and options granted under the 2008 Plan will vest over four years from the grant date or in accordance with the alternative vesting schedule applicable to the specific grant. If the employment of an employee is terminated for any reason, the employee (or in the case of death, the designated beneficiary) may exercise his or her vested options within ninety days of the date of termination (or within twelve months of the date of termination in the case of death or disability) and shall be entitled to any rights upon vested restricted shares and vested restricted share units to be delivered to the employee to the extent that they were vested prior to the date his or her employment terminates. Directors are generally eligible to exercise his or her vested options within twelve months from the date the director ceases to serve on the board of directors.

[Table of Contents](#)

The holders of options under all of the plans are responsible for all personal tax consequences relating to the options. The exercise prices of the options are based on the fair value of the ordinary shares at the time of grant as determined by our board of directors. The current practice of our board of directors is to grant options with exercise prices that equal 100% of the closing price of our ordinary shares on the applicable date of grant.

F. DISCLOSURE OF A REGISTRANT'S ACTION TO RECOVER ERRONEOUSLY AWARDED COMPENSATION.

Not applicable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. MAJOR SHAREHOLDERS

To our knowledge, (A) we are not directly or indirectly owned or controlled (i) by another corporation or (ii) by any foreign government and (B) there are no arrangements, the operation of which may at a subsequent date result in a change in control of AudioCodes. The following table sets forth, as of April 18, 2023 the number of our ordinary shares, which constitute our only outstanding voting securities, beneficially owned by (i) all shareholders known to us to own more than 5% of our outstanding ordinary shares, and (ii) all of our directors and senior executive officers as a group.

Identity of Person or Group	Amount Owned	Percent of Class⁽⁸⁾
Shabtai Adlersberg(1)	4,717,732	14.8 %
Leon Bialik(2)	2,358,325	7.4 %
Global Alpha Capital Management Ltd.(3)	2,012,424	6.3 %
The Phoenix Holdings Ltd.(4)	1,740,636	5.5 %
Copeland Capital Management, LLC(5)	1,653,376	5.2 %
William Blair Investment Management, LLC(6)	1,650,348	5.2 %
All directors and senior executive officers as a group (16 persons) (7)	4,898,588	15.4 %

(1) Includes options to purchase 200,293 shares exercisable within 60 days of April 18, 2023 and 20,000 ordinary shares issuable pursuant to restricted share units that vest within 60 days of April 18, 2023.

(2) The information is derived from a statement on Schedule 13G/A of Leon Bialik filed with the SEC on February 9, 2023.

(3) The information is derived from a statement on Schedule 13G of Global Alpha Capital Management Ltd. filed with the SEC on February 9, 2023.

(4) The information is derived from a statement on Schedule 13G/A of The Phoenix Holdings Ltd. filed with the SEC on February 14, 2023. Such amount is rounded to the nearest share.

(5) The information is derived from a statement on Schedule 13G/A of Copeland Capital Management, LLC filed with the SEC on January 26, 2022. Copeland Capital Management, LLC did not file a statement on Schedule 13G/A (with respect to its ownership in the Company) for the year ended December 31, 2022.

(6) The information is derived from a statement on Schedule 13G of William Blair Investment Management, LLC filed with the SEC on February 9, 2023.

(7) Includes 232,293 ordinary shares which may be purchased pursuant to options exercisable within 60 days following April 18, 2023 and 42,418 ordinary shares issuable pursuant to restricted share units that vest within 60 days of April 18, 2023.

(8) This percentage calculation is rounded to the nearest tenth and based on 31,803,738 outstanding shares as of April 18, 2023 (which does not include treasury shares outstanding as of April 18, 2023).

Mr. Adlersberg held approximately 14.0% of our ordinary shares as of December 31, 2022 as compared to 14.1% of our ordinary shares as of December 31, 2021 and 15.2% of our ordinary shares as of December 31, 2020.

Mr. Bialik held approximately 7.4% of our ordinary shares as of December 31, 2022, as compared to 7.6% of our ordinary shares as of December 31, 2021 and 8.4% of our ordinary shares as of December 31, 2020.

[Table of Contents](#)

Morgan Stanley and Morgan Stanley Capital Services LLC collectively held approximately 4.6% of our ordinary shares as of December 31, 2021 and 6.3% of our ordinary shares as of December 31, 2020. Neither Morgan Stanley nor Morgan Stanley Capital Services LLC filed a statement on Schedule 13G/A (with respect to its ownership in the Company) for the year ended December 31, 2022.

The Phoenix Holdings Ltd. held approximately 5.5% of our ordinary shares as of December 31, 2022, as compared to 5.1% of our ordinary shares as of December 31, 2021.

Global Alpha Capital Management Ltd. held approximately 6.4% of our ordinary shares as of December 31, 2022. Global Alpha Capital Management Ltd. did not file a statement on Schedule 13G (with respect to its ownership in the Company) for the year ended December 31, 2021.

William Blair Investment Management, LLC held approximately 5.2% of our ordinary shares as of December 31, 2022. William Blair did not file a statement on Schedule 13G (with respect to its ownership in the Company) for the year ended December 31, 2021.

Copeland Capital Management, LLC held approximately 5.1% of our ordinary shares as of December 31, 2021. Copeland Capital Management, LLC did not file a statement on Schedule 13G/A (with respect to its ownership in the Company) for the year ended December 31, 2022.

As of April 18, 2023, there were approximately five holders of record of our ordinary shares in the United States, although we believe that the number of beneficial owners of the ordinary shares is significantly greater. The number of record holders in the United States is not representative of the number of beneficial holders nor is it representative of where such beneficial holders are resident since many of these ordinary shares were held of record by brokers or other nominees.

The major shareholders have the same voting rights as the other shareholders.

B. RELATED PARTY TRANSACTIONS

Not applicable.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. CONSOLIDATED STATEMENTS AND OTHER FINANCIAL INFORMATION

See Item 18.

Legal Proceedings

From time to time, we may be subject to legal proceedings and claims in the ordinary course of business. We are currently not involved in any pending or contemplated legal proceedings that could reasonably be expected to have a significant effect on our financial position, or profitability. We may become involved in material legal proceedings in the future. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Dividend Policy

For a discussion of our dividend policy, please see Item 10.B, "Additional Information-Memorandum and Articles of Association-Dividends."

[Table of Contents](#)

B. SIGNIFICANT CHANGES

No significant change has occurred since December 31, 2020, except as otherwise disclosed in this Annual Report.

ITEM 9. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are listed on the Nasdaq Global Select Market and the TASE under the symbol “AUDC.”

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares are listed for trading on the Nasdaq Global Select Market under the symbol “AUDC.” Our ordinary shares are also listed for trading on the Tel-Aviv Stock Exchange under the symbol “AUDC.” In addition, we are aware of our ordinary shares being traded on the following markets: Frankfurt Stock Exchange, Berlin Stock Exchange, Munich Stock Exchange, Stuttgart Stock Exchange, the German Composite and XETRA.

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Objectives

Our objectives, set forth in our articles of association, are to engage in any legal occupation or business.

Share Capital

Our authorized share capital consists of NIS 1,025,000 divided into 100,000,000 ordinary shares, nominal value NIS 0.01 per share, and 2,500,000 preferred shares, nominal value NIS 0.01 per share. As of April 18, 2023, we had 31,803,738 ordinary shares outstanding (which does not include 32,309,899 treasury shares) and no preferred shares outstanding.

Borrowing Powers

The board of directors has the power to cause us to borrow money and to secure the payment of borrowed money. The board of directors specifically has the power to issue bonds or debentures, and to impose mortgages or other security interests on all or any part of our property.

Amendment of Articles of Association

In general, shareholders may amend our articles of association by a resolution adopted at a shareholders meeting by the holders of 50% of the voting power represented at the meeting in person or by proxy and voting thereon. The amendment of certain provisions of our articles of association requires an increased voting threshold. For example, the approval of amendments to the provisions concerning business combinations with certain shareholders requires the approval of holders of 85% of our outstanding voting shares. Additionally, the amendment of the provisions concerning (i) the procedure according to which shareholders may propose items to include in the agenda of a general meeting of the shareholders and (ii) the role and composition of the board of directors, including the method of appointment of its members, require the approval sixty-six and two-thirds percent (66 2/3)% of the voting power represented at the meeting in person or by proxy and voting thereon.

Qualification of Directors

No person shall be disqualified to serve as a director by reason of his not holding AudioCodes shares or by reason of his having served as a director in the past.

Dividends

Under the Companies Law, we may pay dividends only out of our profits as determined for statutory purposes, unless court approval is granted for the payment of dividends despite the lack of statutory profits. (There is a unified statutory test for the payment of dividends and a company's repurchase of its outstanding shares.) In 2023, we received court approval to pay dividends (and repurchase our shares) up to certain ceilings, despite the lack of statutory profits. The current approval is valid until July 4, 2023. We may seek further approvals to repurchase our shares and to continue to pay dividends. The amount of any dividend to be distributed among shareholders is based on the nominal value of their shares.

Voting Rights and Powers

Unless any shares have special rights as to voting, every shareholder has one vote for each share held of record.

Under our articles of association, we may issue preferred shares from time to time, in one or more series. However, in connection with our listing on the Tel Aviv Stock Exchange in 2001, we agreed that for such time as our ordinary shares are traded on the Tel Aviv Stock Exchange, we will not issue any of the 2,500,000 preferred shares, nominal value NIS 0.01, authorized in our articles of association. Notwithstanding the foregoing, we may issue preferred shares if the preference of those shares is limited to a preference in the distribution of dividends and such preferred shares have no voting rights.

Business Combinations

Our articles of association impose restrictions on our ability to engage in any merger, asset or share sale or other similar transaction with a shareholder holding 15% or more of our voting shares.

Winding Up

Upon our liquidation, our assets available for distribution to shareholders will be distributed to them in proportion to the nominal value of their shares.

Redeemable Shares

Subject to our undertaking to the Tel Aviv Stock Exchange as described above, we may issue and redeem redeemable shares.

Modification of Rights

Subject to the provisions of our articles of association, we may, from time to time, by a resolution approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon, provide for shares with such preference rights, deferred rights or conversion rights, or any other special rights or limitations as may be stipulated in such resolution.

If at any time our share capital is divided into different classes of shares, we may modify or abrogate the rights attached to any class, unless otherwise provided by the articles of association, by a resolution approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon, subject to the consent in writing of the holders of a simple majority of the issued shares of that class (unless otherwise provided by law or by the terms of issue of the shares of that class).

The provisions of our articles of association relating to general meetings also apply, mutatis mutandis, to any separate general meeting of the holders of the shares of a particular class.

The creation or issuance of shares of any class, including a new class, shall not be deemed to alter the rights and privileges attached to previously issued shares of that class or of any other class (unless otherwise provided by our articles of association, including the terms of issue of the shares of any class).

Shareholder Meetings

An annual meeting of shareholders is to be held once a year, within 15 months after the previous annual meeting. The annual meeting may be held in Israel or outside of Israel, as determined by the board of directors.

The board of directors may, whenever it thinks fit, convene a special shareholders meeting. The board of directors must convene a special shareholders meeting at the request of:

- at least two directors;
- at least one-quarter of the directors in office; or
- one or more shareholders who hold at least 5% of the outstanding share capital and at least 1% of the voting rights, or one or more shareholders who hold at least 5% of the outstanding voting rights.

A special shareholders meeting may be held in Israel or outside of Israel, as determined by the board of directors.

Notice of General Meetings; Omission to Give Notice

The provisions of the Companies Law and the related regulations override the provisions of our articles of association, and provide for notice of a meeting of shareholders to be sent to each registered shareholder at least 21 days or 35 days in advance of the meeting, depending on the items included in the meeting agenda. Notice of a meeting of shareholders must also be published in two Israeli newspapers or on our website.

[Table of Contents](#)

Notice of a meeting of shareholders must specify the type of meeting, the place and time of the meeting, the agenda, a summary of the proposed resolutions, the majority required to adopt the proposed resolutions, and the record date for the meeting. The notice must also include the address and telephone number of our registered office, and a list of times at which the full text of the proposed resolutions may be examined at the registered office.

The accidental omission to give notice of a meeting to any shareholder, or the non-receipt of notice sent to such shareholder, does not invalidate the proceedings at the meeting.

Limitations on Foreign Shareholders to Hold or Exercise Voting Rights

There are no limitations on foreign shareholders in our articles of association. Israeli law restricts the ability of citizens of countries that are in a state of war with Israel to hold shares of Israeli companies.

Fiduciary Duties; Approval of Transactions under Israeli Law

Fiduciary duties. The Companies Law codifies the fiduciary duties that office holders, which under the Companies Law includes our directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of loyalty and a duty of care.

The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, including to avoid any conflict of interest between the office holder's position in the company and personal affairs, and prohibits any competition with the company or the exploitation of any business opportunity of the company in order to receive a personal advantage for himself or herself or for others. This duty also requires an office holder to reveal to the company any information or documents relating to the company's affairs that the office holder has received due to his or her position as an office holder. A company may approve any of the acts mentioned above provided that all the following conditions apply: the office holder acted in good faith and neither the act nor the approval of the act prejudices the good of the company and, the office holder disclosed the essence of his personal interest in the act, including any substantial fact or document, a reasonable time before the date for discussion of the approval. A director is required to exercise independent discretion in fulfilling his or her duties and may not be party to a voting agreement with respect to his or her vote as a director. A violation of these requirements is deemed a breach of the director's duty of loyalty.

The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information material to these actions.

Disclosure of personal interest. The Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information or documents known to him or her, in connection with any existing or proposed transaction by the company. "Personal interest," as defined by the Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of his relative or of a corporation in which that person or a relative of that person is a 5% or greater shareholder, a holder of 5% or more of the voting rights, a director or general manager, or in which he or she has the right to appoint at least one director or the general manager, and includes shares for which the person has the right to vote pursuant to a power-of-attorney. "Personal interest" does not apply to a personal interest stemming merely from holding shares in the company.

The office holder must make the disclosure of his personal interest no later than the first meeting of the company's board of directors that discusses the particular transaction. This duty does not apply to the personal interest of a relative of the office holder in a transaction unless it is an "extraordinary transaction." The Companies Law defines an "extraordinary transaction" as a transaction that is not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company's profitability, assets or liabilities.

[Table of Contents](#)

Approvals. The Companies Law provides that a transaction with an office holder or a transaction in which an office holder has a personal interest requires board approval, unless the transaction is an extraordinary transaction or the articles of association provide otherwise. Our articles of association do not provide otherwise. The transaction may be approved only if it is in our best interest. If the transaction is an extraordinary transaction, then the approvals of the company's audit committee and the board of directors are required. If the transaction concerns exculpation, indemnification, insurance or compensation of an office holder, then the approvals of the company's compensation committee and the board of directors are required, except if the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an officer who is not a director, in which case the approval of the compensation committee is sufficient. Exculpation, indemnification, insurance or compensation of a director or the Chief Executive Officer also requires shareholder approval.

A person who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee generally may not attend that meeting or vote on that matter, unless a majority of the board of directors or the audit committee has a personal interest in the matter or if such person is invited by the chairman of the board of directors or audit committee, as applicable, to present the matter being considered. If a majority of the board of directors or the audit committee has a personal interest in the transaction, shareholder approval also would be required.

Shareholders

The Companies Law imposes on a controlling shareholder of a public company the same disclosure requirements described above as it imposes on an office holder. For this purpose, a "controlling shareholder" is any shareholder who has the ability to direct the company's actions, including any shareholder holding 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder.

Approval of the audit committee, the board of directors and our shareholders, in that order, is required for extraordinary transactions, including a private placement, with a controlling shareholder or in which a controlling shareholder has a personal interest.

Approval of the compensation committee, the board of directors and our shareholders, in that order, is required for the terms of compensation or employment of a controlling shareholder or his or her relative, as an officer holder or employee of our company or as a service provider to the company, including through a company controlled by a controlling shareholder.

Shareholder approval must include the majority of shares voted at the meeting. In addition to the majority vote, the shareholder approval must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders who have no personal interest in the transaction; or
- the total number of shares held by disinterested shareholders that voted against the approval of the transaction does not exceed 2% of the aggregate voting rights of our company.

Generally, the approval of such a transaction may not extend for more than three years, except that in the case of an extraordinary transaction, including a private placement, with a controlling shareholder or in which a controlling shareholder has a personal interest that does not concern compensation for employment or service, the transaction may be approved for a longer period if the audit committee determines that the approval of the transaction for a period longer than three years is reasonable under the circumstances.

Compensation of Executive Officers and Directors; Executive Compensation Policy

In accordance with the Companies Law, we have adopted a compensation policy for our executive officers and directors. The purpose of the policy is to describe our overall compensation strategy for our executive officers and directors and to provide guidelines for setting their compensation, as prescribed by the Companies Law. In accordance with the Companies Law, the policy must be reviewed and readopted at least once every three years.

[Table of Contents](#)

Approval of the compensation committee, the board of directors and our shareholders, in that order, is required for the adoption of the compensation policy. The shareholders' approval must include the majority of shares voted at the meeting. In addition to the majority vote, the shareholder approval must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders other than our controlling shareholders or shareholders who have a personal interest in the adoption of the compensation policy; or
- the total number of shares held by non-controlling shareholders and disinterested shareholders that voted against the adoption of the compensation policy does not exceed 2% of the aggregate voting rights of our company.

Under the Companies Law, the compensation arrangements for officers (other than the Chief Executive Officer) who are not directors require the approval of the compensation committee and the board of directors; provided, however, that if the compensation arrangement is not in compliance with our executive compensation policy, the arrangement may only be approved by the compensation committee and the board of directors for special reasons to be noted, and the compensation arrangement shall also require a special shareholder approval. If the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an officer who is not a director and is in compliance with our executive compensation policy, the approval of the compensation committee is sufficient.

Arrangements regarding the compensation of the Chief Executive Officer and of directors require the approval of the compensation committee, the board and the shareholders, in that order. In certain limited cases, the compensation of a new Chief Executive Officer who is not a director may be approved without the approval of the shareholders.

Duties of Shareholders

Under the Companies Law, a shareholder also has a duty to act in good faith towards the company and other shareholders and refrain from abusing his or her power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of related party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who can determine the outcome of a shareholder vote and any shareholder who, under the company's articles of association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Companies Law also provides that a breach of the duty of fairness will be governed by the laws governing breach of contract; however, the Companies Law does not describe the substance of this duty.

Anti-Takeover Provisions under Israeli Law

The Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold 25% or more of the voting rights in the company, unless there is already another shareholder of the company with 25% or more of the voting rights. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold more than 45% of the voting rights in the company, unless there is a shareholder with more than 45% of the voting rights in the company.

The Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Each merging company's board of directors and shareholders must approve the merger. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies.

Finally, in general, Israeli tax law treats stock-for-stock acquisitions less favorably than does U.S. tax law. Israeli tax law provides for tax deferral in specified acquisitions, including transactions where the consideration for the sale of shares is the receipt of shares of the acquiring company. Nevertheless, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation or to taxation before his investment in the foreign corporation becomes liquid, although in the case of shares of a foreign corporation that are traded on a stock exchange, the tax may be postponed subject to certain conditions.

Insurance, Indemnification and Exculpation of Directors and Officers; Limitations on Liability

Insurance of Office Holders

The Companies Law permits a company, if permitted by its articles of association, to insure an office holder in respect of liabilities incurred by the office holder as a result of:

- breach of the duty of care owed to the company or a third party;
- breach of the fiduciary duty owed to the company, provided that the office holder acted in good faith and had reasonable grounds to believe that his action would not harm the company's interests;
- monetary liability imposed on the office holder in favor of a third party; and
- reasonable litigation expenses, including attorney fees, incurred by the office holder as a result of an administrative enforcement proceeding instituted against him (without limiting from the generality of the foregoing, such expenses will include a payment imposed on the office holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, 1968, as amended, or the Israeli Securities Law, and expenses that the office holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Israeli Securities Law, including reasonable legal expenses, which term includes attorney fees).

Indemnification of Office Holders

Under the Companies Law, a company can, if permitted by its articles of association, indemnify an office holder for any of the following obligations or expenses incurred in connection with his or her acts or omissions as an office holder:

- monetary liability imposed on an office holder in favor of a third party in a judgment, including a settlement or an arbitral award confirmed by a court;
- reasonable legal costs, including attorney's fees, expended by an office holder as a result of:

[Table of Contents](#)

- an investigation or proceeding instituted against the office holder by a competent authority, provided that such investigation or proceeding concludes without the filing of an indictment against the office holder, and either:
 - o no financial liability was imposed on the office holder in lieu of criminal proceedings, or
 - o financial liability was imposed on the office holder in lieu of criminal proceedings but the alleged criminal offense does not require proof of criminal intent; and (y) in connection with an administrative enforcement proceeding or a financial sanction (without derogating from the generality of the foregoing, such expenses will include a payment imposed on the Office Holder in favor of an injured party as set forth in Section 52(54)(a)(1)(a) of the Israeli Securities Law, and expenses that the Office Holder incurred in connection with a proceeding under Chapters H'3, H'4 or I'1 of the Israeli Securities Law, including reasonable legal expenses, which term includes attorney fees); and
- reasonable legal costs, including attorneys' fees, expended by the office holder or for which the office holder is charged by a court:
 - in an action brought against the office holder by or on behalf of the company or a third party, or
 - in a criminal action in which the office holder is found innocent, or
 - in a criminal action in which the office holder is convicted and in which a proof of criminal intent is not required.
 - o A company may indemnify an office holder in respect of these liabilities either in advance of an event or following an event. If a company undertakes to indemnify an office holder in advance of an event, the indemnification, other than legal costs, must be limited to foreseeable events in light of the company's actual activities when the company undertook such indemnification, and reasonable amounts or standards, as determined by the board of directors.

Exculpation of Office Holders

Under the Companies Law, a company may, if permitted by its articles of association, also exculpate an office holder in advance, in whole or in part, from liability for damages sustained by a breach of duty of care to the company, other than in connection with distributions.

Limitations on Exculpation, Insurance and Indemnification

Under the Companies Law, a company may indemnify or insure an office holder against a breach of duty of loyalty only to the extent that the office holder acted in good faith and had reasonable grounds to assume that the action would not prejudice the company. In addition, a company may not indemnify, insure or exculpate an office holder against a breach of duty of care if committed intentionally or recklessly (excluding mere negligence), or committed with the intent to derive an unlawful personal gain, or for a fine or forfeit levied against the office holder in connection with a criminal offense.

Our articles of association allow us to insure, indemnify and exculpate office holders to the fullest extent permitted by law, provided such insurance or indemnification is approved in accordance with law. Pursuant to the Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, our office holders must be approved by our audit committee and our board of directors and, if the office holder is a director, also by our shareholders.

We have entered into agreements with each of our directors and senior officers to insure, indemnify and exculpate them to the full extent permitted by law against some types of claims, subject to dollar limits and other limitations. These agreements have been ratified by our audit committee, board of directors and shareholders. We have acquired directors' and officers' liability insurance covering our officers and directors and the officers and directors of our subsidiaries against certain claims.

[Table of Contents](#)

C. *MATERIAL CONTRACTS*

None.

D. *EXCHANGE CONTROLS*

Non-residents of Israel who own our ordinary shares may freely convert all amounts received in Israeli currency in respect of such ordinary shares, whether as a dividend, liquidation distribution or as proceeds from the sale of the ordinary shares, into freely-repatriable non-Israeli currencies at the rate of exchange prevailing at the time of conversion (provided in each case that the applicable Israeli income tax, if any, is paid or withheld).

Since January 1, 2003, all exchange control restrictions on transactions in foreign currency in Israel have been eliminated, although there are still reporting requirements for foreign currency transactions. Legislation remains in effect, however, pursuant to which currency controls may be imposed by administrative action at any time.

The State of Israel does not restrict in any way the ownership or voting of our ordinary shares by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel.

E. *TAXATION*

The following is a summary of the material Israeli and United States federal tax consequences, Israeli foreign exchange regulations and certain Israeli government programs affecting us. To the extent that the discussion is based on new tax or other legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax or other authorities in question. The discussion is not intended, and should not be construed, as legal or professional tax advice, is not exhaustive of all possible tax considerations and should not be relied upon for tax planning purposes. Potential investors are urged to consult their own tax advisors as to the Israeli tax, United States federal income tax and other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

Israeli Tax Considerations and Government Programs

The following is a brief summary of the material Israeli income tax laws applicable to us, and certain Israeli Government programs that benefit us. This section also contains a discussion of material Israeli income tax consequences concerning the ownership and disposition of our ordinary shares. This summary does not discuss all the aspects of Israeli tax law that may be relevant to a particular investor in light of his or her personal investment circumstances or to some types of investors subject to special treatment under Israeli law. Examples of such investors include residents of Israel or traders in securities who are subject to special tax regimes not covered in this discussion. Several parts of this discussion are based on new tax legislation that has not yet been subject to judicial or administrative interpretation. Each investor should consult its own tax or legal advisor as to the Israeli tax consequences of the purchase, ownership and disposition of our ordinary shares.

General Corporate Tax Structure in Israel

Israeli companies are generally subject to corporate tax on their taxable income. Taxable income of the company is subject to a corporate tax rate of 23% effective from January 1, 2018. However, the effective tax rate payable by a company that qualifies as an Industrial Company that derives income from a Preferred Technological Enterprise (as discussed below) may be considerably less. Capital gains derived by an Israeli company are subject to the prevailing corporate tax rate.

Law for the Encouragement of Capital Investments, 1959, or the Investment Law

The Investment Law provides certain incentives for capital investments in production facilities (or other eligible assets) by “Industrial Enterprises” (as defined under the Investment Law).

[Table of Contents](#)

The Investment Law was significantly amended effective April 1, 2005, or the 2005 Amendment, and further amended as of January 1, 2011, or the 2011 Amendment, and January 1, 2017, or the 2017 Amendment. The 2011 Amendment introduced new benefits to replace those granted in accordance with the provisions of the Investment Law in effect prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect prior to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead irrevocably to forego such benefits and have the benefits of the 2011 Amendment apply. The 2017 Amendment was designed to accommodate the implementation of the “Nexus Principles” (based on OECD guidelines published as part of the Base Erosion and Profit Shifting, or BEPS, project).

Tax Benefits Prior to the 2005 Amendment

An investment program that is implemented in accordance with the provisions of the Investment Law prior to the 2005 Amendment, referred to as an “Approved Enterprise,” is entitled to certain benefits. A company that wished to receive benefits as an Approved Enterprise must have received approval from the Investment Center of the Israeli Ministry of Economy and Industry, or the Investment Center. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.

The tax benefits from any certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise. Income derived from activity that is not approved by the Investment Center or not integral to the activity of the Approved Enterprise does not enjoy tax benefits.

Tax Benefits Subsequent to the 2005 Amendment

The 2005 Amendment changed certain provisions of the Investment Law. As a result of the 2005 Amendment, a company referred to as a “Beneficiary Enterprise”, was no longer obligated to obtain Approved Enterprise status in order to receive the tax benefits previously available under the Alternative Track, and therefore generally there was no need to apply to the Investment Center for this purpose (Approved Enterprise status remains mandatory for companies seeking cash grants).

Trapped Earnings

On November 15, 2021, a new amendment to the Investment Law, or the Investment Law Amendment, was approved, introducing a new dividend distribution ordering rule to cause the distribution of earnings that were tax exempt under the historical Approved or Beneficial Enterprise regimes, or Trapped Earnings, to be on a pro-rata basis from any dividend distribution. The Investment Law Amendment is applicable to distributions starting from August 15, 2021 onwards. Therefore, the corporate income tax, or CIT, claw-back will apply upon any dividend distribution, as long as the Company has Trapped Earnings.

Tax Benefits under the 2011 and 2017 Amendments

The 2011 Amendment canceled the availability of the benefits granted to companies under the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its “Preferred Enterprise” (as such terms are defined in the Investment Law) as of January 1, 2011. A Preferred Company is an industrial company owning a Preferred Enterprise which meets certain conditions (including a minimum threshold of 25% export). However, under this new legislation the requirement for a minimum investment in productive assets was cancelled.

Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 16% in 2014, unless the Preferred Company is located in a certain development zone, in which case the rate will be 9%. Pursuant to the 2017 Amendment, in 2017 and thereafter, a Preferred Company is entitled to a reduced corporate tax rate of 16% and 7.5%, respectively.

Dividends paid out of income attributed to a Preferred Enterprise during 2014 and thereafter are generally subject to withholding tax at the rate of 20% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax is required to be withheld (however, if afterward distributed to individuals or non-Israeli company a withholding of 20% or such lower rate as may be provided in an applicable tax treaty, will apply).

[Table of Contents](#)

The 2011 Amendment also provided transitional provisions to address companies already enjoying existing tax benefits under the Investment Law. These transitional provisions provide, among other things, that unless an irrevocable request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011: (i) the terms and benefits included in any certificate of approval that was granted to an Approved Enterprise which chose to receive grants and certain tax benefits under the Grant Track before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, and subject to certain conditions; and (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise under the Alternative Track before the 2011 Amendment became effective will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met; and (iii) a Beneficiary Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met.

In May 2019, we notified the Israel Tax Authority that we waived our Beneficiary Enterprise status starting from the 2019 tax year and thereafter.

The 2017 Amendment provides that a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9%, effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

The 2017 Amendment provides new tax tracks for a “Preferred Technological Enterprise”– an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion for a tax year. Under the law, a Preferred Technological Enterprise, which is located in the center of Israel will be subject to tax at a rate of 12% on profits being derived from intellectual property and “Preferred Technological Enterprise” which is located in development area A will be subject to tax rate of 7.5%. In addition, a “Preferred Technological Enterprise” will receive a reduced corporate tax rate of 12% on capital gains derived from the sale of certain “Benefitted Intangible Assets” (as defined in the Investment Law) to a related foreign company if (i) the Benefitted Intangible Assets were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and (ii) such sale receives prior approval from the IIA. However, the proportion of income that may be considered Preferred Technological Income and receive the tax benefits described immediately above is calculated according to a nexus formula, which is based on the proportion of qualifying expenditures on intellectual property compared to overall expenditures.

The 2017 Amendment further provides that a Preferred Company with group consolidated revenues of at least NIS 10 billion will qualify as a “Special Preferred Technological Enterprise” and will receive a reduced corporate tax rate of 6% on “Preferred Technological Income” regardless of the company’s geographic location within Israel. In addition, a “Special Preferred Technological Enterprise” will receive a reduced corporate tax rate of 6% on capital gains derived from the sale of certain “Benefitted Intangible Assets” to a related foreign company if (i) the Benefitted Intangible Assets were either developed by the Special Preferred Enterprise or acquired from a foreign company on or after January 1, 2017, and (ii) such sale received prior approval from the IIA. A “Special Preferred Technological Enterprise” that acquires Benefitted Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least 10 years, subject to the receipt of certain approvals as specified in the Investment Law.

Dividends paid out of Preferred Technological Income, which are distributed by a Preferred Technological Enterprise or a “Special Preferred Technological Enterprise,” are generally subject to tax at the rate of 20% or such lower rate as may be provided in an applicable tax treaty (subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate). However, if such dividends are paid to an Israeli company, no tax is required to be withheld. If such dividends are distributed to a foreign company that holds solely or together with other foreign companies 90% or more of the Israeli company and other conditions are satisfied, the tax rate will be 4%. However, dividends paid out to natural persons may be subject to an additional surtax of 3%, as described below.

We are eligible for tax benefits as a Preferred Technological Enterprise mentioned above and the changes in the tax rates relating to Preferred Technological Enterprises were taken into account in the computation of deferred taxes as of December 31, 2022.

Tax Benefits and Funding for Research and Development

Israeli tax law allows, under specific conditions, a tax deduction for expenditures, including capital expenditures, relating to scientific research and development projects, for the year in which they are incurred if:

- the expenditures are approved by the relevant Israeli government ministry, determined by the field of research;

[Table of Contents](#)

- the research and development is for the promotion or development of the company; and
- the research and development is carried out by or on behalf of the company seeking the deduction.

However, the amount of such deductible expenses shall be reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period if the research and development is for the promotion or development of the company.

Law for the Encouragement of Industry (Taxes), 1969, or the Industry Encouragement Law

The Industry Encouragement Law, provides several tax benefits for “Industrial Companies.” We currently qualify as an Industrial Company within the meaning of the Industry Encouragement Law.

The Industry Encouragement Law defines an “Industrial Company” as a company resident in Israel, of which 90% or more of its income in any tax year, other than income from defense loans, is derived from an “Industrial Enterprise” owned by it and located in Israel. An “Industrial Enterprise” is defined as an enterprise whose principal activity in a given tax year is industrial production.

The following corporate tax benefits, among others, are available to Industrial Companies:

- amortization over an eight-year period of the cost of purchased know-how and patents and rights to use a patent and know-how which are used for the development or advancement of the company;
- under limited conditions, an election to file consolidated tax returns with related Israeli Industrial Companies; and
- expenses related to a public offering are deductible in equal amounts over a three-year period.

Eligibility for benefits under the Industry Encouragement Law is not contingent upon the approval of any governmental authority. The Israeli tax authorities may determine that we do not qualify as an Industrial Company, which could entail our loss of the benefits that relate to this status. There can be no assurance that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Taxation of our Shareholders

Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders. A non-Israeli resident who derives capital gains from the sale of shares in an Israeli resident company that were purchased after the company was listed for trading on a stock exchange outside of Israel will be exempt from Israeli tax so long as the shares were not held through a permanent establishment that the non-resident maintains in Israel. However, non-Israeli corporations will not be entitled to the foregoing exemption if Israeli residents: (i) have a controlling interest of more than 25% in such non-Israeli corporation or (ii) are the beneficiaries of, or are entitled to, 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Additionally, such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

Additionally, a sale of securities by a non-Israeli resident may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the United States-Israel Tax Treaty, the disposition of shares by a shareholder who is a United States resident (for purposes of the treaty) holding the shares as a capital asset is generally exempt from Israeli capital gains tax unless, among other things, (i) the capital gain arising from the disposition is attributed to business income derived by a permanent establishment of the shareholder in Israel; (ii) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12-month period preceding the disposition; or (iii) such U.S. resident is an individual and was present in Israel for 183 days or more in the aggregate during the relevant taxable year.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares, the payment of the consideration may be subject to the withholding of Israeli tax at source.

[Table of Contents](#)

Taxation of Non-Israeli Shareholders on Receipt of Dividends. Non-Israeli residents (whether individuals or corporations) generally will be subject to Israeli income tax on the receipt of dividends paid on our ordinary shares at the rate of 25%, which tax will be withheld at source, unless relief is provided in a treaty between Israel and the shareholder's country of residence (subject to the receipt in advance of a valid certificate from the Israel Tax Authority allowing for a reduced tax rate). With respect to a person who is a "substantial shareholder" at the time of receiving the dividend or on any time during the preceding twelve months, the applicable tax rate is 30%. A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right.

However, a distribution of dividends to non-Israeli residents is subject to withholding tax at source at a rate of 15% if the dividend is distributed from income attributed to an Approved Enterprise or Beneficiary Enterprise, unless a reduced tax rate is provided under an applicable tax treaty. If the dividend is being paid out of certain income attributable to a Preferred Technological Enterprise, the dividend will be subject to tax at the rate of 20%. A different rate may be provided in a treaty between Israel and the shareholder's country of residence, as mentioned below.

In this regard, under the United States-Israel Tax Treaty, the maximum rate of tax withheld at source in Israel on dividends paid to a holder of our ordinary shares who is a United States resident (for purposes of the United States-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by an Approved Enterprise, or Beneficiary Enterprise or a Preferred Technological Enterprise, that are paid to a United States corporation holding 10% or more of the outstanding voting capital throughout the tax year in which the dividend is distributed as well as during the previous tax year, is 12.5%, provided that not more than 25% of the gross income for such preceding year consists of certain types of dividends and interest. If the above conditions are met and the dividends are generated by an Approved Enterprise, or Beneficiary Enterprise or a Preferred Technological Enterprise, the maximum rate of withholding tax on such dividends is 15%. If the dividend is attributable partly to income derived from Approved Enterprise, Beneficiary Enterprise or a Preferred Technological Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. We cannot assure you that we will designate the profits that we may distribute in a way that will reduce shareholders' tax liability.

Surtax

Individuals who are subject to tax in Israel (whether or not Israeli residents) are subject to a surtax at a rate of 3% of annual taxable income in excess of NIS 698,280 (for the 2023 tax year, which amount is linked to the annual change in the Israeli consumer price index), including, but not limited to, dividends, interest and capital gain.

U.S. Federal Income Tax Considerations

The following summary describes the material U.S. federal income tax consequences to "U.S. Holders" (as defined below) arising from the acquisition, ownership and disposition of our ordinary shares. This summary is based on the Internal Revenue Code of 1986, as amended, or the "Code," the final, temporary and proposed U.S. Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change (possibly with retroactive effect) or different interpretations. For purposes of this summary, a "U.S. Holder" will be deemed to refer only to any of the following beneficial owners of our ordinary shares:

- an individual who is either a U.S. citizen or a resident of the United States for U.S. federal income tax purposes;
- a corporation or other entity taxable as a corporation for U.S. federal income tax purposes created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income tax regardless of the source of its income; and
- a trust, if (a) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or (b) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This summary does not consider all aspects of U.S. federal income taxation that may be relevant to particular U.S. Holders by reason of their particular circumstances, and does not consider the potential application of the U.S. federal estate, gift or alternative minimum tax, or any aspect of state, local or non-U.S. federal tax laws or U.S. federal tax laws other than U.S. federal income tax laws. In addition, this summary is directed only to U.S. Holders that hold our ordinary shares as “capital assets” within the meaning of Section 1221 of the Code and does not address the considerations that may be applicable to particular classes of U.S. Holders, including U.S. expatriates, banks, financial institutions, regulated investment companies, real estate investment trusts, pension funds, insurance companies, broker-dealers or traders in securities, commodities or currencies, tax-exempt organizations, grantor trusts, partnerships (including entities classified as partnerships for U.S. federal income tax purposes) or other pass-through entities, persons that will hold our ordinary shares in partnerships or other pass-through entities, holders whose functional currency is not the dollar, holders who have elected mark-to-market accounting, holders who acquired our ordinary shares through the exercise of options or otherwise as compensation for the performance of services, holders who hold our ordinary shares as part of a “straddle,” “hedge” or “conversion transaction,” holders selling our ordinary shares short, holders deemed to have sold our ordinary shares in a “constructive sale,” holders required to accelerate the recognition of any item of gross income with respect to our ordinary shares as a result of such income being recognized on an applicable financial statement, holders that are resident or ordinarily resident in or have a permanent establishment in a jurisdiction outside the United States; and holders, directly, indirectly or through attribution, of 10% or more (by vote or value) of our outstanding ordinary shares. If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the U.S. federal income tax consequences relating to an investment in our ordinary shares will depend in part upon the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor regarding the U.S. federal income tax consequences of acquiring, owning and disposing of our ordinary shares in its particular circumstances.

Each U.S. Holder should consult with its own tax advisor as to the particular tax consequences to it of the acquisition, ownership and disposition of our ordinary shares, including the effects of applicable tax treaties, state, local, foreign or other tax laws and possible changes in the tax laws.

Distributions With Respect to Our Ordinary Shares

In the event we make a distribution with respect to our ordinary shares, subject to the discussion below under “Passive Foreign Investment Company Status,” for U.S. federal income tax purposes, the amount of the distribution will equal the dollar value of the gross amount of cash and/or the fair market value of any property distributed, including the amount of any Israeli taxes withheld on such distribution as described above under “Israeli Tax Considerations – Taxation of Non-Israeli Shareholders on Receipt of Dividends.” Other than distributions in liquidation or in redemption of our ordinary shares that are treated as exchanges, a distribution with respect to our ordinary shares to a U.S. Holder generally will be treated as a dividend to the extent of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. The amount of any distribution that exceeds these earnings and profits will be treated first as a non-taxable return of capital, reducing the U.S. Holder’s tax basis in its ordinary shares (but not below zero), and then generally as capital gain from a deemed sale or exchange of such ordinary shares. However, because we do not account for our earnings and profits in accordance with U.S. federal income tax principles, U.S. Holders should expect all distributions to be reported to them as dividends. Corporate U.S. Holders generally will not be allowed a deduction under Section 243 of the Code for dividends received on our ordinary shares and thus will be subject to tax at the rate applicable to their taxable income.

Currently, a non-corporate U.S. Holder’s “qualified dividend income” generally is subject to tax at lower long-term capital gains rates. For this purpose, “qualified dividend income” generally includes dividends paid by a foreign corporation if, among other things, the non-corporate U.S. Holder meets certain minimum holding period requirements, is not under an obligation to make related payments with respect to positions in substantially similar or related property, and either (a) the stock of such corporation is readily tradable on an established securities market in the U.S., including the Nasdaq Global Select Market, or (b) such corporation is eligible for the benefits of a comprehensive income tax treaty with the United States that includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The U.S. Secretary of the Treasury has indicated that the income tax treaty between the United States and Israel is satisfactory for this purpose. Dividends paid by us will not be treated as qualified dividend income, however, if we are treated, for the tax year in which the dividends are paid or the preceding tax year, as a “passive foreign investment company” for U.S. federal income tax purposes. See the discussion below under the heading “Passive Foreign Investment Company Status.”

[Table of Contents](#)

A non-corporate U.S. Holder may be subject to an additional tax based on its “net investment income,” (which generally is computed as gross income from interest, dividends, annuities, royalties and rents and gain from the sale of property (other than property held in the active conduct of a trade or business that does not regularly trade financial instruments or commodities), less the amount of deductions properly allocable to such income or gain. Such tax is equal to 3.8% of the lesser of an individual U.S. Holder’s (i) net investment income or (ii) the excess of such U.S. Holder’s “modified adjusted gross income” (adjusted gross income plus the amount of any foreign earned income excluded from income under Section 911(a)(1) of the Code, net of deductions and exclusions disallowed with respect to such foreign earned income) over a specified threshold amount (\$250,000 in the case of a joint return or surviving spouse, \$125,000 in the case of a married individual filing a separate return and \$200,000 in any other case). In the case of a U.S. Holder which is an estate or trust, the tax is equal to 3.8% of the lesser of (i) undistributed net investment income or (ii) the excess of adjusted gross income (as defined in Section 67(e) of the Code) over the dollar amount at which the highest tax bracket applicable to an estate or trust begins.

U.S. Holders are urged to consult their own tax advisors regarding the U.S. federal income tax consequences of their receipt of any distributions with respect to our ordinary shares.

A dividend paid by us in NIS will be included in the income of U.S. Holders at the dollar amount of the dividend, based on the “spot rate” of exchange in effect on the date of receipt or deemed receipt of the dividend, regardless of whether the payment is in fact converted into dollars. U.S. Holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that dollar value. Any gain or loss upon the subsequent conversion of the NIS into dollars or other disposition of the NIS will constitute foreign currency gain or loss taxable as ordinary income or loss and will be treated as U.S.-source income or loss for U.S. foreign tax credit purposes.

Dividends received with respect to our ordinary shares will constitute “portfolio income” for purposes of the limitation on the deductibility of passive activity losses and, therefore, generally may not be offset by passive activity losses. Dividends received with respect to our ordinary shares also generally will be treated as “investment income” for purposes of the investment interest deduction limitation contained in Section 163(d) of the Code, and generally as foreign-source passive income for U.S. foreign tax credit purposes. Subject to certain limitations, U.S. Holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability for any Israeli income tax withheld from distributions with respect to our ordinary shares which constitute dividends under U.S. income tax law. A U.S. Holder that does not elect to claim a foreign tax credit may instead claim a deduction for Israeli income tax withheld, but only if the U.S. Holder elects to do so with respect to all foreign income taxes in such year. If a refund of the tax withheld is available under the applicable laws of Israel or under the Israel-U.S. income tax treaty, the amount of tax withheld that is refundable will not be eligible for such credit against your U.S. federal income tax liability (and will not be eligible for the deduction against your U.S. federal taxable income). In addition, special rules may apply to the computation of foreign tax credits relating to “qualified dividend income,” as defined above. The calculation of foreign tax credits and, in the case of a U.S. Holder that elects to deduct foreign income taxes, the availability of deductions involve the application of complex rules that depend on a U.S. Holder’s particular circumstances. U.S. Holders are urged to consult their own tax advisors regarding the availability to them of foreign tax credits or deductions in respect of any Israeli tax withheld or paid with respect to any dividends which may be paid with respect to our ordinary shares, including limitations pursuant to the U.S.-Israel income tax treaty.

However, if we are a “United States-owned foreign corporation,” solely for foreign tax credit purposes, a portion of the dividends allocable to our U.S. source earnings and profits may be recharacterized as U.S. source. A “United States-owned foreign corporation” is any foreign corporation in which United States persons own, directly or indirectly, 50% or more (by vote or by value) of the stock. In general, United States-owned foreign corporations with less than 10% of earnings and profits attributable to sources within the United States are excepted from these rules. In such case, if 10% or more of our earnings and profits are attributable to sources within the United States, a portion of the dividends paid on our ordinary shares allocable to our U.S. source earnings and profits will be treated as U.S. source, and, as such, a U.S. Holder may not offset any foreign tax withheld as a credit against U.S. federal income tax imposed on that portion of dividends. The rules governing the treatment of foreign taxes imposed on a U.S. Holder and foreign tax credits are complex, and each U.S. Holder should consult their respective tax advisor about the impact of these rules in their particular situation.

Disposition of Our Ordinary Shares

Subject to the discussion below under “Passive Foreign Investment Company Status,” a U.S. Holder’s sale, exchange or other taxable disposition of our ordinary shares generally will result in the recognition by such U.S. Holder of capital gain or loss in an amount equal to the difference between the dollar value of the amount realized and the U.S. Holder’s tax basis in the ordinary shares disposed of (measured in dollars). This gain or loss will be long-term capital gain or loss if such ordinary shares have been held or are deemed to have been held for more than one year at the time of the disposition. Non-corporate U.S. Holders currently are subject to a maximum tax rate of 20% on long-term capital gains, also may be subject to the additional tax on “net investment income” described above in “Distributions With Respect to Our Ordinary Shares.” If the U.S. Holder’s holding period on the date of the taxable disposition is one year or less, such gain or loss will be a short-term capital gain or loss. Short-term capital gains generally are taxed at the same rates applicable to ordinary income. See “Israeli Tax Considerations – Capital Gains Taxes Applicable to Non-Israeli Resident Shareholders” for a discussion of taxation by Israel of capital gains realized on sales of our ordinary shares. Any capital loss realized upon the taxable disposition of our ordinary shares generally will be deductible only against capital gains and not against ordinary income, except that non-corporate U.S. Holders generally may deduct annually from ordinary income up to \$3,000 of net capital losses. In general, any capital gain or loss recognized by a U.S. Holder upon the taxable disposition of our ordinary shares will be treated as U.S.-source income or loss for U.S. foreign tax credit purposes, although the tax treaty between the United States and Israel may permit gain derived from the taxable disposition of ordinary shares by a U.S. Holder to be treated as foreign-source income for U.S. foreign tax credit purposes under certain circumstances.

A U.S. Holder’s tax basis in its ordinary shares generally will be equal to the dollar purchase price paid by such U.S. Holder to acquire such ordinary shares. The dollar cost of ordinary shares purchased with foreign currency generally will be equal to the dollar value of the purchase price on the date of purchase or, in the case of ordinary shares that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase. Such an election by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the U.S. Internal Revenue Service. The holding period of each ordinary share owned by a U.S. Holder will commence on the day following the date of the U.S. Holder’s purchase of such ordinary share and will include the day on which the ordinary share is sold by such U.S. Holder.

In the case of a U.S. Holder who uses the cash basis method of accounting and who receives NIS in connection with a taxable disposition of ordinary shares, the amount realized will be based on the “spot rate” of exchange on the settlement date of such taxable disposition. If such U.S. Holder subsequently converts NIS into dollars at a conversion rate other than the spot rate in effect on the settlement date, such U.S. Holder may have a foreign currency exchange gain or loss treated as ordinary income or loss for U.S. federal income tax purposes. A U.S. Holder who uses the accrual method of accounting may elect the same treatment required of cash method taxpayers with respect to a taxable disposition of ordinary shares, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the U.S. Internal Revenue Service. If an accrual method U.S. Holder does not (or is not eligible to) elect to be treated as a cash method taxpayer (pursuant to U.S. Treasury Regulations applicable to foreign currency transactions), such U.S. Holder may be deemed to have realized an immediate foreign currency gain or loss for U.S. federal income tax purposes in the event of any difference between the dollar value of the NIS on the date of the taxable disposition and the settlement date. Any such currency gain or loss generally would be treated as U.S.-source ordinary income or loss and would be subject to tax in addition to any gain or loss recognized by such U.S. Holder on the taxable disposition of ordinary shares.

Passive Foreign Investment Company Status

Generally, a foreign corporation is treated as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes for any tax year if, in such tax year, either (i) 75% or more of its gross income (including its pro rata share of the gross income of any company in which it is considered to own 25% or more of the shares by value) is passive in nature, or the Income Test, or (ii) the average percentage of its assets during such tax year (including its pro rata share of the assets of any company in which it is considered to own 25% or more of the shares by value) which produce, or are held for the production of, passive income (determined by averaging the percentage of the fair market value of its total assets which are passive assets as of the end of each quarter of such year) is 50% or more, or the Asset Test. Passive income for this purpose generally includes dividends, interest, rents, royalties and gains from securities and commodities transactions. Cash is treated as generating passive income.

[Table of Contents](#)

There is no definitive method prescribed in the Code, U.S. Treasury Regulations or relevant administrative or judicial interpretations for determining the value of a publicly-traded foreign corporation's assets for purposes of the Asset Test. The legislative history of the U.S. Taxpayer Relief Act of 1997, or the 1997 Act, indicates that for purposes of the Asset Test, "the total value of a publicly-traded foreign corporation's assets generally will be treated as equal to the sum of the aggregate value of its outstanding stock plus its liabilities." It is unclear whether other valuation methods could be employed to determine the value of a publicly-traded foreign corporation's assets for purposes of the Asset Test.

We must make a separate determination each taxable year as to whether we are a PFIC. As a result, our PFIC status may change from year to year. Based on the composition of our gross income and the composition and value of our gross assets for each taxable year from 2004 through 2020, we do not believe that we were a PFIC during any of such tax years. It is likely, however, that under the asset valuation method described in the legislative history of the 1997 Act, we would have been classified as a PFIC for each of 2001, 2002 and 2003 primarily because (a) a significant portion of our assets consisted of the remaining proceeds of our two public offerings of ordinary shares in 1999, and (b) the public market valuation of our ordinary shares during such years was relatively low. There can be no assurance that we will not be deemed a PFIC for the current tax year or any future tax year in which, for example, the value of our assets, as measured by the public market valuation of our ordinary shares, declines in relation to the value of our passive assets (generally, cash, cash equivalents and marketable securities). If we are treated as a PFIC with respect to a U.S. Holder for any tax year, the U.S. Holder will be deemed to own ordinary shares in any of our subsidiaries that are also PFICs.

If we are treated as a PFIC for U.S. federal income tax purposes for any year during a U.S. Holder's holding period of our ordinary shares and the U.S. Holder does not make a QEF Election or a "mark-to-market" election (both as described below), the U.S. Holder would be subject to the following rules:

- (i) the U.S. Holder would be required to (a) report as ordinary income any "excess distributions" (as defined below) allocated to the current tax year and any period prior to the first day of the first tax year in which we were a PFIC, (b) pay tax on amounts allocated to each prior tax year in which we were a PFIC at the highest rate for individuals or corporations as appropriate in effect for such prior year, and (c) pay an interest charge on the tax due for prior tax years in which we were a PFIC at the rate applicable to deficiencies of U.S. federal income tax. "Excess distributions" with respect to any U.S. Holder are amounts received by such U.S. Holder with respect to our ordinary shares in any tax year that exceed 125% of the average distributions received by such U.S. Holder from us during the shorter of (i) the three previous years, or (ii) such U.S. Holder's holding period of our ordinary shares before the then-current tax year. Excess distributions must be allocated ratably to each day that a U.S. Holder has held our ordinary shares.
- (ii) the entire amount of any gain realized by the U.S. Holder upon the sale or other disposition of our ordinary shares also would be treated as an "excess distribution" subject to tax as described above.

If we are a PFIC for any tax year in which a U.S. Holder holds our ordinary shares, we generally will continue to be treated as a PFIC as to such U.S. Holder for all subsequent years during the U.S. Holder's holding period unless we cease to be a PFIC and the U.S. Holder elects to recognize gain based on the unrealized appreciation in such U.S. Holder's ordinary shares through the close of the tax year in which we cease to be a PFIC. Thereafter, so long as we do not again become a PFIC, such U.S. Holder's ordinary shares for which an election was made will not be treated as shares in a PFIC.

A U.S. Holder who beneficially owns shares of a PFIC must file U.S. Internal Revenue Service Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with the U.S. Internal Revenue Service annually.

For any tax year in which we are treated as a PFIC, a U.S. Holder may elect to treat its ordinary shares as an interest in a qualified electing fund, or a QEF Election, in which case the U.S. Holder would be required to include in income currently its proportionate share of our earnings and profits in years in which we are a PFIC regardless of whether distributions of our earnings and profits are actually made to the U.S. Holder. Any gain subsequently recognized by the U.S. Holder upon the sale or other disposition of its ordinary shares, however, generally would be taxed as capital gain.

[Table of Contents](#)

A U.S. Holder may make a QEF Election with respect to a PFIC for any tax year. The election is effective for the tax year for which it is made and all subsequent tax years of the U.S. Holder. Procedures exist for both retroactive elections and the filing of protective statements. A QEF Election is made by completing U.S. Internal Revenue Service Form 8621 and attaching it to a timely filed (including extensions) U.S. federal income tax return for the first tax year to which the election will apply. A U.S. Holder must satisfy additional filing requirements each year the election remains in effect. Upon a U.S. Holder's request, we will provide to such U.S. Holder the information required to make a QEF Election and to make subsequent annual filings.

As an alternative to a QEF Election, a U.S. Holder generally may elect to mark its ordinary shares to market annually, recognizing ordinary income or loss (subject to certain limitations) equal to the difference, as of the close of each tax year, between the fair market value of its ordinary shares and the adjusted tax basis of such shares. A U.S. Holder will be allowed a deduction for the excess, if any, of the adjusted basis of its ordinary shares over their fair market value as of the close of the taxable year. However, deductions will be allowable only to the extent of any net mark-to-market gains on our ordinary shares included in the U.S. Holder's income for prior taxable years. Amounts included in a U.S. Holder's income under a mark-to-market election, as well as gain on the actual sale or other disposition of ordinary shares, will be treated as ordinary income. Ordinary loss treatment will also apply to the deductible portion of any mark-to-market loss on ordinary shares, as well as to any loss realized on the actual sale or disposition of ordinary shares, to the extent the amount of such loss does not exceed the net mark-to-market gains for such ordinary shares previously included in income. A U.S. Holder's basis in our ordinary shares will be adjusted to reflect any such income or loss amounts. If a U.S. Holder makes a mark-to-market election, any distributions we make would generally be subject to the rules discussed above under "—Distributions With Respect to Our Ordinary Shares," except the lower rates applicable to qualified dividend income would not apply. Once made, a mark-to-market election generally continues unless revoked with the consent of the U.S. Internal Revenue Service.

The mark-to-market election is available only for "marketable stock," which is stock that is regularly traded on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. Our ordinary shares are traded on Nasdaq and TASE. Because a mark-to-market election cannot be made for equity interests in any lower-tier PFICs we own, a U.S. Holder generally will continue to be subject to the PFIC rules with respect to its indirect interest in any investments held by us that are treated as an equity interest in a PFIC for U.S. federal income tax purposes. Nasdaq is a qualified exchange, and we believe TASE should be treated as a qualified exchange but there can be no assurance that the trading in our ordinary shares will be sufficiently regular to qualify our ordinary shares as marketable stock. U.S. Holders should consult their own tax advisor as to the availability and desirability of a mark-to-market election, as well as the impact of such election on interests in any lower-tier PFICs.

Each U.S. person that is an investor of a PFIC is generally required to file an annual information return on IRS Form 8621 containing such information as the U.S. Treasury Department may require. The failure to file IRS Form 8621 could result in the imposition of penalties and the extension of the statute of limitations with respect to U.S. federal income tax.

Due to the complexity of the PFIC rules and the uncertainty of their application in many circumstances, U.S. Holders should consult their own tax advisors with respect to the U.S. federal income tax risks related to owning and disposing of our ordinary shares, the consequence of our status as a PFIC and, if we are treated as a PFIC, compliance with the applicable reporting requirements and the eligibility, manner and advisability of making a QEF Election or a mark-to-market election.

Information Reporting and Backup Withholding

Payments in respect of our ordinary shares that are made in the United States or by certain U.S.-related financial intermediaries may be subject to information reporting requirements and U.S. backup withholding tax, currently at a rate of 24%. The information reporting requirements will not apply, however, to payments to certain exempt U.S. Holders, including corporations and tax-exempt organizations. In addition, backup withholding will not apply to a U.S. Holder that furnishes a correct taxpayer identification number on U.S. Internal Revenue Service Form W-9 (or substitute form) or establishes an exemption. The backup withholding tax is not an additional tax. Amounts withheld under the backup withholding tax rules may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding tax rules by timely filing the appropriate claim for refund with the U.S. Internal Revenue Service. U.S. Holders should consult their own tax advisors regarding their qualification for an exemption from the backup withholding tax and the procedures for obtaining such an exemption, if applicable.

Foreign Asset Reporting

A U.S. Holder with interests in “specified foreign financial assets” (including, among other assets, our ordinary shares, unless such ordinary shares are held on such U.S. Holder’s behalf through a financial institution) may be required to file an information report with the U.S. Internal Revenue Service if the aggregate value of all such assets exceeds \$50,000 on the last day of the taxable year or \$75,000 at any time during the taxable year (or such higher dollar amount as may be prescribed by applicable U.S. Internal Revenue Service guidance). Regulations extend this reporting requirement to certain entities that are treated as formed or availed of to hold direct or indirect interests in specified foreign financial assets based on certain objective criteria. A U.S. Holder that fails to report the required information could be subject to substantial penalties. Each U.S. Holders should consult with its own tax advisor regarding its obligation to file such information reports in light of its own particular circumstances.

The foregoing discussion of certain U.S. federal income tax considerations is a general summary only and should not be considered as income tax advice or relied upon for tax planning purposes. Accordingly, each U.S. Holder should consult with its own tax advisor regarding U.S. federal, state, local and non-U.S. income and other tax consequences of the acquisition, ownership and disposition of our ordinary shares.

F. DIVIDENDS AND PAYING AGENTS

Not applicable.

G. STATEMENT BY EXPERTS

Not applicable.

H. DOCUMENTS ON DISPLAY

Our website is <http://www.audiocodes.com>. We are subject to the informational requirements of the Exchange Act applicable to foreign private issuers and fulfill the obligations with respect to such requirements by filing reports with the SEC. We make available, free of charge, on our website (under the heading “Investor Relations”) our Annual Reports on Form 20-F, Reports on Form 6-K and amendments to those reports as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. No information contained on our website is intended to be included as part of, or incorporated by reference into, this Annual Report on Form 20-F. The SEC maintains an Internet site that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. The address of the SEC’s website is <http://www.sec.gov>.

I. SUBSIDIARY INFORMATION

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risk associated with changes in foreign currency exchange rates. To mitigate these risks, we use derivative financial instruments. The majority of our revenues and expenses are generated in dollars. A portion of our expenses, however, is denominated in NIS. In order to protect ourselves against the volatility of future cash flows caused by changes in foreign exchange rates, we use currency forward contracts and currency options. We usually hedge the part of our forecasted expenses denominated in NIS. If our currency forward contracts and currency options meet the definition of a hedge, and are so designated, changes in the fair value of the contracts will be offset against changes in the fair value of the hedged assets or liabilities through earnings. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current earnings during the period of change. Our hedging program reduces, but does not eliminate, the impact of foreign currency rate movements and due to the general economic slowdown along with the devaluation of the dollar, our results of operations may be adversely affected. Without taking into account the mitigating effect of our hedging activity, a 10% decrease in the dollar exchange rates in effect for the year ending December 31, 2022 would cause a decrease in net income of approximately \$8.9 million.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Our original Articles of Association and Memorandum of Association were adopted prior to the enactment of the Companies Law and were only amended on limited occasions since adoption. In light of changes in the business and legal environment that occurred since such time, in August 2020, our Board of Directors approved, and in September 2020 our shareholders approved, our Amended and Restated Articles of Association and Amended and Restated Memorandum of Association, which amended and restated our prior Articles of Association and Memorandum of Association in their entirety. The description of the amendments, set forth in our proxy statement filed as [Exhibit 99.1 to our Form 6-K filed with the SEC on August 13, 2020](#), is incorporated herein by reference, and the Amended and Restated Articles of Association and Amended and Restated Memorandum of Association are incorporated by reference as Exhibits 1.1 and 1.2 to this Form 20-F.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our President and Chief Executive Officer and our Vice President Finance and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in 13a-15(e) under the Exchange Act) as of December 31, 2022. Based on this evaluation, our President and Chief Executive Officer and Vice President Finance and Chief Financial Officer have concluded that, as of such date, our disclosure controls and procedures were (i) designed to ensure that material information relating to us, including our consolidated subsidiaries, is made known to our management, including our President and Chief Executive Officer and Vice President Finance and Chief Financial Officer, by others within those entities, as appropriate to allow timely decisions regarding required disclosure, particularly during the period in which this report was being prepared and (ii) effective, in that they provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Management's Annual Report on Internal Control Over Financial Reporting

Our management, under the supervision of our President and Chief Executive Officer and our Vice President Finance and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as defined in Rules 13a-15(f) of the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that:

- pertain to the maintenance of our records that in reasonable detail accurately and fairly reflect our transactions and asset dispositions;
- provide reasonable assurance that our transactions are recorded as necessary to permit the preparation of our financial statements in accordance with generally accepted accounting principles;
- provide reasonable assurance that our receipts and expenditures are made only in accordance with authorizations of our management and board of directors (as appropriate); and

[Table of Contents](#)

- provide reasonable assurance regarding the prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2022 based on the framework for Internal Control – Integrated Framework set forth by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Based on our assessment under that framework and the criteria established therein, our management concluded that the company’s internal control over financial reporting were effective as of December 31, 2022.

Attestation Report of the Registered Public Accounting Firm

This Annual Report includes an attestation report of our registered public accounting firm regarding internal control over financial reporting on page F-3 of our audited consolidated financial statements set forth in Item 18, “Financial Statements,” and is incorporated herein by reference.

Changes in Internal Control over Financial Reporting

There were no changes in our internal controls over financial reporting identified with the evaluation thereof that occurred during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16.A. AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Joseph Tenne is an “audit committee financial expert” (as defined in Item 16.A of Form 20-F) and is “independent” (as defined in the applicable regulations).

ITEM 16.B. CODE OF ETHICS

We have adopted a Code of Conduct and Business Ethics, which was updated in 2019, that applies to our President and Chief Executive Officer, Vice President Finance and Chief Financial Officer and other senior financial officers. This Code has been posted on our website, www.audiocodes.com.

ITEM 16.C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, has served as our independent public accountants for each of the years in the three-year period ended December 31, 2022. The following table presents the aggregate fees for professional audit services and other services rendered by Kost Forer Gabbay & Kasierer in 2022 and 2021.

	Year Ended December 31, (Amounts in thousands)	
	2022	2021
Audit Fees	\$ 524	\$ 440
Tax Fees	194	107
Total	<u>\$ 718</u>	<u>\$ 547</u>

[Table of Contents](#)

Audit Fees consist of fees billed for the annual audit of the company's consolidated financial statements and the statutory financial statements of the company. They also include fees billed for other audit services, which are those services that only the external auditor reasonably can provide, and include services rendered for the integrated audit over internal controls as required under Section 404 of the Sarbanes-Oxley Act applicable in 2022 and 2021, the provision of consents and the review of documents filed with the SEC.

Tax Fees include fees billed for tax compliance services, including the preparation of tax returns and claims for refund; tax consultations, such as assistance and representation in connection with tax audits and appeals, transfer pricing, and requests for rulings or technical advice from taxing authorities; tax planning services; and expatriate tax compliance, consultation and planning services.

Audit Committee Pre-approval Policies and Procedures

The audit committee of AudioCodes' Board of Directors is responsible, among other matters, for the oversight of the external auditor subject to the requirements of Israeli law. The audit committee has adopted a policy regarding pre-approval of audit and permissible non-audit services provided by our independent auditors, or the Policy.

Under the Policy, proposed services either (i) may be pre-approved by the audit committee without consideration of specific case-by-case services as general pre-approval or (ii) require the specific pre-approval of the audit committee as specific pre-approval. The audit committee may delegate either type of pre-approval authority to one or more of its members. The appendices to the Policy set out the audit, audit-related, tax and other services that have received the general pre-approval of the audit committee, including those described in the footnotes to the table, above; these services are subject to annual review by the audit committee. All other audit, audit-related, tax and other services must receive a specific pre-approval from the audit committee.

The audit committee pre-approves fee levels annually for the audit services. Non-audit services are pre-approved as required. The financial expert of the audit committee may approve non-audit services of up to \$25,000 and then request the audit committee to ratify his decision.

During 2022 and 2021, no services provided to AudioCodes by Kost Forer Gabbay & Kasierer were approved by the audit committee pursuant to the *de minimis* exception to the pre-approval requirement provided by paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. We approve all such compensation by the audit committee.

ITEM 16.D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16.E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

In 2022, we repurchased an aggregate of 1,513,207 of our ordinary shares for an aggregate consideration of approximately \$38.1 million, as set forth below:

Period	(a) Total Number of Ordinary Shares Purchased (1)	(b) Average Price Paid per Ordinary Share (\$) (2)	(c) Total Number of Ordinary Shares Purchased as Part of Publicly Announced Program	(d) Approximate dollar Value of Shares That May Yet be Purchased under the Program (\$)
January 1 - January 31, 2022	134,994	33.6	134,994	30,459,640
February 1 - February 28, 2022	355,358	28.01	355,358	20,496,318
March 1 - March 31, 2022(3)	229,772	27.67	229,772	8,299,034
April 1 - April 30, 2022	—	—	—	8,299,034
May 1 - May 31, 2022	330,947	21.97	330,947	1,019,216
June 1 - June 30, 2022	43,532	23.40	43,532	35,000,000
July 1 - July 31, 2022	—	—	—	35,000,000
August 1 - August 31, 2022(4)	50,908	22.73	50,908	28,121,036
September 1 - September 30, 2022	222,316	22.07	222,316	23,207,832
October 1 - October 31, 2022	—	—	—	23,207,832
November 1 - November 30, 2022	145,380	19.63	145,380	20,349,414
December 1 - December 31, 2022	—	—	—	20,349,414
Total in 2022	1,513,207	25.15	1,513,207	20,349,414

- (1) In June 2022, we received court approval in Israel to repurchase up to \$35.0 million of our ordinary shares. The approval received in 2022 allowed us to use the approved amounts for share repurchases or cash dividends. The Israeli court generally limits its approval to six months from the date of application. Consequently, although the program does not have a set end date, it requires renewal each six months by submitting new court application based on the then prevailing facts. No shares were repurchased during 2022 other than through the repurchase program.
- (2) Excluding commissions.
- (3) In March 2022, we paid a cash dividend in the aggregate amount of \$5.8 million.
- (4) In August 2022, we paid a cash dividend in the aggregate amount of \$5.7 million.

ITEM 16.F. CHANGE IN REGISTRANT’S CERTIFIED ACCOUNTANT

Not applicable.

ITEM 16.G. CORPORATE GOVERNANCE

As a foreign private issuer whose shares are listed on the Nasdaq Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the Nasdaq Marketplace Rules.

We do not comply with the Nasdaq requirement that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain share-based compensation plans (including amendments to increase the number of shares available for grant under our existing equity incentive plan). Instead, we follow Israeli law and practice which permits the establishment or amendment of certain share-based compensation plans approved by our board of directors without the need for a shareholder vote, unless such arrangements are for the compensation of directors and the chief executive officer, in which case they also require compensation committee and shareholder approval.

[Table of Contents](#)

We may elect in the future to follow Israeli practice with regard to, among other things, director nomination, composition of the board of directors and quorum at shareholders' meetings. In addition, we may follow Israeli law, instead of the Nasdaq Marketplace Rules, which require that we obtain shareholder approval for an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company.

A foreign private issuer that elects to follow a home country practice instead of Nasdaq requirements must submit to Nasdaq in advance a written statement from an independent counsel in its home country certifying that its practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC or on its website each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq's corporate governance rules.

For a discussion of the requirements of Israeli law with respect to these matters, see Item 6.C, "Directors, Senior Management and Employees- Board Practices," and Item 10.B, "Additional Information-Memorandum and Articles of Association."

ITEM 16.H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16.I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F-1 to F-42 of the financial statements attached hereto.

[Table of Contents](#)

ITEM 19. EXHIBITS

The following exhibits are filed as part of this Annual Report:

Exhibit No.	Document	Incorporated by Reference		
		Form	File No.	Date Filed
1.1	Amended and Restated Memorandum of Association of Registrant.	6-K	000-30070	9/15/2020
1.2	Amended and Restated Articles of Association of Registrant.	6-K	000-30070	9/15/2020
2.1*	Description of Securities.			
4.1	License Agreement between AudioCodes Ltd. and DSP Group, Inc., dated as of May 6, 1999.	F-1	333-10352	5/22/1999
4.2	Employment Agreement between AudioCodes Ltd. and Shabtai Adlersberg.	6-K	000-30070	11/12/2009
4.3	Amendment No. 1 to Employment Agreement between AudioCodes Ltd. and Shabtai Adlersberg.	6-K	000-30070	8/8/2013
4.4	Amendment No. 2 to Employment Agreement between AudioCodes Ltd. and Shabtai Adlersberg.	6-K	000-30070	8/8/2017
4.5	Amendment No. 3 to Employment Agreement between AudioCodes Ltd. and Shabtai Adlersberg.	6-K	000-30070	8/14/2019
4.6†	English Summary of Terms of Employment of Lior Aldema, as of March 2019.	20-F (2019)	000-30070	3/19/2020
4.7†	Building and Tenancy Lease Agreement, dated May 11, 2007, by and between Airport City Ltd. and AudioCodes Ltd.	20-F (2006)	000-30070	6/27/2007
4.8†	English Summary of Addendum, dated September 23, 2013, to Lease and Construction Agreement of November 14, 2000, between Airport City Ltd., as landlord and AudioCodes Ltd., as tenant.	6-K	000-30070	1/6/2014
4.9	AudioCodes Ltd. 2008 Equity Incentive Plan.	20-F (2008)	000-30070	6/30/2009
4.10	Amendment to AudioCodes Ltd. 2008 Equity Incentive Plan.	S-8	333-170676	11/18/2010
4.11	Amendment No. 2 to AudioCodes Ltd. 2008 Equity Incentive Plan.	S-8	333-190437	8/7/2013
4.12	Amendment No. 3 to AudioCodes Ltd. 2008 Equity Incentive Plan.	S-8	333-210438	3/29/2016
4.13	Amendment No. 4 to AudioCodes Ltd. 2008 Equity Incentive Plan.	S-8	333-230388	3/19/2019

[Table of Contents](#)

4.14	Form of Insurance, Indemnification and Exculpation Agreement between the Registrant and each of its directors and executive officers.	6-K	000-30070	11/10/2011
4.15	Form of AudioCodes Ltd. Executive Compensation Policy for the years 2022-2024.	6-K	000-30070	8/10/2022
4.16	Summary of Request for Receipt Of A Loan In Foreign Currency – The First International Bank Of Israel Ltd.	20-F (2015)	000-30070	3/29/2016
4.17†	English Summary of Royalty Buyout Agreement, dated November 25, 2019, by and among AudioCodes Ltd., AudioCodes Development Ltd., and the Israel National Authority for Technology and Innovation.	20-F (2020)	000-30070	2/25/2020
4.18	Amendment No. 5 to AudioCodes Ltd. 2008 Equity Incentive Plan.	S-8	333-264535	4/28/2022
4.19*	Lease Agreement, dated May 13, 2022, by and between Kingsbridge 2005 LLC and AudioCodes Ltd.			
4.20*†	English Summary of Building and Tenancy Lease Agreement, dated November 16, 2022, by and between Naimi Towers Ltd. and AudioCodes Ltd.			
8.1*	Subsidiaries of the Registrant.			
12.1*	Certification of Shabtai Adlersberg, President and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
12.2*	Certification of Niran Baruch, Vice President Finance and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.			
13.1*	Certification by President and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
13.2*	Certification by Vice President Finance and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.			
15.1*	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.			
101.1*	Interactive Data Files (XBRL-Related Documents).			

† English summary of Hebrew original.

* Filed herewith.

[Table of Contents](#)

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on Form 20-F on its behalf.

AUDIOCODES LTD.

By: /s/ SHABTAI ADLERSBERG
Shabtai Adlersberg
President and Chief Executive Officer

Date: April 24, 2023

AUDIOCODES LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

IN U.S. DOLLARS

INDEX

	<u>Page</u>
Report of Independent Registered Public Accounting Firm (PCAOB ID No.1281)	F-2
Consolidated Balance Sheets	F-5
Consolidated Statements of Operations	F-7
Consolidated Statements of Comprehensive Income	F-8
Consolidated Statements of Changes in Shareholders' Equity	F-9
Consolidated Statements of Cash Flows	F-10
Notes to Consolidated Financial Statements	F-12



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of

AUDICODES LTD. AND ITS SUBSIDIARIES

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AudioCodes Ltd. and its subsidiaries (the “Company”) as of December 31, 2022 and 2021 the related consolidated statements of operations, comprehensive income, changes in shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 24, 2023, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.



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Description of the Matter

Revenue Recognition

As described in Note 2 to the consolidated financial statements, the Company generates revenues mainly from sales of products and services. The Company's contracts with customers often contain multiple goods and services that are accounted for separately if they are distinct performance obligations. In such contracts, the transaction price is then allocated to the distinct performance obligations on a relative standalone selling price basis and revenue is recognized when control of the distinct performance obligation is transferred.

Auditing the Company's revenue recognition involved a high degree of auditor judgment due to the effort to evaluate (a) the identification and determination of whether products and services, such as software licenses and related services, are considered distinct performance obligations, which should be accounted for separately and (b) the determination of standalone selling prices for each distinct performance obligation.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls related to the identification of distinct performance obligations, and the determination of stand-alone selling prices for each distinct performance obligation.

Our audit procedures also included, among others, selecting a sample of customer contracts and reading contract source documents for each selection, including the executed contract and purchase order and evaluating the appropriateness of management's application of significant accounting policies on the contracts. We tested management's identification of significant terms for completeness, including the identification and determination of distinct performance obligations. We also evaluated the reasonableness of management's estimate of stand-alone selling prices for products and services and tested the mathematical accuracy of management's calculations of revenue. Finally, we assessed the appropriateness of the related disclosures in the consolidated financial statements.

Kost Forer Gabbay & Kasierer,
a Member of Ernst & Young Global

We have served as the Company's auditor since 1997.

Tel-Aviv, Israel
April 24, 2023



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders and Board of Directors of
AUDIOCODES LTD. AND ITS SUBSIDIARIES**

Opinion on Internal Control over Financial Reporting

We have audited AudioCodes Ltd. and its subsidiaries' internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AudioCodes Ltd. and its subsidiaries (collectively, the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and our report dated April 24, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Tel-Aviv, Israel
April 24, 2023

Kost Forer Gabbay & Kasierer,
a Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31,	
	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 24,535	\$ 79,423
Restricted cash	—	5,100
Short-term and restricted bank deposits	5,210	220
Short-term marketable securities	2,120	669
Short-term financial investments	15,258	—
Trade receivables (net of allowance for credit losses of \$463 and \$233 as of December 31, 2022 and 2021, respectively)	56,424	48,956
Other receivables and prepaid expenses	10,006	9,197
Inventories	36,377	23,988
Total current assets	149,930	167,553
LONG-TERM ASSETS:		
Long-term and restricted bank deposits	—	94
Long-term trade receivables	13,099	—
Long-term marketable securities	75,946	89,307
Long-term financial investments	1,242	—
Deferred tax assets	9,073	8,905
Operating lease right-of-use assets	13,517	16,457
Severance pay funds	17,933	22,724
Total long-term assets	130,810	137,487
PROPERTY AND EQUIPMENT, NET	3,965	4,394
INTANGIBLE ASSETS, NET	1,566	2,370
GOODWILL	37,560	37,560
Total assets	\$ 323,831	\$ 349,364

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS (Cont.)

U.S. dollars in thousands, except share and per share data

	December 31,	
	2022	2021
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	11,338	7,863
Other payables and accrued expenses	38,316	38,350
Deferred revenues	36,634	41,591
Short-term operating lease liabilities	8,169	8,139
Total current liabilities	94,457	95,943
LONG-TERM LIABILITIES:		
Accrued severance pay	17,755	22,895
Deferred revenues and other liabilities	16,308	13,637
Long-term operating lease liabilities	5,551	11,391
Total long-term liabilities	39,614	47,923
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)		
Total liabilities	134,071	143,866
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of NIS 0.01 par value -		
Authorized: 100,000,000 shares as of December 31, 2022 and 2021; Issued: 63,998,443 and 63,294,907 shares as of December 31, 2022 and 2021, respectively; Outstanding: 31,688,544 and 32,498,215 shares as of December 31, 2022 and 2021, respectively	109	107
Additional paid-in capital	394,941	378,766
Treasury stock at cost – 32,309,899 and 30,796,692 shares as of December 31, 2022 and 2021, respectively	(217,744)	(179,645)
Accumulated other comprehensive income (loss)	(10,953)	(223)
Retained earnings (accumulated deficit)	23,407	6,493
Total shareholders' equity	189,760	205,498
Total liabilities and shareholders' equity	\$ 323,831	\$ 349,364

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands, except share and per share data

	Year Ended December 31,		
	2022	2021	2020
Revenues:			
Products	\$ 164,302	\$ 155,089	\$ 145,332
Services	110,791	93,831	75,442
Total revenues	275,093	248,920	220,774
Cost of revenues:			
Products	63,686	52,750	54,384
Services	32,629	25,279	16,574
Total cost of revenues	96,315	78,029	70,958
Gross profit	178,778	170,891	149,816
Operating expenses:			
Research and development, net	59,842	53,396	46,072
Selling and marketing	70,123	62,057	51,217
General and administrative	17,494	15,914	14,177
Total operating expenses	147,459	131,367	111,466
Operating income	31,319	39,524	38,350
Financial income (expenses), net	2,864	123	(1,703)
Income (loss) before taxes on income	34,183	39,647	36,647
Taxes on income	5,717	5,896	9,399
Net income	\$ 28,466	\$ 33,751	\$ 27,248
Earnings per share:			
Basic	\$ 0.89	\$ 1.03	\$ 0.87
Diluted	\$ 0.88	\$ 1.00	\$ 0.83
Weighted average number of shares used in computations of earnings per share:			
Basic	31,849,422	32,703,478	31,440,093
Diluted	32,500,141	33,845,559	32,915,683

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year Ended December 31,		
	2022	2021	2020
Net income	\$ 28,466	\$ 33,751	\$ 27,248
Other comprehensive income (loss) related to:			
Change in unrealized gains (losses) on marketable securities available-for-sale, net of tax:			
Gain (loss) on marketable securities recognized in other comprehensive income	(5,434)	(1,395)	453
Other comprehensive income (loss) related to unrealized gains (losses) on marketable securities available-for-sale	(5,434)	(1,395)	453
Change in unrealized gains (losses) on cash flow hedges, net of tax:			
Gain (loss) on derivative instruments recognized in other comprehensive income,	(8,979)	1,538	3,445
Gain (loss) on derivative instruments recognized in income	3,683	(2,138)	(2,126)
Other comprehensive income (loss), related to unrealized gains (losses) on cash flow hedges, net of tax	(5,296)	(600)	1,319
Other comprehensive income (loss), net of tax	(10,730)	(1,995)	1,772
Total comprehensive income	\$ 17,736	\$ 31,756	\$ 29,020

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands, except share and per share data

	Share capital	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Total equity
Balance as of January 1, 2020	94	265,372	(137,793)	—	(35,199)	92,474
Issuance of shares upon exercise of options and vesting of RSUs	3	2,603	—	—	—	2,606
Issuance of ordinary shares in a public offering, net	8	85,418	—	—	—	85,426
Share-based compensation related to options and RSUs granted to employees and non-employees	—	8,771	—	—	—	8,771
Cash dividends paid	—	—	—	—	(8,442)	(8,442)
Other comprehensive income	—	—	—	1,772	—	1,772
Net income	—	—	—	—	27,248	27,248
Balance as of December 31, 2020	105	362,164	(137,793)	1,772	(16,393)	209,855
Purchase of treasury stock	—	—	(41,852)	—	—	(41,852)
Issuance of shares upon exercise of options and vesting of RSUs	2	2,438	—	—	—	2,440
Share-based compensation related to options and RSUs granted to employees and non-employees	—	14,164	—	—	—	14,164
Cash dividends paid	—	—	—	—	(10,865)	(10,865)
Other comprehensive loss	—	—	—	(1,995)	—	(1,995)
Net income	—	—	—	—	33,751	33,751
Balance as of December 31, 2021	107	378,766	(179,645)	(223)	6,493	205,498
Purchase of treasury stock	—	—	(38,099)	—	—	(38,099)
Issuance of shares upon exercise of options and vesting of RSUs	2	1,053	—	—	—	1,055
Share-based compensation related to options and RSUs granted to employees and non-employees	—	15,122	—	—	—	15,122
Cash dividends paid	—	—	—	—	(11,552)	(11,552)
Other comprehensive loss	—	—	—	(10,730)	—	(10,730)
Net income	—	—	—	—	28,466	28,466
Balance as of December 31, 2022	109	394,941	(217,744)	(10,953)	23,407	189,760

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year Ended December 31,		
	2022	2021	2020
Cash flows from operating activities:			
Net income	\$ 28,466	\$ 33,751	\$ 27,248
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,984	2,432	2,268
Amortization of marketable securities premiums and accretion of discounts, net	1,513	1,589	172
Share-based compensation related to options and RSUs granted to employees and non-employees	15,122	14,164	8,771
Cash financial expenses (income), net	(892)	54	(26)
Decrease in deferred tax assets, net	1,780	3,406	8,329
Increase in trade receivables, net	(20,567)	(14,438)	(7,017)
Increase in other receivables and prepaid expenses	(1,621)	(1,221)	(1,516)
Decrease (increase) in inventories	(12,653)	4,504	(1,525)
Decrease in operating lease right-of-use assets	6,639	7,445	7,913
Decrease in operating lease liabilities	(9,509)	(7,556)	(6,717)
Decrease in royalty buyout liability	—	(11,684)	(9,815)
Increase in trade payables	3,475	879	356
Increase (decrease) in other payables and accrued expenses	(4,077)	9,601	3,839
Increase (decrease) in deferred revenues	(2,030)	5,480	5,906
Increase (decrease) in accrued severance pay, net	(349)	(1,062)	290
Net cash provided by operating activities	8,281	47,344	38,476
Cash flows from investing activities:			
Purchase of property and equipment	(1,487)	(1,174)	(1,530)
Purchase of marketable securities	—	(43,808)	(54,977)
Purchase of financial investments	(16,615)	—	—
Proceeds from redemption of marketable securities	1,123	3,240	—
Proceeds from redemption of financial investments	1,052	—	—
Proceeds from sale of marketable securities	2,250	2,571	—
Investment in short-term and restricted bank deposits	(5,000)	—	(84,000)
Proceeds from short-term and restricted bank deposits	10	84,597	599
Proceeds from long-term and restricted bank deposits	94	—	600
Net cash paid for acquisition of subsidiary	(1,100)	(2,804)	—
Net cash provided by (used in) investing activities	\$ (19,673)	\$ 42,622	\$ (139,308)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

U.S. dollars in thousands

	Year Ended December 31,		
	2022	2021	2020
Cash flows from financing activities:			
Purchase of treasury stock	\$ (38,099)	\$ (41,852)	\$ —
Repayment of long-term bank loans	—	(1,200)	(2,497)
Cash dividends paid	(11,552)	(10,865)	(8,442)
Proceeds from issuance of shares upon exercise of options	1,055	2,440	2,606
Proceeds from issuance of shares in a public offering, net	—	—	85,426
Net cash provided by (used in) financing activities	<u>(48,596)</u>	<u>(51,477)</u>	<u>77,093</u>
Increase (decrease) in cash, cash equivalents and restricted cash	(59,988)	38,489	(23,739)
Cash, cash equivalents and restricted cash at the beginning of the year	84,523	46,034	69,773
Cash, cash equivalents and restricted cash at the end of the year	<u>\$ 24,535</u>	<u>\$ 84,523</u>	<u>\$ 46,034</u>
Supplemental disclosure of cash flow activities:			
Cash paid during the year for income taxes	<u>\$ 4,024</u>	<u>\$ 1,584</u>	<u>\$ 835</u>
Cash paid during the year for interest	<u>\$ —</u>	<u>\$ 455</u>	<u>\$ 204</u>
Significant non-cash transactions:			
Inventory transferred to be used as property and equipment	<u>\$ 264</u>	<u>\$ 701</u>	<u>\$ 607</u>
Operating lease right-of-use asset recognized with corresponding lease liability	<u>\$ 3,699</u>	<u>\$ (1,528)</u>	<u>\$ 3,655</u>

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL

a. Business overview:

AudioCodes Ltd. (the “Company”) and its subsidiaries (together with the Company, the “Group”) is a leading vendor of advanced communication, software, products and productivity solutions for the digital workplace. The Company’s products are deployed on-premises or delivered from the cloud. Providing software communications, cloud-based platforms, customer premise equipment and software applications, the Company’s solutions and products are geared to meet the growing needs of enterprises and service providers realigning their operations towards the transition to all-IP networks and hosted unified communications and collaboration business services. In addition, the Company offers a complete suite of professional and managed services that allow the Company’s partners and customers to choose a service packages (or complement their own offering) from a modular portfolio of professional services.

The Company operates through its wholly-owned subsidiaries in the United States, Europe, Asia, Latin America, Australia and Israel.

b. Material customers and suppliers:

The Group is dependent upon sole source suppliers for certain key components used in its products, including certain digital signal processing chips. Although there are a limited number of manufacturers for these particular components, management believes that other suppliers could provide similar components on comparable terms to the extent needed. Any change in suppliers, however, could cause a delay in manufacturing and a possible loss of sales, which could materially and adversely affect the operating results and financial position of the Group.

During the years ended December 31, 2022, 2021 and 2020, the Group had a major customer which accounted for 15.1%, 15.4% and 13.0%, respectively, of total revenues in those years. In addition, during the years ended December 31, 2022, 2021 and 2020, the Group had an additional major customer which accounted for 10.0%, 10.9% and 13.5%, respectively, of total revenues the years ended December 31, 2022, 2021 and 2020. No other customer accounted for more than 10% of the Group’s revenues in the years ended December 31, 2022, 2021 and 2020.

c. COVID-19:

The COVID-19 pandemic has impacted, and continues to impact, the markets that the Group serves. In particular, the COVID-19 pandemic resulted in an unprecedented shift to work-from-home for many enterprises and contact centers, and a need to enable remote teams and agents to communicate and collaborate, regardless of their location. Moreover, there has also been a significant increase in the consumption of online services resulting from lockdowns in many countries, thus increasing the load on support centers. The COVID-19 pandemic has disrupted supply chains and affected production and sales across a range of industries, including the industry in which the Group operates. While the Group has previously managed, and will continue to actively manage, the Group’s business in an attempt to mitigate the impacts of the COVID-19 pandemic, the Group cannot at this time estimate the duration or full magnitude that the COVID-19 pandemic could ultimately have on the Group’s business, results of operations and financial condition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL (Cont.)

d. Ongoing conflict in Ukraine:

In February 2022, Russia launched a large-scale invasion of Ukraine, and Russia and Ukraine continue to engage in active and armed conflict. Such conflict has resulted, and will likely continue to result in, significant destruction of Ukraine's infrastructure and substantial casualties amongst military personnel and civilians. As a result of Russia's invasion of Ukraine, the governments of several nations have implemented commercial and economic sanctions against Russia (as well as certain banks, companies, government officials, and other individuals in Russia and Belarus). In addition to governmental entities, actors in the private sector, including, among others, tech firms, consumer brands and major manufacturers, have stopped, or publicly announced that they intend to stop, operations in Russia and cease their partnerships with Russian firms, and shippers, insurance companies and refiners have similarly indicated that they will no longer purchase or ship crude oil from Russia.

In March 2022, Israel's then Foreign Minister Mr. Yair Lapid indicated that Israel would not function as a route to bypass sanctions imposed on Russia by the United States and other western countries, and Israeli banks have elected to sever relationships with sanctioned Russian banks. Israel has not, as of the date of this Annual Report, imposed explicit sanctions on Russia or Belarus; however, it has publicly rejected Russia's annexation of the four occupied regions of Ukraine and voiced support for Ukraine's sovereignty and territorial integrity. Moreover, Israeli companies that maintain ties to the United States, the United Kingdom and the European Union could be indirectly subject to the measures imposed by such nations.

While it is not possible to predict or determine the ultimate consequences and impact of the conflict in Ukraine, such conflict could result in, among other things, significant regional instability and geopolitical shifts, and material and adverse effects on global macroeconomic conditions, financial markets, exchange rates and supply chains. To the extent negotiations between Russia and Ukraine are ultimately unsuccessful, the conflict in Ukraine could have a lasting impact in the near- and long-term on the financial condition, business and operations of the Group's business (and the businesses of the counterparties with whom the Group engages), and the global economy at large.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), applied on a consistent basis as follows:

a. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements. The Company's management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they were made. As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to revenue recognition and allowance for sales returns, allowance for credit losses, inventories write-off, intangible assets, goodwill, income taxes and valuation allowance, share-based compensation and contingent liabilities. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars ("dollars"):

A majority of the Group's revenues is generated in dollars. In addition, most of the Group's costs are denominated and determined in dollars and in new Israeli shekels ("NIS"). Management believes that the dollar is the currency in the primary economic environment in which the Group operates. Thus, the functional and reporting currency of the Group is the dollar.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into dollars in accordance with Accounting Standards Codification (“ASC”) 830, “Foreign Currency Matters”. All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances, including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents represent short-term highly liquid investments that are readily convertible into cash with original maturities of three months or less at the date acquired.

e. Short-term and restricted bank deposits:

Short-term and restricted bank deposits are deposits with maturities of more than three months, but less than one year. The deposits are mainly in dollars and bear interest at an average annual rate of 1.06% and 0.28% for the years ended December 31, 2022 and 2021, respectively. Short-term and restricted deposits are presented at cost. Any accrued interest on these deposits is included in other receivables and prepaid expenses.

	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$ 24,535	\$ 79,423
Restricted cash	—	5,100
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 24,535</u>	<u>\$ 84,523</u>

f. Marketable securities:

The Group accounts for investments in debt securities in accordance with ASC 320, “Investments - Debt Securities”.

Management determines the appropriate classification of its investments in marketable debt securities at the time of purchase and reevaluates such determinations at each balance sheet date.

As of December 31, 2022, the Group classified all of its marketable securities as available-for-sale (“AFS”). AFS securities are carried out at fair value, with the unrealized gains and losses, net of tax, reported in “accumulated other comprehensive loss” in shareholders’ equity. Realized gains and losses on sale of investments are included in “financial income (expenses), net” and are derived using the specific identification method for determining the cost of securities. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, together with interest on securities, is included in “financial income (expenses), net”.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group periodically evaluates its AFS debt securities for impairment in accordance with Accounting Standards Update (“ASU”) 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments”. If the amortized cost of an individual security exceeds its fair value, the Company considers its intent to sell the security or whether it is more likely than not that it will be required to sell the security before recovery of its amortized basis. If either of these criteria are met, the Company writes down the security to its fair value and records the impairment charge in the Consolidated Statements of operations. If neither of these criteria are met, the Company assesses whether credit loss exists. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss may exist, the present value of the cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses will be recorded, limited by the amount that the fair value is less than the amortized cost basis. Any additional impairment not recorded through an allowance for credit losses is recognized in other comprehensive income.

During the years ended December 31, 2022, 2021 and 2020, the Group’s credit losses were immaterial.

g. Long-term and restricted bank deposits:

Bank deposits and the related accrued interest with maturities of more than one year are included in long-term investments and presented at their cost. Accrued interest that is payable within a one-year period is included in other receivables and prepaid expenses.

h. Inventories:

Inventories are stated at the lower of cost or market value. Cost is determined as follows:

Raw materials - using the “weighted average cost” method; and

Finished products - using the “weighted average cost” method with the addition of direct manufacturing costs.

The Group periodically evaluates the quantities on hand relative to current and historical selling prices, historical and projected sales volume and technological obsolescence. Based on these evaluations, inventory write-offs are taken based on slow moving items, technological obsolescence, excess inventories, discontinuation of product lines, and market prices lower than cost.

i. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets at the following annual rates:

Computers and peripheral equipment	33%
Office furniture and equipment	6% to 20% (mainly 15%)
Leasehold improvements	Over the shorter of the term of the lease, or the useful life of the assets

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group's long-lived assets (asset group) to be held and used, including right of use assets and intangible that are subject to amortization are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. If such assets are considered to be impaired, recoverability of assets (asset group) to be held and used is measured by a comparison of the carrying amount of an asset (asset group) to the future undiscounted cash flows expected to be generated by the asset. The impairment to be recognized is measured by the amount by which the carrying amount of the assets (asset groups) exceeds the fair value of the assets (asset groups).

During the years ended December 31, 2022, 2021 and 2020, no impairment losses have been identified.

j. Intangible assets:

Intangible assets are comprised of acquired technology, customer relations and licenses. Intangible assets that are not considered to have an indefinite useful life are amortized using the straight-line basis over their estimated useful lives, which range from 4 to 10 years.

k. Leases:

The Group evaluates the contracts it enters into to determine whether such contracts contain leases. A contract contains a lease if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration.

The Group determines if an arrangement is a lease at inception of the contract, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. The commencement date of the lease is the date that the lessor makes an underlying asset available for the lessee's use. At commencement, contracts containing a lease are further evaluated for classification as an operating or finance lease where the Company is a lessee, or as an operating, sales-type or direct financing lease where the Company is a lessor, based on their terms.

As the Group's lease arrangements as a lessee do not provide an implicit rate, the Group uses its incremental estimated borrowing rate at lease commencement to measure ROU assets and lease liabilities. Operating lease expense is generally recognized on a straight-line basis over the lease term. For leases with a term of one year or less, the Group elected not to record the ROU asset or liability. The Group elected to not recognize a lease liability or ROU asset for leases with a term of twelve months or less. The Group also elected the practical expedient to not separate lease and non-lease components for its leases.

A portion of the Group's sales of equipment to customers are made through bundled lease arrangements which typically include software license, equipment and services. Revenues under these bundled lease arrangements are allocated considering the relative standalone selling prices of the lease and non-lease components included in the bundled arrangement.

The two primary accounting provisions the Group use to classify transactions as sales-type or operating leases are: (i) a review of the lease term to determine if it is for the major part of the economic life of the underlying equipment; and (ii) a review of the present value of the lease payments to determine if they are equal to or greater than substantially all of the fair market value of the equipment at the inception of the lease. Equipment included in arrangements meeting these conditions are accounted for as sales-type leases and revenue is recognized at lease commencement. Equipment included in arrangements that do not meet these conditions are accounted for as operating leases and revenue is recognized over the term of the lease. For the year ended December 31, 2022, equipment leases that were classified as operating leases were immaterial.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

l. Goodwill:

Goodwill and certain other purchased intangible assets have been recorded in the Group's financial statements as a result of acquisitions.

Goodwill represents the excess of the purchase price over the estimated fair value of net assets of a business acquired in a business combination. Under ASC 350, "Intangibles - Goodwill and Other", goodwill is not amortized, but rather is subject to an impairment test at least annually.

The Group performs an annual impairment test of goodwill in the fourth quarter of each fiscal year, or more frequently, if events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level, by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the reporting unit does not pass the qualitative assessment, the Company carries out a quantitative test for impairment of goodwill, by comparing the fair value of the reporting unit with the carrying amount of the reporting unit that includes goodwill. The Company may bypass the qualitative assessment and proceed directly to performing the quantitative goodwill impairment test. The Company operates as one reporting segment, and this segment comprises its only reporting unit. Therefore, goodwill is tested for impairment at that level. The Company did not record goodwill impairment charges during the years ended December 31, 2022, 2021 and 2020.

m. Revenue recognition:

The Group generates its revenues primarily from the sale of software licenses, equipment, and related services through a direct sales force and sales representatives. The Group's products are delivered to its customers, which include original equipment manufacturers, network equipment providers, systems integrators, enterprises, carriers and distributors in the telecommunications and networking industries, all of whom are considered end-users.

Revenues are recognized in accordance with ASC 606, "Revenue from Contracts with Customers". As such, the Group identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Group satisfies its performance obligations.

The Group enters into contracts that can include combinations of products and services that are capable of being distinct and accounted for as separate performance obligations. The software licenses and equipment are distinct as the customer can derive the economic benefit of it without any additional services. The Group allocates the transaction price to each performance obligation, based on its relative standalone selling price out of the total consideration of the contract.

Software license and equipment revenues are recognized at the point of time when control is transferred,

Revenues from maintenance and support services are recognized over time ratably over the term of the contract.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As the Group generally does not sell the products separately on a standalone basis, the standalone selling prices are not directly observable. Therefore, the Group makes estimates, based on reasonably available information. The estimated selling price is established considering multiple factors such as historical selling prices, internal pricing practices, gross margin objectives and discount policy.

The Group grants to certain customers a right of return or the ability over a limited period of time to exchange for other products a specific percentage of the total price paid for products they have purchased. The Group maintains a provision for product returns and exchanges and other incentives, based on its experience with historical sales returns, analysis of credit memo data and other known factors, all in accordance with ASC 606. This provision is deducted from revenues and amounted to \$2,704 and \$3,509 as of December 31, 2022 and 2021, respectively. This provision was recorded as part of other payables and accrued expenses.

In instances of contracts where revenue recognition differs from the timing of invoicing, the Company generally determined that those contracts do not include a significant financing component. The primary purpose of the invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, not to receive or provide financing. The Company uses the practical expedient and does not assess the existence of a significant financing component when the difference between payment and revenue recognition is a year or less.

Deferred revenues include amounts invoiced to customers for which revenue has not yet been recognized. Deferred revenues are recognized as (or when) the Group performs the performance obligations under the contract.

The Group pays sales commissions to sales and marketing personnel, based on their attainment of certain predetermined sales goals. Amortization expenses related to these costs are included in selling and marketing expenses in the consolidated statements of operations.

The Group has included as part of other receivables and prepaid expenses in its consolidated balance sheet, costs to obtain a contract in the amount of \$829 and \$635, as of December 31, 2022 and 2021, respectively.

Remaining performance obligations represents contracted revenues that have not yet been recognized, which includes deferred revenues and non-cancelable contracts that will be recognized as revenue in future periods. The following table represents the remaining performance obligations as of December 31, 2022, which are expected to be satisfied and recognized in future periods:

	Year Ending December 31,		
	2023	2024	2025 and thereafter
Products	\$ 72	\$ 12	\$ 1
Services	36,562	8,711	7,228
	<u>\$ 36,634</u>	<u>\$ 8,723</u>	<u>\$ 7,229</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Significant changes in the balances of deferred revenues during the years are as follows:

	Year Ended December 31,	
	2022	2021
Balance, at the beginning of the year	\$ 54,616	\$ 49,136
Revenue recognized	(38,625)	(31,456)
Increase in deferred revenues and customer advances	36,595	36,936
Balance, at the end of the year	52,586	54,616
Less current portion at the end of the year	(36,634)	(41,591)
Long term portion at the end of the year	<u>\$ 15,952</u>	<u>\$ 13,025</u>

n. Warranty costs:

The Group usually provides an assurance-type warranty for a period of 12 months at no extra charge. The Group estimates the costs that may be incurred under its basic limited warranty and records a liability in the amount of such costs at the time product revenue is recognized. Factors that affect the Group's warranty liability include the number of installed units, historical and anticipated rates of warranty claims, and cost per claim. The Group periodically assesses the adequacy of its recorded warranty liability and adjusts the amount as necessary. As of December 31, 2022 and 2021, the provision for warranty amounted to \$212 and \$187, respectively.

o. Research and development costs:

ASC 985-20, "Costs of Software to Be Sold, Leased, or Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon the completion of a working model. The Company does not incur material costs between the completion of a working model and the point at which the product is ready for general release. Therefore, research and development costs are charged to the consolidated statement of operations, as incurred.

Participation grants from the Israel Innovation Authority (the "IIA") for research and development activity are recognized at the time the Company is entitled to such grants based on the costs incurred and included as a deduction from research and development costs. Research and development grants recognized during the years ended December 31, 2022, 2021 and 2020 were \$624, \$570 and \$388, respectively.

p. Income taxes:

The Group accounts for income taxes in accordance with ASC 740, "Income Taxes". ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and for carryforward tax losses. Deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Group records a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more-likely-than-not that some portion of or the entire amount of the deferred tax asset will not be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In addition, ASC 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The first step is to evaluate the tax position taken or expected to be taken in a tax return. This is done by determining if the weight of available evidence indicates that it is more-likely-than-not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

Interest and penalties assessed by taxing authorities on an underpayment of income taxes are included as a component of income tax expense in the consolidated statements of operations.

q. Accumulated other comprehensive income (loss) ("AOCI"):

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income", which establishes standards for the reporting and presentation of comprehensive income (loss) and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

The components of AOCI were as follows:

	Gains (losses) on available- for-sale marketable securities	Gains (losses) on cash flow hedges	Total
Balance as of January 1, 2022	\$ (942)	\$ 719	\$ (223)
Other comprehensive loss before reclassifications, net of tax	(5,434)	(8,979)	(14,413)
Amounts reclassified from AOCI	—	3,683	3,683
Other comprehensive income (loss), net of tax	(5,434)	(5,296)	(10,730)
Balance as of December 31, 2022	<u>\$ (6,376)</u>	<u>\$ (4,577)</u>	<u>\$ (10,953)</u>
	Year Ended December 31,		
	2022	2021	2020
Amounts reclassified from AOCI			
Cost of revenues	\$ 814	\$ (513)	\$ (497)
Research and development, net	1,735	(990)	(937)
Selling and marketing	708	(406)	(375)
General and administrative	426	(229)	(317)
Total operating expenses (income), before income taxes	<u>\$ 3,683</u>	<u>\$ (2,138)</u>	<u>\$ (2,126)</u>

The effects on net income of amounts reclassified from AOCI in the year ended December 31, 2022 derive from realized losses on cash flow hedges recorded in operating expenses and from realized losses on available-for-sale marketable securities recorded in financial income (expenses), net.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

r. Concentrations of credit risk:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, bank deposits, trade receivables, marketable securities and foreign currency derivative contracts.

The majority of the Group's cash and cash equivalents, bank deposits and foreign currency derivative contracts are invested in dollar denominated instruments with major banks in Israel and in the United States. The Group is exposed to credit risk in the event of default by financial institutions to the extent of the amounts recorded on the accompanying consolidated balance sheets exceed federally insured limits. Management believes that the financial institutions that hold the Group's investments are corporations with high credit standing.

Accordingly, management believes that low credit risk exists with respect to these financial investments.

Marketable securities include investments in dollar-denominated corporate bonds. Marketable securities consist of highly liquid debt instruments with high credit standing. The Company's investment policy, approved by the Board of Directors, limits the amount the Group may invest in any one type of investment or issuer, thereby reducing credit risk concentrations. Management believes that the Group's portfolio is well diversified and, accordingly, minimal credit risk exists with respect to these marketable debt securities.

The trade receivables of the Group are derived from sales to customers located primarily in the Americas, Eastern Asia, Israel and Europe. Under certain circumstances, the Group may require letters of credit, other collateral, additional guarantees or advance payments.

Regarding certain credit balances, the Group is covered by foreign trade risk insurance. The Group performs ongoing credit evaluations of its customers and establishes an allowance for credit losses.

s. Earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year, plus potential dilutive ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings per Share".

Certain outstanding options and restricted share units ("RSUs") have been excluded from the calculation of the diluted earnings per share since such securities are anti-dilutive for all years presented. The total weighted average number of shares related to the outstanding options and RSUs that have been excluded from the calculation of diluted earnings per share was 153,191, 26,686 and 64,312 for the years ended December 31, 2022, 2021 and 2020, respectively.

t. Accounting for share-based compensation:

The Company accounts for share-based compensation in accordance with ASC 718, "Compensation-Stock Compensation". ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The weighted-average estimated fair value of employee stock options granted during the years ended December 31, 2022, 2021 and 2020, was \$8.99, \$10.64, and \$8.55 per share, respectively, using the Black-Scholes option pricing model. Fair values were estimated using the following weighted-average assumptions (annualized percentages):

	Year Ended December 31,		
	2022	2021	2020
Dividend yield	1.13%	0.88%	1.01%-1.17%
Expected volatility	47.64%	49.45%	37.89%-43.09%
Risk-free interest	2.83%	0.5%	0.29%-1.43%
Expected life	4.10 years	3.61 years	3.57-4.23 years

The Company used its historical volatility in accordance with ASC 718. The computation of volatility uses historical volatility derived from the Company's exchange traded shares. The expected term of options granted is estimated based on historical experience and represents the period of time that options granted are expected to be outstanding. The risk free interest rate assumption is the implied yield currently available on United States treasury zero-coupon issues with a remaining term equal to the expected life of the Company's options. The dividend yield assumption is based on the Company's historical experience and expectation of future dividend payouts and may be subject to substantial change in the future. The Company paid its first cash dividend during the third quarter of 2018 and has been paying cash dividends on a bi-annual basis since then. The Company currently expects to continue pay cash dividends in the future, subject to receipt of required Israeli court approvals, although there can be no assurance that it will do so. See also Note 12.

The total share-based compensation expenses relating to all of the Company's share-based awards recognized for the years ended December 31, 2022, 2021 and 2020 were included in items of the consolidated statements of operations, as follows:

	Year Ended December 31,		
	2022	2021	2020
Cost of revenues	\$ 425	\$ 411	\$ 181
Research and development expenses, net	3,481	2,772	1,535
Selling and marketing expenses	6,032	6,170	3,635
General and administrative expenses	5,184	4,811	3,420
Total share-based compensation expenses	<u>\$ 15,122</u>	<u>\$ 14,164</u>	<u>\$ 8,771</u>

u. Treasury stock:

The Company repurchases its ordinary shares from time to time in the open market and holds such repurchased shares as treasury stock. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity. See also Note 12a.

v. Severance pay:

The liability for severance pay for Israeli employees is calculated pursuant to the Israeli Severance Pay Law, 1963 (the "Severance Pay Law"), based on the most recent salary of the employees multiplied by the number of years of employment as of the balance sheet date for all employees in Israel. Employees who have been employed for more than a one-year period are entitled to one month's salary for each year of employment or a portion thereof. The Group's liability for all of its Israeli employees is fully provided for by monthly deposits with severance pay funds, pension funds, insurance policies and by an accrual. The value of these deposits is recorded as an asset in the Company's consolidated balance sheet.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The deposited funds include profits accumulated up to the consolidated balance sheets date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Severance Pay Law or labor agreements.

Since March 2011, the Group's agreements with new Israeli employees are under Section 14 of the Severance Pay Law. The Group's contributions for severance pay have replaced its severance pay obligation. Upon contribution of the full amount of the employee's monthly salary for each year of service, no additional calculations are conducted between the parties regarding the matter of severance pay and no additional payments are made by the Group to the employee upon termination. The Group is legally released from the obligations to employees once the deposit amounts have been paid, and therefore the severance pay liability is not reflected in the balance sheet.

Severance pay expenses for the years ended December 31, 2022, 2021 and 2020, amounted to \$3,907, \$2,373 and \$3,078, respectively.

w. Employee benefit plan:

The Group has 401(k) defined contribution plans covering employees in the United States. All eligible employees may elect to contribute a portion of their annual compensation to the plan through salary deferrals, subject to the IRS limit of \$20.5 during the years ended December 31, 2022 and 2021, plus a catch-up contribution of \$6.5 for participants aged 50 or over. The Group matches 50% of employees' contributions, up to a maximum of 6% of the employees' annual pay. In the years ended December 31, 2022, 2021 and 2020, the Group matched contributions in the amount of \$531, \$431 and \$386, respectively.

x. Advertising expenses:

Advertising expenses are charged to the consolidated statements of operations as incurred. Advertising expenses for the years ended December 31, 2022, 2021 and 2020 amounted to \$1,733, \$582 and \$371, respectively.

y. Fair value of financial instruments:

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820, "Fair Value Measurements and Disclosures" establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs which are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See also Note 8.

The estimated fair value of financial instruments has been determined by the Group using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Group could realize in a current market exchange.

The following methods and assumptions were used by the Group in estimating its fair value disclosures for financial instruments:

The carrying amounts of cash and cash equivalents, bank deposits, trade receivables, trade payables, other receivables and other payables and accrued expenses approximate their fair value due to the short-term maturity of such instruments. The carrying value of long-term bank loans also approximates its fair value, since it bears interest at rates close to the prevailing market rates.

The fair value of foreign currency contracts is estimated by obtaining current quotes from banks and market observable data of similar instruments.

The fair value of marketable securities is estimated by obtaining the fair value of the marketable securities from the bank, which is based on current quotes and market value provided by external service providers.

The fair value of financial investments consists of investments in limited partnerships, that are valued at the net asset value ("NAV") which is a practical expedient to their estimate fair value. The NAV is provided by the fund administrator and is based on the value of the underlying assets owned less its liabilities.

z. Derivative instruments and hedging:

The Group accounts for derivative instruments and hedging based on ASC 815, "Derivatives and Hedging".

The Group accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivative instruments that are not designated and qualified as hedging instruments must be adjusted to fair value through earnings. The changes in the fair value of such instruments are included as gain or loss in "financial income (expenses), net" at each reporting period.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive loss in equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings and is classified as payroll and rent expenses.

To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

aa. Recently adopted accounting standards:

In December 2019, the Financial Accounting Standards Board (the "FASB") issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which simplifies the accounting for income taxes. This guidance became effective for the first quarter of 2021 on a prospective basis. The implementation of ASU 2019-12 in the year ended December 31, 2021, did not have a material impact on the Company's consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805)". ASU 2021-08 creates an exception to the general recognition and measurement principle for contract assets and contract liabilities from contracts with customers acquired in a business combination. Under this exception, an acquirer applies ASC 606 to recognize and measure contract assets and contract liabilities on the acquisition date. ASC 805 generally requires the acquirer in a business combination to recognize and measure the assets it acquires and the liabilities it assumes at fair value on the acquisition date. The ASU 2021-08 will become effective for fiscal years beginning after December 15, 2022. The adoption of this ASU is not expected to have a material impact on the Company's consolidated financial statements.

NOTE 3:- ACQUISITION OF CALLVERSO LTD. ("CALLVERSO")

On November 10, 2021 (the "Closing Date"), the Company entered into a share purchase agreement (the "Share Purchase Agreement"), pursuant to which the Company acquired 100% of the outstanding shares of Callverso, a leading Israeli developer and provider of conversational AI solutions for contact centers. Following the transaction. Immediately following the transaction, Callverso became a wholly-owned subsidiary of the Company.

The acquisition of Callverso was accounted for using the purchase method. The \$3,000 purchase price for the acquisition was composed of the following amounts: (i) a \$2,900 payment in cash payable on the Closing Date, of which \$300 was deposited in escrow for a period of 12 months following the Closing Date; and (ii) \$100 retained as security for any liabilities of Callverso as of the Closing. The foregoing amount was paid in full in January 2022.

As part of the Share Purchase Agreement, the Company also agreed to pay an earn-out amount, based on the sales of the Company's products related to Callverso technology and subject to the employment of the former shareholders of Callverso. The maximum earn-out amount is \$6,000 and is to be paid over three years as follows: (i) up to \$2,000 was payable on January 31, 2023, based on sales in 2022; (ii) up to \$2,000 is payable on January 31, 2024, based on sales in 2023; and (iii) up to \$2,000 is payable on January 31, 2025, based on sales in 2024 (collectively, the "Earn-Out Payments").

The Earn-Out Payments and the Deferred Payments will be recorded as payroll expenses since the payments are subject to continuing employment.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 3:- ACQUISITION OF CALLVERSO LTD. (“CALLVERSO”) (Cont.)

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the Closing Date:

Current assets	\$ 152
Technology	1,958
Customer relationships	<u>201</u>
Total identifiable assets acquired	2,311
Current liabilities	(152)
Deferred tax liability	<u>(497)</u>
Total identifiable liabilities assumed	(649)
Net identifiable assets acquired	1,662
Goodwill	1,338
Net assets acquired	<u>\$ 3,000</u>

The fair values of the acquired technology and customer relationships were valued using the income approach. This method utilized a forecast of expected cash inflows, cash outflows and contributory charges for economic returns on tangible and intangible assets employed.

The excess of the purchase price over the preliminary assessment of the net tangible and intangible assets acquired resulted in goodwill of \$1,338. The goodwill is primarily attributable to expected synergies resulting from the acquisition. The acquired technology and customer relationships are being amortized on a straight-line basis over a period of 4 and 4.5 years, respectively.

On December 22, 2021, a merger agreement was entered into by the Company and Callverso in connection with an internal restructuring. The merger was made effective as of January 1, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 4:- MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities:

	December 31, 2022			
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Maturing within one year:				
Corporate bonds	\$ 1,531	\$ —	\$ (32)	\$ 1,499
Maturing between one to five years:				
Corporate bonds	81,866	\$ —	(7,897)	73,969
Governmental bonds	2,880	\$ —	(282)	2,598
Balance as of December 31, 2022	\$ 86,277	\$ —	\$ (8,211)	\$ 78,066

	December 31, 2021			
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Maturing between one to five years:				
Corporate bonds	\$ 88,327	\$ 54	\$ (1,248)	\$ 87,133
Governmental bonds	2,880	\$ —	(37)	2,843
Balance as of December 31, 2021	\$ 91,207	\$ 54	\$ (1,285)	\$ 89,976

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2022, and the length of time that those investments have been in a continuous loss position:

	Less than 12 months		12 months and greater	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
As of December 31, 2022	\$ 3,411	\$ (225)	\$ 74,655	\$ (7,986)

NOTE 5:- INVENTORIES

	December 31,	
	2022	2021
Raw materials	\$ 14,541	\$ 15,263
Finished products	21,836	8,725
	\$ 36,377	\$ 23,988

During the year ended December 31, 2022, the Group's inventory write off was immaterial. The Group wrote off inventory in a total amount of approximately \$1.7 million and \$4.2 million in the years ended December 31, 2021, and 2020, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 6:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2022	2021
Cost:		
Computers and peripheral equipment	\$ 25,840	\$ 24,561
Office furniture and equipment	12,858	12,578
Leasehold improvements	3,375	3,184
	<u>42,073</u>	<u>40,323</u>
Accumulated depreciation:		
Computers and peripheral equipment	23,984	22,644
Office furniture and equipment	11,291	10,689
Leasehold improvements	2,833	2,596
	<u>38,108</u>	<u>35,929</u>
Depreciated cost	<u>\$ 3,965</u>	<u>\$ 4,394</u>

Depreciation expenses amounted to \$2,181, \$2,074 and \$1,936 for the years ended December 31, 2022, 2021 and 2020, respectively.

NOTE 7:- INTANGIBLE ASSETS, NET

	Useful life (years)	December 31,	
		2022	2021
a. Cost:			
Acquired technology and license	4 - 10	\$ 21,815	\$ 21,815
Customer relationship	4.5 - 9	4,951	4,951
		<u>26,766</u>	<u>26,766</u>
Accumulated amortization:			
Acquired technology and license		20,399	19,639
Customer relationship		4,801	4,757
		<u>25,200</u>	<u>24,396</u>
Amortized cost		<u>\$ 1,566</u>	<u>\$ 2,370</u>

b. Amortization expenses related to intangible assets amounted to \$804, \$358 and \$332 for the years ended December 31, 2022, 2021 and 2020, respectively.

c. Expected amortization expenses are as follows:

Year ending December 31,	
2023	\$ 545
2024	532
2025 and thereafter	489
	<u>\$ 1,566</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 8:- FAIR VALUE MEASUREMENTS

In accordance with ASC 820, the Group measures its foreign currency derivative instruments and marketable securities, at fair value. Investments in foreign currency derivative instruments and marketable securities are classified within Level 2 of the fair value hierarchy. This is because these assets (liabilities) are valued using alternative pricing sources and models utilizing market observable inputs.

The Group's financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments as of the following dates:

	December 31, 2022			
	Fair value measurements using input type		NAV	Total
	Level 2	Total		
Marketable securities	\$ 78,066	\$ 78,066	\$ —	\$ —
Financial investments	—	—	16,500	16,500
Financial assets related to foreign currency derivative hedging contracts	(5,143)	(5,143)	—	—
Total financial net assets as of December 31, 2022	\$ 72,923	\$ 72,923	\$ 16,500	\$ 16,500

	December 31, 2021	
	Fair value measurements using input type	
	Level 2	Total
Marketable securities	\$ 89,976	\$ 89,976
Financial assets related to foreign currency derivative hedging contracts	812	812
Total financial net assets as of December 31, 2021	\$ 90,788	\$ 90,788

	December 31, 2022		
	Fair Value	Redemption Frequency	Redemption Notice Period
Financial Investments:			
Secured Bridge Loans Fund	\$ 15,258	Monthly (Eligible)	90 days
Secured Bridge Loans Fund	1,242	—	—
	\$ 16,500		

This class includes several Secured Bridge Loans Funds that offer short-term loans to various companies which are mostly secured by real-estate assets. The fair values of the investments in this class have been estimated using the net asset value ("NAV") of the Company's ownership interest in partners' capital. Almost all investments funds (except one) can be redeemed by the investees after 12 months from the investment date and upon 90 days' advance notice.

There is one investment in equity fund which is locked-up until its maturity after five years from investment date. Gains from the financial investments amounted to \$937 for the year ended December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 9:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2022	2021
Payroll and other employee related accruals	\$ 17,999	\$ 21,000
Forward liability	5,150	—
Accrued expenses	9,511	9,344
Government authorities	2,806	4,226
Provision for returns	2,704	3,509
Other	146	271
	<u>\$ 38,316</u>	<u>\$ 38,350</u>

NOTE 10:- LEASES

a. Lease agreements:

The Group as a lessee:

The Group's facilities are leased under several lease agreements for periods ending up to 2033, with options to extend the leases ending up to 2038. In addition, the Group has various operating lease agreements with respect to motor vehicles.

Lease expenses of office rent and vehicles for the years ended December 31, 2022, 2021 and 2020 were approximately \$8,015, \$8,297 and \$8,000, respectively. Sublease income for the years ended December 31, 2022, 2021 and 2020 were approximately \$1,516, \$1,547 and \$1,405, respectively.

The Group's operating lease agreements have remaining lease terms ranging from one year to 10.26 years, including agreements with options to extend the leases for up to five years.

The following table represents the weighted-average remaining lease term and discount rate:

	Year ended December 31, 2022
Weighted average remaining lease term	1.83 years
Weighted average discount rate	2.14%

The following table presents supplemental cash flows information related to the lease costs for operating leases:

	December 31, 2022
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows for operating leases (*)	\$ 8,852

(*) Total operating cash flows for operating leases have been reduced by lease receipt in the amount of \$743 in connection with lease modification agreement of the Company's U.S. subsidiary, due to lease termination prior to its scheduled expiration date.

The discount rate was determined based on the estimated collateralized borrowing rate of the Group, adjusted to the specific lease term and location of each lease.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 10:- LEASES (Cont.)

Maturities of operating lease liabilities were as follows:

Year ending December 31,	
2023	\$ 8,199
2024	2,112
2025	1,103
2026	847
2027 and thereafter	<u>2,200</u>
Total lease payments	\$ 14,461
Less- imputed interest	\$ (743)
Present value of lease liabilities	<u>\$ 13,718</u>

In November 2022, the Company entered into a new lease agreement in Park Naymi, which is located near Messubim Junction in Israel (the "New Lease Agreement"). The New Lease Agreement will replace the current lease agreement in Israel which is scheduled to expire in January 2024. Pursuant to the New Lease Agreement, the Company will lease from the landlord an approximately 10,000 square foot facility (the "Premises"). The lease of the Premises, which is still under construction, is expected to commence in 2023. The initial lease term under the New Lease Agreement is for seven years, commencing upon the transfer of possession of the Premises. The Company additionally hold options under the New Lease Agreement to extend the lease term for additional periods of up to 12 years.

The Group as a lessor:

Revenue from sales-type leases is presented on a gross basis when the Group enters into a lease to realize value from a product that it would otherwise sell in its ordinary course of business. Interest income for the year ended December 31, 2022, was 75, and was included in financial income (expenses), net in the Consolidated Statement of Operations.

The Group recognized 19,802 and 2,152 of product revenue and cost of product revenue at the commencement date of sales-type leases for the year ended December 31, 2022. The Group's short term and long-term net investment in a lease receivable as of December 31, 2022, were 7,972 and 13,099, respectively and are presented within Trade receivables and Long-term trade receivables in the Consolidated Balance Sheets.

The following table illustrates the Group's future sales-type lease receipts as of December 31, 2022:

Year ending December 31,	
2023	\$ 7,972
2024	6,632
2025	4,382
2026	1,460
2027 and thereafter	<u>625</u>
Total Future Minimum receipts	\$ 21,071
Less - Unearned interest income	\$ (463)
Total	<u>\$ 20,608</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Purchases commitments:

1. The Group is obligated under certain agreements with its suppliers to purchase specified items of excess inventory which are expected to be utilized in 2023. As of December 31, 2022, non-cancelable purchase obligations were approximately \$39,756.

2. In addition, the Group is obligated under certain agreements with its suppliers to purchase software as a service (SaaS) subscription services.

b. Royalty commitment to the IIA:

Under the research and development agreements of the Company and its Israeli subsidiaries with the IIA and pursuant to applicable laws, the Company and its Israeli subsidiaries were required to pay royalties at the rate of 1.3%-5% on sales to end customers of products developed with funds provided by the IIA, up to an amount equal to 100% of the IIA research and development grants received, linked to the dollar plus interest on the unpaid amount received based on the 12-month LIBOR rate (from the year the grant was approved) applicable to dollar deposits. The Company and its Israeli subsidiaries were obligated to repay the IIA for the grants received only to the extent that there are sales of the funded products.

In November 2019, the Company and its former Israeli subsidiary, AudioCodes Development Ltd. (which was merged into the Company effective January 1, 2020), entered into a royalty buyout agreement (the "Royalty Buyout Agreement") with the IIA relating to certain grants they had received from the IIA. The contingent net royalty liability to the IIA at the time of the Royalty Buyout Agreement with respect to these grants was \$49,008 (the "Debt"), including interest accrued on the date of the Royalty Buyout Agreement. As part of the Royalty Buyout Agreement, the Company agreed to pay \$32,178 to the IIA (to settle the Debt in full) in three annual installments starting in November 2019. The annual installments were denominated in NIS and bore interest. Pursuant to the Royalty Buyout Agreement, the Company eliminated all royalty obligations related to its future revenues with respect to these grants.

In December 2021, December 2020 and November 2019, the Company paid the three installments of approximately \$12,225, \$11,580 and \$10,700 million, respectively, due under the Royalty Buyout Agreement.

As of December 31, 2022, and 2021, the Company's other Israeli subsidiaries have a contingent obligation to pay royalties to the IIA in the amount of approximately \$20,112 and \$19,137, respectively.

c. Royalty commitments to third parties:

The Group has entered into technology licensing fee agreements with third parties. Under the agreements, the Group agreed to pay the third parties royalties, based on sales of relevant products.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 12:- SHAREHOLDERS' EQUITY

a. Treasury stock:

During the year ended December 31, 2014, the Company's Board of Directors approved a share repurchase program to repurchase up to \$3,000 of its ordinary shares (the "Share Repurchase Program"), which is the amount that the Company could repurchase under Israeli law without further approval from an Israeli court. During the eight years ended December 31, 2021, the Company received Israeli court approvals to purchase up to an additional \$276,000 of its ordinary shares. In addition, in June 2022, the Company received court approval to purchase up to an additional \$35,000 of its ordinary shares (the "Permitted Amount"). In January 2023, the Company received court approval to purchase up to an additional \$25,000 of its ordinary shares (the "Permitted Amount"). The most recent court approvals also permit the Company to declare a dividend of any part of the Permitted Amount during the approved validity period. The current approval is valid through July 4, 2023.

As of December 31, 2022, pursuant to the Company's Share Repurchase Program, the Company had repurchased a total of 32,309,899 of its ordinary shares at a total cost of \$217,744 (of which 1,513,207 of its ordinary shares were repurchased during the year ended December 31, 2022 for aggregate consideration of \$38,099).

b. Cash Dividends:

On February 1, 2022, the Company declared a cash dividend of \$0.18 per share. The dividend, which was in the aggregate amount of approximately \$5.8 million, was paid on March 1, 2022 to all of the Company's shareholders of record as of February 15, 2022.

On August 2, 2022, the Company declared a cash dividend of \$0.18 cents per share. The dividend, which was in the aggregate amount of approximately \$5.7 million was paid on August 31, 2022 to all of the Company's shareholders of record as of August 17, 2022. See Note 18 for cash dividends declared and paid subsequent to December 31, 2022.

c. Employee and Non-Employee Share Option Plan:

In 2008, the Company's Board of Directors approved the 2008 Equity Incentive Plan (as amended, the "Plan") that became effective in January 2009. Under the Plan, options and RSUs may be granted to employees, officers, non-employee consultants and directors of the Company. As of December 31, 2022, the total number of shares authorized for future grant under the Plan is 2,290,337.

Options granted under the Plan expire seven years from the date of grant, and options that are forfeited or cancelled before expiration, become available for future grants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The following is a summary of the Company's stock option activity and related information for the year ended December 31, 2022:

	<u>Amount of options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term (in years)</u>	<u>Aggregate intrinsic value</u>
Options outstanding at beginning of year	551,809	\$ 8.88	2.91	\$ 14,268
Changes during the year:				
Granted	3,000	\$ 23.99		
Exercised	(189,841)	\$ 5.56		
Forfeited	(3,625)	\$ 10.63		
Options outstanding at end of year	<u>361,343</u>	<u>\$ 10.74</u>	<u>2.54</u>	<u>\$ 2,786</u>
Options exercisable at end of year	<u>303,904</u>	<u>\$ 9.61</u>	<u>3.85</u>	<u>\$ 2,597</u>

The weighted average grant-date fair value of options granted during the years ended December 31, 2022, 2021 and 2020 was \$8.99, \$10.64 and \$8.55, per option, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing share price on the last trading day of the fiscal year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of the fiscal year. This amount changes based on the fair market value of the Company's ordinary shares.

Total intrinsic value of options exercised in the years ended December 31, 2022, 2021 and 2020 was \$2,878, \$9,281 and \$10,633, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

The options for employees outstanding as of December 31, 2022 have been separated into ranges of exercise prices, as follows:

Range of exercise price	Number of options outstanding as of December 31, 2022	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of options exercisable as of December 31, 2022	Weighted average price of exercisable options
\$ 3.54-4.35	9,125	0.38	\$ 4.22	9,125	\$ 4.22
\$ 5.00-6.90	99,793	1.22	\$ 6.86	99,793	\$ 6.86
\$ 7.08-10.66	120,550	2.54	\$ 8.75	120,550	\$ 8.75
\$ 11.52-30.76	131,875	3.69	\$ 15.94	74,436	\$ 15.37
	<u>361,343</u>	2.54	<u>\$ 10.74</u>	<u>303,904</u>	<u>\$ 9.61</u>

The following is a summary of the Company's RSU activity and related information for the year ended December 31, 2022:

	Number of shares	Weighted average grant date fair value
RSUs outstanding at beginning of year	1,203,431	\$ 27.60
Changes during the year:		
Granted	544,686	\$ 24.33
Vested	(513,695)	\$ 23.51
Forfeited	(47,613)	\$ 30.44
RSUs outstanding at end of year	<u>1,186,809</u>	<u>\$ 27.76</u>

As of December 31, 2022, there was a total of \$16,477 unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.89 years.

NOTE 13:- TAXES ON INCOME

a. Israeli taxation:

1. Measurement of taxable income in dollars:

The Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Accordingly, results for tax purposes are measured in terms of earnings in dollars.

2. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"):

The Company's production facilities in Israel have been granted the status of an "Approved Enterprise" in accordance with the Investment Law under four separate investment programs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 13:- TAXES ON INCOME (Cont.)

In January 2011, an amendment to the Investment Law came into effect (the "Amendment"). According to the Amendment, the benefit tracks in the Investment Law were modified, and a flat tax rate applies to the Company's income subject to the Amendment (the "Preferred Income"). Once an election is made, the Company's income will be subject to the amended tax rate of 16% from 2015 and thereafter (or 9% for a preferred enterprise located in development area A).

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2016 and 2017 Budget Years), 2016, which includes Amendment 73 to the Investment Law ("Amendment 73") was published. According to Amendment 73, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2016 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

Amendment 73 also prescribes special tax tracks for technological enterprises, which are subject to regulations that were issued by the Minister of Finance in May 2017. The new tax tracks under Amendment 73 are as follows: Preferred Technological Enterprise ("PTE") - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A PTE, as defined in the Investment Law, which is located in the center of Israel, will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

Beginning in January 2020 and with respect to the Company's taxable income from 2020 onwards, the Company elected to apply the terms of the PTE status under the Investments Law.

3. Tax benefits under the law for the Encouragement of Industry (Taxes), 1969 (the "Encouragement Law"):

The Encouragement Law provides several tax benefits for industrial companies. An industrial company is defined as a company resident in Israel, that at least 90% of the income of which in a given tax year exclusive of income from specified government loans, capital gains, interest and dividends, is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

Management believes that the Company is currently qualified as an "industrial company" under the Encouragement Law and, as such, is entitled to tax benefits, including: (i) deduction of purchase of know-how and patents and/or right to use a patent over an eight-year period; (ii) the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company; (iii) accelerated depreciation rates on equipment and buildings; and (iv) expenses related to a public offering on the Tel Aviv Stock Exchange Ltd. and on recognized stock markets outside of Israel, such as Nasdaq, are deductible in equal amounts over three years.

Eligibility for benefits under the Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that the Israel Tax Authority will agree that the Company qualifies and will continue to qualify as an industrial company, or that the benefits described above will be available to the Company in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 13:- TAXES ON INCOME (Cont.)

4. Tax Benefits for Research and Development:

Section 20a to the Israeli Tax Ordinance allows, under certain conditions, a tax deduction for research and development expenses, including capital expenses, for the year in which they are paid. Such expenses must relate to scientific research in industry, agriculture, transportation, or energy, and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company's business and carried out by or on behalf of the company seeking such tax deduction. However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenses incurred in scientific research that is not approved by the relevant Israeli government ministry will be deductible over a three-year period starting from the tax year in which they are paid. The Company believes that it is eligible for the abovementioned benefit for the majority of its research and development expenses.

5. Tax rates:

Taxable income of the Israeli companies is subject to a corporate tax rate of 23% in the years ended December 31, 2022, 2021 and 2020.

The Company is eligible for tax benefits as a PTE as mentioned in 2 above.

The deferred tax balances as of December 31, 2022 have been calculated based on the PTE effective tax rate (see also 2 above).

b. U.S. taxation:

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") (H.R. 1) was signed into law. This Act includes, among other things, a permanent reduction to the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, and requires immediate taxation of accumulated, unremitted non-U.S. earnings.

The TCJA also established new tax provisions affecting 2018, including, but not limited to: (i) creating a new provision designed to tax global intangible low tax income ("GILTI"); (ii) generally eliminating U.S. federal taxes on dividends from foreign subsidiaries; (iii) eliminating the corporate alternative minimum tax ("AMT"); (iv) creating the base erosion anti-abuse tax ("BEAT"); (v) establishing a deduction for foreign derived intangible income ("FDII"); (vi) repealing domestic production activity deduction; and (vii) establishing new limitations on deductible interest expense and certain executive compensation.

ASC 740 requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA.

The deferred tax balances as of December 31, 2022 and 2021 have been calculated based on the revised tax rates.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 13:- TAXES ON INCOME (Cont.)

The Group has completed the accounting for all the impacts of the TCJA. As part of finalizing the analysis, the Company's U.S. subsidiary recorded adjustments that relate to the Transition Tax during the year ended December 31, 2018 and GILTI during the year ended December 31, 2022. An adjustment in the amount of \$324 related to GILTI for the year ended December 31, 2022 was recorded in such year.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in the United States in response to the COVID-19 pandemic. The CARES Act contains temporary taxpayer favorable provisions related to the use of net operating losses and the deductibility of interest expense, charitable contributions, and qualified improvement property. The Company does not expect to be materially impacted by the CARES Act.

On December 27, 2020, the Consolidated Appropriations Act (the "CAA") was enacted in further response to the COVID-19 pandemic, in combination with omnibus spending for the 2021 federal fiscal year. The CAA extended many of the provisions enacted by the CARES Act, which did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2022. On March 11, 2021, the American Rescue Plan Act of 2021 (the "ARPA") was enacted in still further response to the COVID-19 pandemic. The Company does not expect the provisions of the ARPA to have a material impact on the Company's consolidated financial statements for the year ended December 31, 2022.

c. Net operating loss carryforward:

As of December 31, 2020, the Company has realized all of its carryforward tax losses in Israel, which can be offset against taxable income (except those stated in the merger agreement with Callverso (see Note 3). As of December 31, 2022 the Company recorded a net deferred tax asset of \$5,861 in respect of other temporary differences.

As of December 31, 2022, the Company's Israeli subsidiaries have total available carryforward tax losses of approximately \$73,997. The net operating losses may be offset against taxable income in the future for an indefinite period. The Group does not expect utilization of such carryforward tax losses and therefore recorded full valuation allowance against the deferred tax assets in respect of such carryforward tax losses.

The Company's U.S. subsidiary has total available carryforward tax losses of approximately \$31,380 to offset against future U.S. federal taxable gains. These carryforward tax losses expire between 2022 and 2032. As of December 31, 2022, the Company's U.S. subsidiary recorded a deferred tax asset of \$3,158 in respect of such carryforward tax losses.

Utilization of U.S. net operating losses may be subject to substantial annual limitations due to the "change in ownership" provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

d. Income before taxes on income is comprised as follows:

	Year Ended December 31,		
	2022	2021	2020
Domestic	\$ 25,434	\$ 31,084	\$ 30,008
Foreign	8,749	8,563	6,639
	<u>\$ 34,183</u>	<u>\$ 39,647</u>	<u>\$ 36,647</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 13:- TAXES ON INCOME (Cont.)

e. Taxes on income are comprised as follows:

	Year Ended December 31,		
	2022	2021	2020
Current taxes:			
Domestic	\$ 3,707	\$ 819	\$ 300
Foreign	35	1,615	701
	<u>3,742</u>	<u>2,434</u>	<u>1,001</u>
Deferred tax expense:			
Domestic	269	2,464	7,220
Foreign	1,706	998	1,178
	<u>1,975</u>	<u>3,462</u>	<u>8,398</u>
	<u>\$ 5,717</u>	<u>\$ 5,896</u>	<u>\$ 9,399</u>

f. Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Group's deferred tax liabilities and assets are as follows:

	December 31,	
	2022	2021
Deferred tax assets:		
Net operating loss carryforward	\$ 23,807	\$ 27,859
Operating lease liabilities	1,509	2,247
Marketable Securities	1,837	207
Forward and cylinder	566	—
Reserves and allowances	7,238	6,557
Net deferred tax assets before valuation allowance	34,957	36,870
Less - valuation allowance	(24,395)	(26,022)
Deferred tax asset	<u>\$ 10,562</u>	<u>\$ 10,848</u>
Deferred tax liability:		
Operating lease ROU assets	\$ (1,489)	\$ (1,943)
Other	(356)	(612)
	<u>\$ (1,845)</u>	<u>\$ (2,555)</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 13:- TAXES ON INCOME (Cont.)

g. Reconciliation of the theoretical tax expenses:

A reconciliation between the theoretical tax expense, assuming all income is taxed at the Israeli statutory corporate tax rate applicable to the income of the Company, and the actual tax expense (benefit) as reported in the statement of operations is as follows:

	Year Ended December 31,		
	2022	2021	2020
Income before taxes, as reported in the consolidated statements of operations	\$ 34,183	\$ 39,647	\$ 36,647
Israeli statutory corporate tax rate	23.0 %	23.0 %	23.0 %
Theoretical tax expense on the above amount at the Israeli statutory corporate tax rate	\$ 7,861	\$ 9,118	\$ 8,429
Impact of Preferred Technological Enterprise status	(3,031)	(3,555)	(3,424)
Changes in tax reserve for uncertain tax positions	90	175	—
Adjustments for previous years' taxes	448	88	—
Impact of income tax at rates other than the Israeli statutory corporate tax rate	(375)	603	411
Share-based compensation expenses	329	(65)	298
Losses and timing differences for which valuation allowance was provided	453	140	(3,754)
Impact of tax rate change	152	—	6,931
Other	(210)	(608)	508
Actual tax expense	\$ 5,717	\$ 5,896	\$ 9,399

h. Tax assessments:

The statute of limitations related to tax returns of the Company for all tax years up to and including 2017 has lapsed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 14:- FINANCIAL INCOME (EXPENSES), NET

	Year Ended December 31,		
	2022	2021	2020
Financial expenses:			
Interest	\$ (325)	\$ (621)	\$ (657)
Loss related to non-hedging derivative instruments	(6)	(12)	—
Amortization of marketable securities premiums and accretion of discounts, net	(1,513)	(1,387)	(172)
Exchange rate differences	—	(293)	(1,975)
Other	(358)	(252)	(171)
	<u>(2,202)</u>	<u>(2,565)</u>	<u>(2,975)</u>
Financial income:			
Gain related to non-hedging derivative instruments	—	—	17
Exchange rate differences	1,325	—	—
Gain from financial investments	937	—	—
Interest income	2,804	2,656	1,252
Other	—	32	3
	<u>5,066</u>	<u>2,688</u>	<u>1,272</u>
Financial income (expenses), net	<u>\$ 2,864</u>	<u>\$ 123</u>	<u>\$ (1,703)</u>

NOTE 15:- EARNINGS PER SHARE

	Year Ended December 31,		
	2022	2021	2020
Numerator:			
Net income	\$ 28,466	\$ 33,751	\$ 27,248
Denominator:			
Denominator for basic earnings per share - weighted average number of ordinary shares, net of treasury stock	31,849,422	32,703,478	31,440,093
Effect of dilutive securities:			
Employee stock options and RSUs	650,719	1,142,081	1,475,590
Denominator for diluted earnings per share - adjusted weighted average number of shares	<u>32,500,141</u>	<u>33,845,559</u>	<u>32,915,683</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- GEOGRAPHIC INFORMATION

The Group manages its business on the basis of one reportable segment (see Note 1 for a brief description of the Group's business). The data is presented in accordance with ASC 280, "Segment Reporting". Revenues in the table below are attributed to geographical areas, based on the location of the end customers.

The following presents total revenues for the years ended December 31, 2022, 2021 and 2020 and long-lived assets as of December 31, 2022, 2021 and 2020.

	Year Ended and as of December 31,					
	2022		2021		2020	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets
Americas, principally the United States	\$ 139,583	\$ 3,588	\$ 115,806	\$ 977	\$ 103,190	\$ 4,310
Europe	87,679	328	88,746	662	75,490	403
Eastern Asia	42,108	901	38,988	706	36,083	768
Israel	5,723	14,231	5,380	20,876	6,011	25,111
	<u>\$ 275,093</u>	<u>\$ 19,048</u>	<u>\$ 248,920</u>	<u>\$ 23,221</u>	<u>\$ 220,774</u>	<u>\$ 30,592</u>

The Group has derived approximately 46% of its revenues for the year ended December 31, 2022 from sales in the United States.

NOTE 17:- DERIVATIVE INSTRUMENTS

The Group enters into hedging transactions with a major financial institution, using derivative instruments, primarily forward contracts and options to purchase and sell foreign currencies, in order to reduce the net currency exposure associated with anticipated expenses (primarily salaries and rent expenses) in currencies other than the dollar. The Group currently hedges such future exposures for a maximum period of two years. However, the Group may choose not to hedge certain foreign currency exchange exposures for a variety of reasons, including, but not limited to, immateriality, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

As of December 31, 2022 and 2021, the Group had a net deferred gain (loss) associated with cash flow hedges of (\$4,577) and \$719, respectively, recorded in other comprehensive income (loss).

As of December 31, 2022 and 2021, the Group had outstanding forward and options collar (cylinder) contracts in the amount of \$114,000 and \$44,000, respectively, which were designated as payroll and rent hedging contracts. In addition, as of December 31, 2022 and 2021, the Group had \$3,500 and \$3,500, respectively, outstanding forward contracts which are not designated as hedging contracts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 17:- DERIVATIVE INSTRUMENTS (Cont.)

The fair value of the Group's outstanding derivative instruments and the effect of derivative instruments in cash flow hedging relationship on other comprehensive income for the years ended December 31, 2022 and December 31, 2021, are summarized below:

Foreign exchange forward and options contracts	Balance sheet	December 31,	
		2022	2021
Fair value of foreign exchange forward and options	Other payables and accrued expenses	\$ (5,143)	\$ —
Fair value of foreign exchange forward and options	“Other receivables and prepaid expenses”	\$ —	\$ 812
Gains (loss) recognized in other comprehensive income	“Other comprehensive income (loss)”	\$ (4,577)	\$ 719

The effect of derivative instruments in cash flow hedging relationship on income for the years ended December 31, 2022 and 2021, is summarized below:

Foreign exchange forward and options contracts	Comprehensive Income (loss)	Year Ended December 31,	
		2022	2021
Comprehensive income (loss) from derivatives before reclassifications	“Other comprehensive income (loss)”	\$ (8,979)	\$ 1,538
Loss reclassified from accumulated other comprehensive income (loss)	“Operating expenses (income)”	\$ 3,683	\$ (2,138)

NOTE 18:- SUBSEQUENT EVENT

On February 7, 2023, the Company declared a cash dividend of \$0.18 per share. The dividend, which was in the aggregate amount of approximately \$5.7 million, was paid on March 7, 2023 to all of the Company's shareholders of record as of February 21, 2023.

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934, AS AMENDED**

As of December 31, 2022, AudioCodes Ltd., or the Company, had the following class of securities registered under Section 12(b) of the Securities Exchange Act of 1934, as amended: ordinary shares, nominal value NIS 0.01 per share. The Company's ordinary shares are listed on the Nasdaq Global Select Market and on the Tel-Aviv Stock Exchange under the trading symbol "AUDC".

DESCRIPTION OF SHARE CAPITAL

This description summarizes relevant provisions of the Israeli Companies Law, 5759-1999, or the Companies Law. The following summary does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the applicable provisions of the Companies Law and the Company's articles of association, a copy of which is incorporated by reference as an exhibit to the Annual Report on Form 20-F of which this Exhibit 2.1 is a part. The Company encourages you to read its articles of association and the applicable provisions of the Companies Law for additional information.

Authorized Share Capital

Our authorized share capital consists of NIS 1,025,000 divided into 100,000,000 ordinary shares, nominal value NIS 0.01 per share, and 2,500,000 preferred shares, nominal value NIS 0.01 per share. As of April 18, 2023, we had 31,803,738 ordinary shares outstanding (which does not include 32,309,899 treasury shares) and no preferred shares outstanding.

Borrowing Powers

The board of directors has the power to cause us to borrow money and to secure the payment of borrowed money. The board of directors specifically has the power to issue bonds or debentures, and to impose mortgages or other security interests on all or any part of our property.

Amendment of Articles of Association

In general, shareholders may amend our articles of association by a resolution adopted at a shareholders meeting by the holders of 50% of the voting power represented at the meeting in person or by proxy and voting thereon. The amendment of certain provisions of our articles of association requires an increased voting threshold. For example, the approval of amendments to the provisions concerning business combinations with certain shareholders requires the approval of holders of 85% of our outstanding voting shares. Additionally, amendments to the provisions concerning (i) the procedure according to which shareholders may propose items to include in the agenda of a general meeting of the shareholders and (ii) the role and composition of the board of directors, including the method of appointment of its members, require the approval sixty-six and two-thirds percent (66 2/3%) of the voting power represented at the meeting in person or by proxy and voting thereon.

Qualification of Directors

No person shall be disqualified to serve as a director by reason of his or her not holding shares of the Company or by reason of his or her having served as a director in the past.

Dividends

Under the Companies Law, we may pay dividends only out of our profits as determined for statutory purposes, unless court approval is granted for the payment of dividends despite the lack of statutory profits. (There is a unified statutory test for the payment of dividends and a company's repurchase of its outstanding shares.) In 2023, we received court approval to pay dividends (and repurchase our shares) up to certain ceilings, despite the lack of statutory profits. The current approval is valid until July 4, 2023. We may seek further approvals to repurchase our shares and to continue to pay dividends. The amount of any dividend to be distributed among shareholders is based on the nominal value of their shares.

Voting Rights and Powers

Unless any shares have special rights as to voting, every shareholder has one vote for each share held of record.

Under our articles of association, we may issue preferred shares from time to time, in one or more series. However, in connection with our listing on The Tel-Aviv Stock Exchange in 2001, we agreed that for such time as our ordinary shares are traded on The Tel-Aviv Stock Exchange, we will not issue any of the 2,500,000 preferred shares, nominal value NIS 0.01, authorized in our articles of association. Notwithstanding the foregoing, we may issue preferred shares if the preference of those shares is limited to a preference in the distribution of dividends and such preferred shares have no voting rights.

Business Combinations

Our articles of association impose restrictions on our ability to engage in any merger, asset or share sale or other similar transaction with a shareholder holding 15% or more of our voting shares.

Winding Up

Upon our liquidation, our assets available for distribution to shareholders will be distributed to them in proportion to the nominal value of their shares.

Redeemable Shares

Subject to our undertaking to the Tel-Aviv Stock Exchange as described above, we may issue and redeem redeemable shares.

Modification of Rights

Subject to the provisions of our articles of association, we may, from time to time, by a resolution approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon, provide for shares with such preference rights,

deferred rights or conversion rights, or any other special rights or limitations as may be stipulated in such resolution.

If at any time our share capital is divided into different classes of shares, we may modify or abrogate the rights attached to any class, unless otherwise provided by the articles of association, by a resolution approved by the holders of a simple majority of the voting power represented at the meeting in person or by proxy and voting thereon, subject to the consent in writing of the holders of a simple majority of the issued shares of that class (unless otherwise provided by law or by the terms of issue of the shares of that class).

The provisions of our articles of association relating to general meetings also apply, mutatis mutandis, to any separate general meeting of the holders of the shares of a particular class.

The creation or issuance of shares of any class, including a new class, shall not be deemed to alter the rights and privileges attached to previously issued shares of that class or of any other class (unless otherwise provided by our articles of association, including the terms of issue of the shares of any class).

Shareholder Meetings

An annual meeting of shareholders is to be held once a year, within 15 months after the previous annual meeting. The annual meeting may be held in Israel or outside of Israel, as determined by the board of directors.

The board of directors may, whenever it thinks fit, convene a special shareholders meeting. The board of directors must convene a special shareholders meeting at the request of:

- at least two directors;
- at least one-quarter of the directors in office; or
- one or more shareholders who hold at least 5% of the outstanding share capital and at least 1% of the voting rights, or one or more shareholders who hold at least 5% of the outstanding voting rights.

A special shareholders meeting may be held in Israel or outside of Israel, as determined by the board of directors.

Notice of General Meetings; Omission to Give Notice

The provisions of the Companies Law and the related regulations override the provisions of our articles of association, and provide for notice of a meeting of shareholders to be sent to each registered shareholder at least 21 days or 35 days in advance of the meeting, depending on the items included in the meeting agenda. Notice of a meeting of shareholders must also be published in two Israeli newspapers or on our website.

Notice of a meeting of shareholders must specify the type of meeting, the place and time of the meeting, the agenda, a summary of the proposed resolutions, the majority required to adopt the proposed resolutions, and the record date for the meeting. The notice must also include the

address and telephone number of our registered office, and a list of times at which the full text of the proposed resolutions may be examined at the registered office.

The accidental omission to give notice of a meeting to any shareholder, or the non-receipt of notice sent to such shareholder, does not invalidate the proceedings at the meeting.

Limitations on Foreign Shareholders to Hold or Exercise Voting Rights

There are no limitations on foreign shareholders in our articles of association. Israeli law restricts the ability of citizens of countries that are in a state of war with Israel to hold shares of Israeli companies.

Fiduciary Duties; Approval of Transactions under Israeli Law

Fiduciary duties. The Companies Law codifies the fiduciary duties that office holders, which under the Companies Law includes our directors and executive officers, owe to a company. An office holder's fiduciary duties consist of a duty of loyalty and a duty of care.

The duty of loyalty requires an office holder to act in good faith and for the benefit of the company, including to avoid any conflict of interest between the office holder's position in the company and personal affairs, and prohibits any competition with the company or the exploitation of any business opportunity of the company in order to receive a personal advantage for himself or herself or for others. This duty also requires an office holder to reveal to the company any information or documents relating to the company's affairs that the office holder has received due to his or her position as an office holder. A company may approve any of the acts mentioned above provided that all the following conditions apply: the office holder acted in good faith and neither the act nor the approval of the act prejudices the good of the company and, the office holder disclosed the essence of his personal interest in the act, including any substantial fact or document, a reasonable time before the date for discussion of the approval. A director is required to exercise independent discretion in fulfilling his or her duties and may not be party to a voting agreement with respect to his or her vote as a director. A violation of these requirements is deemed a breach of the director's duty of loyalty.

The duty of care requires an office holder to act with a level of care that a reasonable office holder in the same position would employ under the same circumstances. This includes the duty to use reasonable means to obtain information regarding the advisability of a given action submitted for his or her approval or performed by virtue of his or her position and all other relevant information material to these actions.

Disclosure of personal interest. The Companies Law requires that an office holder promptly disclose to the company any personal interest that he or she may have and all related material information or documents known to him or her, in connection with any existing or proposed transaction by the company. "Personal interest," as defined by the Companies Law, includes a personal interest of any person in an act or transaction of the company, including a personal interest of his relative or of a corporation in which that person or a relative of that person is a 5% or greater shareholder, a holder of 5% or more of the voting rights, a director or general manager, or in which he or she has the right to appoint at least one director or the general manager, and includes shares for which the person has the right to vote pursuant to a power-of-attorney.

“Personal interest” does not apply to a personal interest stemming merely from holding shares in the company.

The office holder must make the disclosure of his personal interest no later than the first meeting of the company’s board of directors that discusses the particular transaction. This duty does not apply to the personal interest of a relative of the office holder in a transaction unless it is an “extraordinary transaction.” The Companies Law defines an “extraordinary transaction” as a transaction that is not in the ordinary course of business, not on market terms or that is likely to have a material impact on the company’s profitability, assets or liabilities.

Approvals. The Companies Law provides that a transaction with an office holder or a transaction in which an office holder has a personal interest requires board approval, unless the transaction is an extraordinary transaction or the articles of association provide otherwise. Our articles of association do not provide otherwise. The transaction may be approved only if it is in our best interest. If the transaction is an extraordinary transaction, then the approvals of the company’s audit committee and the board of directors are required. If the transaction concerns exculpation, indemnification, insurance or compensation of an office holder, then the approvals of the company’s compensation committee and the board of directors are required, except if the compensation arrangement is an immaterial amendment to an existing compensation arrangement of an officer who is not a director, in which case the approval of the compensation committee is sufficient. Exculpation, indemnification, insurance or compensation of a director or the Chief Executive Officer also requires shareholder approval.

A person who has a personal interest in a matter that is considered at a meeting of the board of directors or the audit committee generally may not attend that meeting or vote on that matter, unless a majority of the board of directors or the audit committee has a personal interest in the matter or if such person is invited by the chairman of the board of directors or audit committee, as applicable, to present the matter being considered. If a majority of the board of directors or the audit committee has a personal interest in the transaction, shareholder approval also would be required.

Shareholders

The Companies Law imposes on a controlling shareholder of a public company the same disclosure requirements described above as it imposes on an office holder. For this purpose, a “controlling shareholder” is any shareholder who has the ability to direct the company’s actions, including any shareholder holding 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company. Two or more shareholders with a personal interest in the approval of the same transaction are deemed to be one shareholder.

Approval of the audit committee, the board of directors and our shareholders, in that order, is required for extraordinary transactions, including a private placement, with a controlling shareholder or in which a controlling shareholder has a personal interest.

Approval of the compensation committee, the board of directors and our shareholders, in that order, is required for the terms of compensation or employment of a controlling shareholder or his or her relative, as an officer holder or employee of our company or as a service provider to the company, including through a company controlled by a controlling shareholder.

Shareholder approval must include the majority of shares voted at the meeting. In addition to the majority vote, the shareholder approval must satisfy either of two additional tests:

- the majority includes at least a majority of the shares voted by shareholders who have no personal interest in the transaction; or
- the total number of shares held by disinterested shareholders that voted against the approval of the transaction does not exceed 2% of the aggregate voting rights of our company.

Generally, the approval of such a transaction may not extend for more than three years, except that in the case of an extraordinary transaction, including a private placement, with a controlling shareholder or in which a controlling shareholder has a personal interest that does not concern compensation for employment or service, the transaction may be approved for a longer period if the audit committee determines that the approval of the transaction for a period longer than three years is reasonable under the circumstances.

Duties of Shareholders

Under the Companies Law, a shareholder also has a duty to act in good faith towards the company and other shareholders and refrain from abusing his or her power in the company, including, among other things, voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of related party transactions that require shareholder approval.

In addition, any controlling shareholder, any shareholder who can determine the outcome of a shareholder vote and any shareholder who, under the company's articles of association, can appoint or prevent the appointment of an office holder, is under a duty to act with fairness towards the company. The Companies Law also provides that a breach of the duty of fairness will be governed by the laws governing breach of contract; however, the Companies Law does not describe the substance of this duty.

Anti-Takeover Provisions Under Israeli Law

The Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold 25% or more of the voting rights in the company, unless there is already another shareholder of the company with 25% or more of the voting rights. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would hold more than 45% of the voting rights in the company, unless there is a shareholder with more than 45% of the voting rights in the company.

The Companies Law requires the parties to a proposed merger to file a merger proposal with the Israeli Registrar of Companies, specifying certain terms of the transaction. Each merging company's board of directors and shareholders must approve the merger. Shares in one of the merging companies held by the other merging company or certain of its affiliates are disenfranchised for purposes of voting on the merger. A merging company must inform its creditors of the proposed merger. Any creditor of a party to the merger may seek a court order blocking the merger, if there is a reasonable concern that the surviving company will not be able to satisfy all of the obligations of the parties to the merger. Moreover, a merger may not be completed until at least 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies and at least 30 days have passed from the approval of the shareholders of each of the merging companies.

Finally, in general, Israeli tax law treats stock-for-stock acquisitions less favorably than does U.S. tax law. Israeli tax law provides for tax deferral in specified acquisitions, including transactions where the consideration for the sale of shares is the receipt of shares of the acquiring company. Nevertheless, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation or to taxation before his investment in the foreign corporation becomes liquid, although in the case of shares of a foreign corporation that are traded on a stock exchange, the tax may be postponed subject to certain conditions.

LEASE AGREEMENT

BETWEEN

KINGSBRIDGE 2005 LLC,

LANDLORD,

-AND-

AUDIOCODES, INC.

TENANT

DATED: MAY 13, 2022

LEASE AGREEMENT

This LEASE AGREEMENT (this “*Lease*”) is dated May 13, 2022 (the “Effective Date”) and is between **KINGSBRIDGE 2005 LLC** (“*Landlord*”), and **AUDICODES, INC.** (“*Tenant*”). This Lease shall be effective and binding on Landlord and Tenant on the Effective Date.

BASIC LEASE PROVISIONS

- (1) Land: Plot of land on which the Building has been constructed.
- (2) Building: 80 Kingsbridge Road, Piscataway, New Jersey 08854
- (3) Premises: 14,706 rentable square feet in the Building, as shown on *Schedule A* attached hereto.
- (4) Term: Ten (10) years and three (3) months
- (5) Commencement Date: Set forth in Section 2.2(b) below.
- (6) Lease Year Each period of twelve (12) consecutive full months, beginning on the first day of the month following the Commencement Date; provided, however, in the event that the Commencement Date occurs on the first day of the month, then the first Lease Year shall commence on the Commencement Date. The first Lease Year shall also include the partial month, if any, in which the Commencement Date occurs.
- (7) Termination Date: The last day of the one hundred twenty third (123rd) full calendar month after the Commencement Date, or such earlier date upon which the Term may expire or be terminated.
- (8) Basic Rent: Provided that no Event of Default has occurred, Basic Rent for the three (3) months of the Term (the “Basic Rent Allowance”) shall be abated. The date on which Tenant commences paying Basic Rent after the expiration of the “Basic Rent Allowance” period shall be the “Rent Commencement Date”. It is understood and agreed that the Basic Rent Allowance is given by Landlord in consideration of Tenant's paying when due all rents under this Lease, and otherwise complying with the terms hereof, and that in the event of Tenant's surrender of the Premises prior to the Expiration Date hereof or of any default by Tenant under this Lease which results in the early termination hereof (the “Early Termination”), then and in such event, the unamortized portion (as amortized monthly on a straight-line basis over the initial monthly term of the Lease) of the following amounts: (i) the Basic Rent Allowance given pursuant to this Paragraph; (ii) any fee, commission or other compensation paid by Landlord to any attorney, broker or finder, in connection with this Lease; and (iii) the cost of the Landlord's Work (including all hard and soft costs arising out of or in connection therewith) and Landlord's Contribution, shall become due and payable effective immediately prior to such Early Termination, as Additional Rent under this Lease.

(9) Rentable Size of

Period	Basic Rent/RSF	Annual Basic Rent	Monthly Basic Rent
Lease Year 1	\$[---]	\$[---]	\$[---]
Lease Year 2	\$[---]	\$[---]	\$[---]
Lease Year 3	\$[---]	\$[---]	\$[---]
Lease Year 4	\$[---]	\$[---]	\$[---]
Lease Year 5	\$[---]	\$[---]	\$[---]
Lease Year 6	\$[---]	\$[---]	\$[---]
Lease Year 7	\$[---]	\$[---]	\$[---]
Lease Year 8	\$[---]	\$[---]	\$[---]
Lease Year 9	\$[---]	\$[---]	\$[---]
Lease Year 10	\$[---]	\$[---]	\$[---]
Months 1, 2, 3 of Lease Year 11	\$[---]	\$[---]	\$[---]

Building:

30,936 square feet.

- (10) Tenant's Proportionate Share: [---]%, being the agreed-upon rentable area of the Premises divided by Rentable Size of Building, i.e., [---].
- (11) Security: N/A
- (12) Permitted Use: Sales and administrative offices together with accessory executive and administrative offices, warehousing and any lawfully permitted ancillary use.
- (13) Brokers: Avison Young (Landlord's Broker)
Newmark of New Jersey, LLC (Tenant's Broker)
- (14) Landlord's Contribution: \$[---]
- (15) Landlord's Notice Address: Kingsbridge 2005 LLC
2362 Nostrand Avenue, Suite 7
Brooklyn NY 11210
Attn: Manager
- With a copy to:

Diversified Management Plus
1125 Ocean Avenue
Lakewood, NJ 08701

(16) Tenant's Notice Address:

Prior to the Commencement Date:
AudioCodes Inc.
200 Cottontail Lane,
Suite A101E,
Somerset, NJ 08873

After the Commencement Date: At the Premises

ARTICLE 1
DEFINITIONS

1.1 Capitalized Terms. Capitalized terms used in this Lease but not otherwise defined have the meanings set forth in Appendix I.

ARTICLE 2
DEMISE, TERM

2.1 Demise of Premises. Landlord hereby leases and demises to Tenant, and Tenant hereby hires and takes from Landlord, upon the terms and conditions set forth herein, the Premises for the Term.

2.2 Term.

(a) Term: The Term of this Lease will commence on the Commencement Date and end on the Termination Date.

(b) Commencement Date. The "**Commencement Date**" will be the earlier to occur of (i) the date Tenant takes occupancy of the Premises for the purposes of conducting its business, and (ii) the date that Landlord's Work is Substantially Completed (including the loading dock referenced in **Schedule C**). As of June 1, 2022, provided that Tenant is not then in default under this Lease after the expiration of any applicable notice or cure periods, Tenant shall be permitted to arrange with the Building's property manager for mutually-convenient times for Tenant to gain access to the Premises for installation of its furniture, fixtures and equipment, provided that: (i) Tenant shall comply fully with, and such access shall be governed by and subject to, all the terms, covenants and conditions of this Lease (except that Tenant shall not be responsible for the payment of Basic Rent or Additional Rent with respect to the Premises (nor have any premises liability except as arising out of or in connection with its access to the Premises) until the Commencement Date); (ii) Tenant provides certificates of insurance as required by Article 14; and (iii) Tenant's access to the Demised Premises permitted hereby shall be governed by Landlord's Building manager and shall not interfere with any of Landlords' Work, as reasonably determined by Landlord's Building manager. Notwithstanding anything herein to the contrary, in the event

Landlord's Work set forth on **Schedule C** is not substantially completed by December 1, 2022, subject only to Tenant Delay, Tenant shall have the right, on ten (10) business days notice to cure, to terminate this Lease, in which event the first month's rent paid by Tenant to Landlord shall be returned and neither party shall have any further liability to the other.

(c) **Substantial Completion.** "**Substantially Completed**" or "**Substantial Completion**" means that Landlord has completed the Landlord's Work in accordance with the Working Plans, except for (x) minor details of construction that will not unreasonably interfere with Tenant's use of the Premises (collectively, "**Punch List Items**"), and (y) any part of the Landlord's Work that is not completed due to any act or omission of Tenant or Tenant's Visitors. If the completion of the Landlord's Work is delayed due to any act or omission by Tenant or Tenant's Visitors, including, but not limited to, delays due to changes in or additions to the Landlord's Work requested by Tenant, or delays due to the postponement of any work at the request of Tenant, then Tenant will be responsible to pay Landlord the rent otherwise due hereunder for the delay in the Commencement Date arising out of such Tenant action or inaction (any such delay being referred to herein as a "**Tenant Delay**").

(d) **AS IS.** Tenant acknowledges that neither Landlord nor any employee, agent or representative of Landlord has made any express or implied representations or warranties with respect to the physical condition of the Property, Building or the Premises, the fitness or quality thereof or any other matter or thing whatsoever with respect to the Property, Building or the Premises or any portion thereof, and that Tenant is not relying upon any such representation or warranty in entering into this Lease. Tenant has inspected the Building and the Premises and is thoroughly acquainted with their respective condition and agrees to take the same "AS IS", except for the Landlord's Work which Landlord has agreed to complete pursuant to the terms of Section 2.6, and Landlord's obligation to maintain the Building in good repair and condition and in compliance with all laws.

2.3 **Occupancy of Premises.** Tenant's occupancy of the Premises for the normal conduct of business will be deemed to conclusively establish that the Landlord's Work is Substantially Completed and that the Premises are in satisfactory condition as of the date of such occupancy, except for Punch List Items and any matter of which Tenant gives Landlord notice within thirty (30) days thereof.

2.4 **Commencement Date Agreement:** When the Commencement Date occurs, Landlord and Tenant shall enter into an agreement in the form annexed hereto as **Schedule B** memorializing the Commencement Date, Rent Commencement Date and Termination Date of this Lease; provided, however, failure to execute and deliver such agreement shall not affect the validity of the Commencement Date or the Termination Date as set forth in this Lease.

2.5 **Move-In Day.** Tenant may move into the Premises at any time on or after the Commencement Date, provided that Tenant's move in date is approved by Landlord at least three (3) days in advance. No moving will be permitted after 11:00 PM. Tenant shall be responsible for any damage caused to the Premises, the Building and/or the Property by Tenant or its moving contractors.

2.6 Landlord's Work: Landlord shall construct the Landlord's Work in the manner and as provided in *Schedule C* attached hereto, and in compliance with applicable laws and codes.

ARTICLE 3
BASIC RENT; ADDITIONAL RENT

3.1 Basic Rent. Tenant shall pay the Basic Rent to Landlord in lawful money of the United States of America in equal monthly installments, in advance, on the Rent Payment Dates, commencing on the Rent Commencement Date, except that Tenant shall pay the first installment of Basic Rent upon Tenant's execution and delivery of this Lease.

3.2 Additional Rent. In addition to the Basic Rent, Tenant shall pay and discharge when due, as additional rent ("*Additional Rent*"), all other amounts, liabilities and obligations which Tenant herein agrees to pay to Landlord, together with a reasonable administrative fee imposed by Landlord, penalties and costs which may be added thereto pursuant to the terms of this Lease.

3.3 Administrative Fee. If any installment of Basic Rent or Additional Rent is not paid when due, Tenant shall pay to Landlord, on demand, then Tenant shall pay a one-time administrative fee to Landlord equal to five (5%) percent of the amount due and unpaid, it being understood and agreed that Landlord incurs significant increase administrative time and expenses as a result of any payment not paid when due. Such administrative late fee is in addition to all other rights and remedies available to Landlord and shall not be deemed to limit any such rights or remedies. Tenants' obligations and responsibilities pursuant to any provision of this Lease during the term hereof, including the payment of any Basic Rent or any Additional Rent, or the keeping, observance or performance of any covenant, agreement, term, provision or condition of this Lease on Tenant's part to be kept, observed or performed, shall survive the expiration or termination of the term of this Lease.

3.4 Prorating Rent. If any Lease Year consists of a period of less than twelve (12) full calendar months, payments of Basic Rent and Additional Rent, will be prorated on the basis of a thirty (30) day month or 360-day year, unless otherwise provided.

3.5 No Abatement or Set-off. Except as herein provided, Tenant shall pay to Landlord, at Landlord's address for notices hereunder, or such other place as Landlord may from time to time designate, without any offset, set-off, counterclaim, deduction, defense, abatement, suspension, deferment or diminution of any kind (i) the Basic Rent, without notice or demand, (ii) Additional Rent, and (iii) all other sums payable by Tenant hereunder. Except as otherwise expressly provided herein, this Lease will not terminate, nor will Tenant have any right to terminate or avoid this Lease or be entitled to the abatement of any Basic Rent, Additional Rent or other sums payable hereunder or any reduction thereof, nor will the obligations and liabilities of Tenant hereunder be in any way affected for any reason. The obligations of Tenant hereunder are separate and independent covenants and agreements.

3.6 Invoices. If Landlord issues monthly or other periodic rent billing statements to Tenant, the issuance or non-issuance of such statements will not affect Tenant's obligation to pay Basic Rent and the Additional Rent set forth in Sections 4.3 and 5.3, all of which are due and payable on the Rent Payment Dates.

3.7 Net Lease. Tenant shall pay Landlord, as specified at the times set forth in this

Lease, Tenant's Proportionate Share of Landlord's Operating Expenses and Taxes. Notwithstanding the foregoing, Tenant's reimbursement obligation shall not include (i) debt service payments of principal, interest, points, origination fees, penalties or any other costs or expenses in connection with any loan obtained by Landlord, repayment of which is secured by the Premises or any portion thereof, or (ii) any income or profit taxes of Landlord. Notwithstanding anything herein to the contrary, Tenant shall not be responsible for Operating Expense payments relating to the specific costs of other tenants in the Building, and in respect of costs that are allocated among tenants in the Building, Tenant shall be responsible only for its pro rata portion thereof.

ARTICLE 4
REAL ESTATE TAXES

4.1 Taxes. Tenant shall pay to Landlord Tenant's Proportionate Share of the Taxes for any Lease Year during the Term; provided, however, that if any special assessments may be paid in installments, Landlord shall elect to pay same over the longest period allowed by law and only such installments shall be Taxes for any particular year. Tenant's Proportionate Share of the Taxes for less than a full Lease Year will be prorated.

4.2 Landlord's Tax Statement. As soon as reasonably possible after the Commencement Date and thereafter as soon as reasonably practical after the end of each succeeding Lease Year, Landlord shall determine or estimate Tenant's Proportionate Share of Taxes for the Lease Year in question (the "**Projected Taxes**") and shall submit such information to Tenant in a written statement ("**Landlord's Tax Statement**"). Landlord shall use reasonable efforts to issue Landlord's Tax Statement within one hundred twenty (120) days following the end of each Lease Year. Landlord's failure to render Landlord's Tax Statement for any Lease Year will not prejudice Landlord's right to thereafter render Landlord's Tax Statement with respect to such Lease Year or with respect to any other Lease Year, nor will the rendering of any Landlord's Tax Statement prejudice Landlord's right to thereafter render a revised Landlord's Tax Statement for the applicable Lease Year.

4.3 Monthly Tax Payment. Commencing on the first Rent Payment Date following the submission of Landlord's Tax Statement and continuing thereafter on each successive Rent Payment Date until Landlord renders the next Landlord's Tax Statement, Tenant shall pay to Landlord on account of its obligation under Section 4.1, a sum (the "**Monthly Tax Payment**") equal to one-twelfth (1/12) of Tenant's Proportionate Share of the Projected Taxes for such Lease Year. Tenant's first Monthly Tax Payment after receipt of Landlord's Tax Statement shall be accompanied by the payment of an amount equal to the product of the number of full months, if any, within the Lease Year which have elapsed prior to such first Monthly Tax Payment, times the Monthly Tax Payment; minus any Additional Rent already paid by Tenant on account of its obligation under Section 4.1 for such Lease Year. From time to time during any Lease Year, Landlord may revise the Landlord's Tax Statement and adjust Tenant's Monthly Tax Payment to reflect Landlord's revised estimate, in which event Tenant shall pay, along with the next monthly payment due, the negative difference (if any) between the aggregate amount of Tenant's Monthly Tax Payments theretofore made on account of its obligation under Section 4.1 for such Lease Year, and the amount which would have been payable by Tenant during such Lease Year had Landlord billed Tenant for the revised Monthly Tax Payment for such prior elapsed months during such Lease Year. Thereafter, Tenant shall pay the revised monthly estimate in accordance with the provisions of this Section 4.3.

4.4 Reconciliation. Landlord shall use reasonable efforts to deliver to Tenant within one hundred twenty (120) days after the end of each Lease Year, Landlord's final determination of the amount of Taxes for the Lease Year in question and shall submit such information to Tenant in a written statement ("**Landlord's Final Tax Statement**"). Each Landlord's Final Tax Statement must reconcile the payments made by Tenant in the Lease Year in question with Tenant's Proportionate Share of the amount of the actual Taxes imposed for the period covered thereby. Any balance due to Landlord shall be paid by Tenant within twenty (20) days after Tenant's receipt of Landlord's Final Tax Statement; any surplus due to Tenant shall be applied by Landlord against the next accruing monthly installment(s) of Additional Rent due under this Article 4. If the Term has expired or has been terminated, Tenant shall pay the balance due to Landlord or, alternatively, Landlord shall refund the surplus to Tenant, whichever the case may be, within twenty (20) days after Tenant's receipt of Landlord's Final Tax Statement; provided, however, that, if the Term terminated as a result of a default by Tenant, then Landlord will have the right to retain such surplus to the extent Tenant owes Landlord any Basic Rent or Additional Rent.

4.5 Refund of Taxes. Landlord will have the right, but not the obligation, to seek to obtain a lowering of the assessed valuation of the Property. Landlord may employ whatever individuals and firms Landlord, in its sole judgment, deems necessary to undertake such endeavor. Tenant shall cooperate with Landlord and its representatives in all such endeavors. If Landlord receives a refund of Taxes in respect of a Lease Year and to the extent Tenant paid Additional Rent based on the Taxes paid prior to the refund, Landlord shall first deduct from such tax refund any expenses, including, but not limited to, attorneys fees and appraisal fees, incurred in obtaining such tax refund, and out of the remaining balance of such tax refund, Landlord shall credit Tenant's Proportionate Share of such refund against the next accruing monthly installment(s) of Additional Rent, or if the Term has expired, Landlord shall pay to Tenant Tenant's Proportionate Share of such refund within thirty (30) days after receipt thereof by Landlord; provided, however, that (i) if the Term terminated as a result of a default by Tenant, Landlord will have the right to retain Tenant's Proportionate Share of the refund to the extent Tenant owes Landlord any Basic Rent or Additional Rent, and (ii) Tenant's Proportionate Share of such refund will in no event exceed the amount of Additional Rent actually paid by Tenant on account of the Taxes for the Lease Year in question. Any expenses incurred by Landlord in contesting the validity or the amount of the assessed valuation of the Property or any Taxes, to the extent not offset by a tax refund, will, for the purpose of computing the Additional Rent due Landlord or any credit due to Tenant hereunder, be included as an item of Taxes for the tax year in which such contest is finally determined. Notwithstanding anything to the contrary contained in this Lease, Tenant will have no right to contest or appeal the validity of any Taxes or the assessed valuation of the Property.

4.6 Payment Pending Appeal. While proceedings for the reduction in assessed valuation for any year are pending, the computation and payment of Tenant's Proportionate Share of Taxes will be based upon the original assessments for such year.

4.7 Survival. In no event will any adjustment in Tenant's obligation to pay Additional Rent under this Article 4 result in a decrease in the Basic Rent. Tenant's obligation to pay Additional Rent, and Landlord's obligation to credit and/or refund to Tenant any amount, pursuant to the provisions of this Article 4, will survive the Termination Date.

4.8 Bills and Statements. The provisions of Section 29.3 apply to Landlord's Tax

Statement.

4.9 Rent Tax: If an excise, transaction, sales, or privilege tax or other tax or imposition (other than Federal, state or local income or estate taxes) is levied or assessed against Landlord or the Property on account of or measured by, in whole or in part, the Basic Rent and/or Additional Rent expressly reserved hereunder as a substitute for or in addition to, in whole or in part, Taxes or if any assessments and/or taxes are levied or assessed against Landlord or the Property on account of or as a result of the operation and/or existence of Tenant's business, then Tenant shall pay to Landlord upon demand: (i) the amount of such excise, transaction, sales or privilege tax or other tax or imposition lawfully assessed or imposed as a result of Landlord's interests in this Lease or of the Basic Rent and/or Additional Rent accruing under this Lease; and/or (ii) the amount of any assessments and/or taxes levied or assessed against Landlord or the Property on account of or as a result of the operation and/or existence of Tenant's business in the Property.

ARTICLE 5
OPERATING EXPENSES

5.1 Operating Expenses.

- (a) The Landlord's CAM Expenses, the Utility Expenses and the Insurance Expenses are collectively referred to as "**Landlord's Operating Expenses**" and shall be determined and paid in accordance with the provisions of this Article 5.
- (b) Tenant shall pay to Landlord, Tenant's Proportionate Share of the Landlord's CAM Expenses for any Lease Year during the Term. Tenant's Proportionate Share of Landlord's CAM Expenses for less than a full Lease Year will be prorated.
- (c) Tenant shall pay to Landlord, Tenant's Proportionate Share of the Utility Expenses for any Lease Year during the Term. Tenant's Proportionate Share of the Utility Expenses for less than a full Lease Year will be prorated.
- (d) Tenant shall pay to Landlord, Tenant's Proportionate Share of the Insurance Expenses for any Lease Year during the Term. Tenant's Proportionate Share of the Insurance Expenses for less than a full Lease Year will be prorated.

5.2 Landlord's Expense Statement. As soon as reasonably possible after the Commencement Date and thereafter as soon as practical after the determination of the Landlord's Operating Expenses for each succeeding Lease Year during the Term, Landlord shall determine or estimate the amount of the Landlord's Operating Expenses for the Lease Year in question ("**Landlord's Estimated Operating Expenses**") and shall submit such information to tenant in a written statement ("**Landlord's Expense Statement**"). Landlord shall use reasonable efforts to issue Landlord's Expense Statement within one hundred twenty (120) days following the end of each Lease Year. Landlord's failure to render Landlord's Expense Statement within such time for any Lease Year will not prejudice Landlord's right to thereafter render Landlord's Expense Statement with respect to such Lease Year or with respect to any other Lease Year, nor will the rendering of any Landlord's Expense

Statement prejudice Landlord's right to thereafter render a revised Landlord's Expense Statement for the applicable Lease Year.

5.3 Monthly Expense Payment Commencing on the first Rent Payment Date following the submission of Landlord's Expense Statement and continuing thereafter on each successive Rent Payment Date until Landlord renders the next Landlord's Expense Statement, Tenant shall pay to Landlord on account of its obligation under Section 5.1, a sum (the "**Monthly Expense Payment**") equal to one-twelfth (1/12) of Tenant's Proportionate Share of Landlord's Estimated Operating Expenses for such Lease Year. Tenant's first Monthly Expense Payment after receipt of Landlord's Expense Statement shall be accompanied by the payment of an amount equal to the product of the number of full months, if any, within the Lease Year which have elapsed prior to such first Monthly Expense Payment, times the Monthly Expense Payment; minus any Additional

Rent already paid by Tenant on account of its obligation under Section 5.1 for such Lease Year. From time to time during any Lease Year, Landlord may revise the Landlord's Expense Statement and adjust Tenant's Monthly Expense Payment to reflect Landlord's revised estimate, in which event Tenant shall pay, along with the next monthly payment due, the negative difference (if any) between the aggregate amount of Tenant's Monthly Expense Payments theretofore made on account of its obligation under Section 5.1 for such Lease Year, and the amount which would have been payable by Tenant during such Lease Year had Landlord billed Tenant for the revised Monthly Expense Payment for such prior elapsed months during such Lease Year. Thereafter, Tenant shall pay the revised monthly estimate in accordance with the provisions of this Section 5.3.

5.4 Reconciliation. Landlord shall use reasonable efforts to deliver to Tenant, within one hundred twenty (120) days after the end of each Lease Year, Landlord's final determination of the amount of the Landlord's Operating Expenses for the Lease Year in question and shall submit such information to Tenant in a written statement (the "**Annual Expense Reconciliation**"). Each Annual Expense Reconciliation must reconcile the aggregate of all Monthly Expense Payments made by Tenant in the Lease Year in question with Tenant's Proportionate Share of the amount of the actual Landlord's Operating Expenses for the period covered thereby. Any balance due to Landlord shall be paid by Tenant within twenty (20) days after Tenant's receipt of the Annual Expense Reconciliation; any surplus due to Tenant shall be applied by Landlord against the next accruing monthly installment(s) of Additional Rent due under this Article 5. If the Term has expired or has been terminated, Tenant shall pay the balance due to Landlord or, alternatively, Landlord shall refund the surplus to Tenant, whichever the case may be, within twenty (20) days after Tenant's receipt of the Annual Expense Reconciliation; provided, however, that if the Term terminated as a result of a default by Tenant, then Landlord will have the right to retain such surplus to the extent Tenant owes Landlord any Basic Rent or Additional Rent.

5.5 Audit. For ninety (90) days following Landlord's delivery to Tenant of the Annual Expense Reconciliation, Tenant will have the right, during normal business hours and upon no less than five (5) days prior written notice to Landlord, to examine Landlord's books and records for the purpose of confirming the Annual Expense Reconciliation. Tenant will be deemed to have accepted the Annual Expense Reconciliation unless, within fifteen (15) days after Tenant's examination of Landlord's books and records, Tenant delivers an objection notice to Landlord specifying in detail why Tenant believes such Annual Expense Reconciliation is incorrect. Notwithstanding anything to the contrary contained in this Section 5.5, Tenant will not be permitted to examine Landlord's books and records or to dispute any Annual Expense

Reconciliation unless Tenant has paid to Landlord all amounts due as shown on such Annual Expense Reconciliation. Tenant shall not engage the services of any legal counsel or other professional consultant who charges for its services on a so-called contingency fee basis for the purpose of reviewing Landlord's books and records.

5.6 Survival. In no event will any adjustment in Tenant's obligation to pay Additional Rent under this Article 5 result in a decrease in Basic Rent. Tenant's obligation to pay Additional Rent, and Landlord's obligation to credit and/or refund to Tenant any amount, pursuant to this Article 5 will survive the Termination Date.

5.7 Operating Expenses With Respect to Tenant. Tenant shall pay to Landlord, the amount of any increase in Landlord's Operating Expenses which is specifically attributable to Tenant's use or manner of use of the Premises, to activities conducted on or about the Premises by Tenant or on behalf of Tenant or to any additions, improvements or alterations to the Premises made by or on behalf of Tenant.

5.8 Bills and Statements. The provisions of Section 29.3 apply to Landlord's Expense Statement.

ARTICLE
6 ELECTRICITY AND OTHER UTILITIES

6.1 Cost of Electricity. The electricity consumed in the Premises will be measured by check meters or other measuring devices. From and after the Commencement Date, Tenant shall pay Landlord, within ten (10) days after delivery of a bill therefor, all charges, including, without limitation, usage charges, demand factors and all other charges calculated at the rate structure then existing of the utility company supplying electrical energy to the Building for Tenant's consumption as determined by such meter. Landlord shall include in Landlord's CAM Expenses the cost to read check meter or submeter, if any.

6.2 Tenant Not To Exceed Capacity. Tenant's use of electric energy in the Premises shall not at any time exceed the capacity of any of the electrical conductors and equipment in or otherwise serving the Premises. In order to insure that such capacity is not exceeded and to avert possible adverse effect upon the Building electric service, Tenant shall not, without Landlord's prior written consent, connect any fixtures, appliances or equipment to the Building electric distribution system or make any alteration or addition to the electric system of the Premises. Any changes requested by Tenant must be sent in writing to Landlord, and if, in the sole judgment of Landlord, such changes will not cause or create a dangerous or hazardous condition or damage or injury to the Building, or entail excessive or unreasonable alterations or repairs, or interfere with or disturb other tenants or occupants and/or the service then or thereafter to be supplied to tenants or occupants, Landlord will, at the sole cost and expense of Tenant, make such changes. Tenant shall pay Landlord for such costs and expenses within twenty (20) days of Tenant's receipt of an invoice therefor.

6.3 Other Utilities. Tenant's use of water, sewer and/or any other utility service for the Premises shall be measured by meter, with Tenant to pay its prorata portion for such utility. If direct meters are installed, Tenant shall contract directly with the applicable utility company and shall pay all charges directly to said utility company. If submeters are installed, Tenant shall pay

to Landlord, within twenty (20) days after receipt of an invoice therefor, an amount calculated by multiplying Tenant's actual consumption of such utility (as shown on the submeter) by the rate at which such utility service is purchased for the Building, and including (1) an allocable share, as determined by Landlord, of any taxes, surcharges and other amounts incurred by Landlord in connection with furnishing such utility service to the Building or portion thereof, as the case may be, plus (2) Landlord's administrative costs incurred in connection with such utility service.

6.4 Landlord Not Liable. Except as otherwise provided in Section 6.5, Landlord will not be responsible for any loss, damage or expenses, and Tenant will not be entitled to any rent abatement, diminution, setoff, or any other relief from its obligations hereunder, on account of any change in the quantity or character of the electric service, or any other utility service, or any cessation or interruption of the supply of electricity to the Premises.

6.5 Interruption of Utilities or Services. Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay or interruption in furnishing any one or more of the Premises utilities or services to be provided pursuant to Section 9.6 below, or for any diminution in the quality or quantity thereof, when such failure, delay, interruption or diminution is occasioned, in whole or in part, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Property after reasonable effort so to do, by any accident or casualty whatsoever, by act or default of Tenant or other parties, or by any other cause beyond Landlord's reasonable control; and such failures or delays or diminution shall not be deemed to constitute an eviction or disturbance of the Tenant's use and possession of the Premises or relieve the Tenant from paying Rent or performing any of its obligations under this Lease. Landlord also reserves the right to temporarily suspend, delay, or discontinue furnishing any of the utilities services to be provided by Landlord under this Lease, without abatement or diminution in Rent and without any liability to Tenant as a result thereof, for such inspections, cleaning, repairs, replacements, alterations, improvements or renewals as may, in Landlord's judgment, be desirable or necessary to be made; provided that Landlord shall, to the extent reasonably possible under the circumstance, give Tenant advance notice of any proposed suspension of such services during Tenant's normal business hours and use commercially reasonable efforts to minimize the disruption or discontinuances. Tenant understands and agrees that Landlord does not represent or warrant the uninterrupted availability of such utilities or services. Notwithstanding anything to the contrary contained in this Lease, in the event of Landlord's failure to maintain structural elements or to provide an "Essential Service" (which shall be defined as gas, electricity and water, and a failure to repair by Landlord of Tenant's HVAC system when required and not due to force majeure), which failure renders the Premises or a significant portion thereof unusable, and provided and on condition that in any such event, Tenant cannot occupy the Premises or significant portion for a period of ten (10) consecutive business days or more after written notice thereof to Landlord which specifies the failure of service, and provided further that during such ten (10) consecutive business day period, Landlord fails to substantially restore or substitute such service then, as and for Tenant's sole and exclusive remedy, Tenant shall be entitled to an abatement in the payment of the Basic Rent allocable to the Premises (or significant unusable portion thereof) for each day commencing from and after said ten (10) consecutive business day period until said service is substantially restored (the "Abatement Period"); provided further, however, that Tenant shall not be entitled to any such Basic Rent abatement if it is then in default of this Lease after the expiration of any applicable notice or cure periods, nor in the event that such failure results from: (i) any act, work, maintenance or repair performed by or on behalf of Tenant; (ii) the negligence, tortious conduct or willful misconduct of Tenant, its agents, representatives, servants, employees, subtenants, licensees or invitees; or (iii) acts

of terrorism or action or inaction of a utility service or provider, and any other cause beyond the reasonable control of Landlord.

ARTICLE 7
MAINTENANCE; ALTERATIONS; REMOVAL OF TRADE FIXTURES

7.1 Tenant's Maintenance. Tenant shall, at its sole cost and expense, keep the Premises in good order and condition (except for ordinary wear and tear) and, except as provided in Section 7.2, shall make all non-structural repairs, alterations, renewals and replacements and shall take such other action as may be necessary or appropriate to keep and maintain the Premises in good order and condition (including the repair, maintenance and replacement of any HVAC system solely servicing the Premises, whether or not located within the Premises, and the duct distribution systems within the Premises). Except as expressly provided in this Lease, Landlord will not be obligated to maintain, alter or repair the Premises. All repairs made by Tenant must be at least equal in quality to the original work. Tenant's obligations under this Section 7.1 shall include replacements of any portion or item of the Premises. Tenant, at its sole cost and expense, shall obtain a maintenance contract for any HVAC system solely servicing the Premises, which is Tenant's responsibility to maintain pursuant to this Section 7.1. Such maintenance contract will provide for regularly scheduled maintenance and shall be reasonably satisfactory to Landlord.

7.2 Landlord's Repairs. Landlord shall make all repairs and replacements to the foundation, the bearing walls, the structural columns and beams, the exterior walls, the exterior windows and the roof of the Building, all mechanical, electrical, plumbing systems within the Building (other than any HVAC system solely servicing the Premises, whether or not located within the Premises, and the duct distribution systems within the Premises), and Common Areas and common facilities and keep them, in its commercially reasonable discretion, in good repair and condition and in compliance with Legal Requirements; provided, however, that if such repairs and replacements (including repairs and replacements with respect to the Property) are necessitated by the intentional acts or negligence of Tenant or Tenant's Visitors, then Tenant shall reimburse Landlord, upon demand, for the reasonable cost thereof. The costs and expenses incurred by Landlord in connection with such repairs and replacements will be included in Landlord's Operating Expenses to the extent permitted by the terms of this Lease. Notwithstanding anything herein to the contrary, Tenant accepts the common areas in their "as-is" condition.

7.3 Requirements for Tenant's Maintenance. All maintenance and repair, and each addition, improvement or alteration, performed by on behalf of Tenant must be (a) completed expeditiously in a good and workmanlike manner, and in compliance with all applicable Legal Requirements and Insurance Requirements, (b) completed free and clear of all Liens, and (c) performed in a manner and by contractors reasonably approved by Landlord to the extent such work involves any work to any electrical, mechanical, plumbing or other system of the Building, any work to the outside of the Building, any work to the roof of the Building or any work to any structural element of the Building.

7.4 (a) Permitted Alterations. Provided Tenant is not in default of any its obligations under this Lease, Tenant may, upon prior written notice to Landlord and submission to Landlord of plans and specifications therefor, make interior, non-structural additions, improvements or alterations to the Premises having an aggregate cost not to exceed \$100,000, so long as the same do not (i) require a building permit unless Landlord shall consent, which consent shall not be

unreasonably withheld or delayed, (ii) in Landlord's commercially reasonable judgment adversely affect, alter, interfere with or disrupt any of the electrical, mechanical, plumbing or other system of the Building, (iii) affect the outside appearance of the Building, (iv) affect the roof of the Building, or (v) in Landlord's commercially reasonable judgment adversely affect any structural element of the Building.

(b) Landlord's Consent to Alterations. Tenant shall not make any addition, improvement or alteration outside the Premises to the Land or Building. In addition, Tenant shall not make any addition, improvement or alteration of the Premises having an aggregate cost in excess of \$100,000 or (i) requiring a building permit which would require Landlord's consent, (ii) in Landlord's commercially reasonable judgment adversely affecting, altering, interfering with or disrupting any electrical, mechanical, plumbing or other system of the Building, or (iii) affecting the outside appearance of the Building, the roof of the Building, the ingress to or the egress from the Premises and/or any structural element of the Building (such work, "**Major Work**"), unless Tenant submits to Landlord detailed plans and specifications therefor and Landlord approves such plans and specifications in writing (which approval will be at Landlord's sole and absolute discretion). Tenant shall reimburse Landlord, upon demand, for its actual third party costs for reviewing any plans for the Major Work

(c) Building Systems. Notwithstanding anything contained in the Lease to the contrary, Landlord reserves the right to require Tenant to use Landlord's designated engineers and contractors in connection with any Major Work.

7.5 (a) Surrender of Alterations. Each addition, improvement and alteration to the Premises (each a "**Tenant Improvement**") will, upon installation, become the property of Landlord and be deemed to be a part of the Building unless Landlord, by written notice to Tenant if so requested by the Tenant at the time the Tenant Improvement is approved, elects to relinquish Landlord's right to such Tenant Improvement. If Landlord elects to relinquish its right to any Tenant Improvement, Tenant shall insure such Tenant Improvement in accordance with Section 14.1(a)(ii), and, prior to the Termination Date, remove such Tenant Improvement and promptly repair any damage to the Premises or the Building caused by the installation or removal of such Tenant Improvement and restore the Premises to the condition existing prior to the installation of such Tenant Improvement.

(b) Removal of Improvements. Tenant may install in, and remove from, the Premises any trade equipment, machinery, wiring and personal property belonging to Tenant (such trade equipment, machinery, wiring, cabling and personal property will not become the property of Landlord, and shall be required to be removed by Tenant), provided that (i) Tenant shall repair all damage caused by such installation or removal; (ii) Tenant shall not install any equipment, machinery or other items on the roof of the Building or make any openings in the roof; and (iii) Tenant shall not install any equipment, machinery or other items on the floor, walls or ceiling of the Premises that exceed the load bearing capacity or compromise the structural integrity of the floor, walls or ceiling of the Premises.

ARTICLE 8
USE OF PREMISES

8.1 Permitted Use. Tenant shall not use or permit the use of the Premises for any purpose other than the Permitted Use specified in the Basic Lease Provisions.

8.2 Prohibited Uses. Tenant shall not use or permit the use of the Premises in any manner or for any purpose or do, bring or keep anything, or permit anything to be done, brought or kept in the Premises that (a) violates any Legal Requirement or Insurance Requirement, (b) could overload the electrical or mechanical systems of the Building, (c) in the reasonable judgment of Landlord, may impair or interfere with the proper and economic heating or air conditioning of the Building; or (d) in the reasonable judgment of Landlord, may interfere with the use or occupancy of any portion of the Building outside of the Premises by Landlord or any other tenant or occupant of the Building.

8.3 Dispensing Food. Tenant shall not, without the prior written consent of Landlord, permit the dispensing, preparation, or serving of any beverages or food in the Premises. Notwithstanding anything in the immediately preceding sentence to the contrary, Tenant shall be permitted to dispense, prepare and serve beverages and food in the area of the Premises which is designated as a lunch room solely for Tenant's employees, provided, that food may only be warmed or cooked in a microwave oven and/or toaster oven and no other cooking equipment will be permitted to be used by Tenant.

8.4 Permits, Licenses and Authorizations. Tenant shall obtain, at its sole cost and expense, all permits, licenses or authorizations of any nature required in connection with the operation of Tenant's business at the Premises.

ARTICLE 9 LANDLORD'S SERVICES

9.1 Landlord's Services. Provided Tenant is not in default under any of the provisions of this Lease beyond applicable grace periods provided herein, Landlord shall furnish to Tenant the services set forth in this Article 9.

9.2 Heating and Air Cooling. Tenant acknowledges that the Premises is currently serviced by a current HVAC System, the cost of which shall be included in Landlord's CAM Expenses, and that Landlord has no obligation to furnish air cooling, heat, ventilation, building maintenance and other facilities and services to the Premises.

9.3 Water. Landlord shall furnish adequate hot and cold water at standard Building temperatures to the Building for drinking, lavatory and cleaning purposes, the cost of which shall be included in Landlord's CAM Expenses.

9.4 Common Area Maintenance. Landlord shall maintain all Common Areas and Landlord shall furnish electrical lighting and janitorial services to the Common Areas, and maintenance, repair and replacements of the Common Areas, the cost of which shall be included in Landlord's CAM Expenses, and Tenant shall have 24/7 access to the Premises, subject to force majeure and reasonable Building security procedures, which may in the future be in effect from time-to-time.

9.5 Telecommunications. Subject to the rules and regulations of Landlord and any

applicable telecommunications provider, Tenant will have access to the existing telecommunications system in the Building, if any. Tenant hereby acknowledges that the telecommunications system has been installed and is operated by a third-party provider, not Landlord. Landlord makes no representations or warranties with respect to the telecommunications system. Tenant acknowledges that telecommunications service may be suspended or reduced by reason of repairs, alterations, improvements, accidents, or other causes beyond the reasonable control of Landlord. Any such interruption or suspension of services will not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, nor render Landlord liable to Tenant for damages by abatement of rent or otherwise, nor relieve Tenant of any of its obligations under this Lease. Tenant shall contract directly with the company providing telecommunications services to the Premises. Tenant shall pay all charges for telecommunications services before any interest or penalties are added thereto and shall furnish to Landlord, upon request, satisfactory proof of payment.

9.6 Interruption of Services. Landlord reserves the right to suspend the Building Services on account of fire, storm, explosion, strike, lockout, labor dispute, casualty or accident, acts of God, riot, war, terrorism, interference by civil or military authorities, or any other cause beyond Landlord's control or for emergency, inspection, cleaning, repairs, replacement, alterations or improvements that Landlord reasonably deems desirable or necessary. Landlord shall use reasonable efforts to restore any Building Services suspended pursuant to this Section 9.6. Landlord will not be liable to Tenant for any costs, expenses or damages incurred by Tenant as a result of any failure to furnish any Building Services and such failure will not (i) be construed as a constructive eviction or eviction of Tenant, (ii) excuse Tenant from the performance of any of its obligations hereunder, or (iii) entitle Tenant to any abatement or offset against Basic Rent or Additional Rent. In addition, no deduction from Basic Rent or Additional Rent will be permitted on account of any Building Services used by Tenant, subject to the terms of Section 6.5 above.

9.7 Energy Conservation. Landlord and Tenant shall comply with all mandatory and voluntary energy conservation controls and requirements imposed or instituted by the federal, state or local governments and applicable to warehouse/office buildings, or as may be required to operate the Building as a warehouse/office building comparable to equivalent facilities in the county in which the Property is located. These controls and requirements may include, without being limited to, controls on the permitted range of temperature settings in warehouse/office buildings and curtailment of the volume of energy consumed or the hours of operation of the Building. Any terms or conditions of this Lease that conflict with such controls and requirements will be suspended for the duration of such controls and requirements. Compliance with such controls and requirements will not be considered an eviction, actual or constructive, of Tenant from the Premises and will not entitle Tenant to terminate this Lease or to an abatement of any Basic Rent or Additional Rent.

ARTICLE 10
COMPLIANCE WITH REQUIREMENTS

10.1 Compliance. Tenant shall (i) comply with all Legal Requirements and Insurance

Requirements applicable to the operation of Tenant's business, and (ii) maintain and comply with all permits, licenses and other authorizations required by any governmental authority for Tenant's conduct of business. Landlord shall, at no cost to Landlord, join in any application for any permit or authorization with respect to Legal Requirements if such joinder is necessary. If any structural repairs or replacements are required in order for Tenant to comply with its obligations under this Section 10.1, Landlord shall perform such repairs or replacements and Tenant shall, upon demand, reimburse Landlord for the costs and expenses incurred by Landlord in connection with such repairs or replacements. Landlord shall maintain the current certificate of occupancy of the Building in force and effect; provided, however, that Tenant shall be responsible for certificate of occupancy issues that arise out of Tenant's use, including alterations or proposed alterations.

10.2 Increases in Insurance Premiums. Tenant shall not do, or permit to be done, anything in or to the Premises, or keep anything in the Premises that increases the cost of any insurance maintained by Landlord. Tenant shall, upon demand, pay to Landlord any such increase in insurance premiums and any other costs incurred by Landlord as result of the negligence, carelessness or willful action of Tenant or Tenant's Visitors.

ARTICLE 11
COMPLIANCE WITH ENVIRONMENTAL LAWS

11.1 Environmental Laws. Tenant shall comply, at its sole cost and expense, with all Environmental Laws in connection with Tenant's operations; provided, however, that the provisions of this Article 11 will not obligate Tenant to comply with the Environmental Laws if such compliance is required solely as a result of the occurrence of a spill, discharge or other event before the date that Tenant or any of its affiliates occupied any portion of the Building, or if such spill, discharge or other event was not caused by the act, negligence or omission of Tenant or Tenant's Visitors.

11.2 Copies of Environmental Documents. Tenant shall deliver promptly to Landlord a true and complete copy of any correspondence, notice, report, sampling, test, finding, declaration, submission, order, complaint, citation or any other instrument, document, agreement and/or information submitted to, or received from, any governmental entity, department or agency in connection with any Environmental Law relating to or affecting the Premises.

11.3 Hazardous Substances and Hazardous Wastes. Tenant shall not cause or permit any "hazardous substance" or "hazardous waste" to be kept in the Premises, except for *de minimus* quantities of cleaning supplies, medicines and other materials used by Tenant in the ordinary course of its business and in accordance with all Legal Requirements. Tenant shall not engage in, or permit any other person or entity to engage in, any activity, operation or business in the Premises that involves the generation, manufacture, refining, transportation, treatment, storage, handling or disposal of hazardous substances or hazardous wastes.

11.4 (a) Discharge. If a spill or discharge of a hazardous substance or a hazardous waste occurs on or from the Premises, Tenant shall give Landlord immediate oral and written notice of such spill and/or discharge, setting forth in reasonable detail all relevant facts, including, without limitation, a copy of (i) any notice of a violation, or a potential or alleged violation, of any Environmental Law received by Tenant or any subtenant or other occupant of the Premises; (ii) any inquiry, investigation, enforcement, cleanup, removal, or other action instituted or threatened

against Tenant or any subtenant or other occupant of the Premises; (iii) any claim instituted or threatened against Tenant or any subtenant or other occupant of the Premises; and (iv) any notice of the restriction, suspension, or loss of any environmental operating permit by Tenant or any subtenant or other occupant of the Premises. If a spill or discharge arises out of or relates to Tenant's use and occupancy of the Premises, or if a spill or discharge is caused by the act, negligence or omission of Tenant or Tenant's Visitors, then Tenant shall pay all costs and expenses relating to compliance with applicable Environmental Laws (including, without limitation, the costs and expenses of site investigations and the removal and remediation of such hazardous substance or hazardous waste).

(b) Landlord's Cleanup Rights. Without relieving Tenant of its obligations under this Lease and without waiving any default by Tenant under this Lease, Landlord will have the right, but not the obligation, to take such action as Landlord deems necessary or advisable to cleanup, remove, resolve or minimize the impact of or otherwise deal with any spill or discharge of any hazardous substance or hazardous waste on or from the Premises. If a spill or discharge arises out of or relates to Tenant's use and occupancy of the Premises, or if a spill or discharge is caused by the act, negligence or omission of Tenant or Tenant's Visitors, then Tenant shall, on demand, pay to Landlord all costs and expenses incurred by Landlord in connection with any action taken in connection therewith by Landlord.

(c) Tenant's Cooperation. If, in order to comply with any Environmental Law, Landlord requires any affidavits, certifications or other information from Tenant, Tenant shall, at no charge to Landlord, deliver the same to Landlord within five (5) business days of Landlord's request therefor.

11.5 Notices. If Landlord has given to Tenant the name and address of any holder of an Underlying Encumbrance, Tenant agrees to send to said holder a photocopy of those items given to Landlord pursuant to the provisions of Section 11.2.

11.6 Survival. Tenant's obligations under this Article 11 shall survive the expiration or earlier termination of this Lease.

ARTICLE 12
DISCHARGE OF LIENS

Within thirty (30) days after receipt of notice thereof, Tenant shall discharge any Lien on the Premises, the Basic Rent, Additional Rent or any other sums payable under this Lease caused by or arising out of Tenant's acts or Tenant's failure to perform any obligation under this Lease.

ARTICLE 13
PERMITTED CONTESTS

13.1 Tenant may, by appropriate proceedings, contest the amount, validity or application of any Legal Requirement which Tenant is obligated to comply with or any Lien which Tenant is obligated to discharge, provided that (a) such proceedings suspend the collection thereof, (b) no part of the Premises, Basic Rent or Additional Rent or any other sum payable hereunder is subject to loss, sale or forfeiture during such proceedings, (c) Landlord is not subject to any civil or criminal liability for failure to pay or perform, as the case may be, (d) Tenant furnishes such security as may be required in the proceedings or reasonably requested by Landlord, (e) such proceedings do not affect the payment of Basic Rent, Additional Rent or any other sum payable to Landlord hereunder or prevent Tenant from using the Premises for its intended purposes, and (f) Tenant notifies Landlord of such proceedings not less than ten (10) days prior to the commencement thereof and describes such proceedings in reasonable detail. Tenant shall conduct all such contests in good faith and with due diligence and shall, promptly after the determination of such contest, pay all amounts required to be paid by Tenant.

ARTICLE 14
INSURANCE; INDEMNIFICATION

14.1 (a) Tenant's Insurance. Tenant shall obtain, and shall keep in full force and effect, the following insurance, with insurers that are authorized to do business in the State of New Jersey and are rated at least A-VIII in Best's Key Rating Guide:

(i) Commercial General Liability Insurance, which shall include premises liability, contractual liability covering Tenant's indemnity obligations under this Lease (to the extent covered as an Insured Contract in a standard ISO CGL Policy), damage to rented premises, personal & advertising injury and products/completed operations coverage. Policy shall insure against claims for bodily injury, personal injury, death or property damage occurring on, in or about the Premises with limits of not less than \$1,000,000.00 per occurrence and \$2,000,000.00 in the aggregate. If the policy covers other locations owned or leased by Tenant, then such policy must include an aggregate limit per location endorsement.

(ii) Special Form ("All Risk") Property insuring all equipment, trade fixtures, inventory, fixtures and personal property and any Tenant Improvements which are the responsibility of Tenant located on or in the Premises equal to the full replacement cost value of such property.

(iii) Workers' Compensation Insurance as required by applicable laws of the State in which the Premises is located, including Employers' Liability Insurance with limits of not less than: (x) \$100,000 per accident; (y) \$500,000 disease policy limit; and (z) \$100,000 disease, each employee.

(iv) Excess or Umbrella Liability Insurance with limits of not less than Two Million Dollars (\$2,000,000.00) per occurrence and in the aggregate providing coverage in excess of, and follow-form to, the primary commercial general liability and employer's liability insurance required herein.

(v) In addition to the aforementioned insurances, and during any such

time as any Major Work is being performed at the Premises (except that work being performed by Landlord or on behalf of Landlord) Tenant, at its sole cost and expense, shall carry or shall cause to be carried and shall deliver to Landlord at least ten (10) days prior to commencement of any such alteration or work, evidence of insurance with respect to (A) workers' compensation insurance covering all persons employed in connection with the proposed alteration or work in statutory limits, (B) general/excess liability insurance, in an amount commensurate with the work to be performed but not less than Two Million Dollars (\$2,000,000.00) per occurrence and in the aggregate, for ongoing and completed operations insuring against bodily injury and property damage and naming all additional insured parties as outlined below and required of Tenant and shall include a waiver of subrogation in favor of such parties, and (C) builders risk insurance, to the extent such alterations or work may require, on a completed value form including permission to occupy, covering all physical loss or damages, in an amount and kind reasonably satisfactory to Landlord.

(b) Policy Requirements. The policies of insurance required to be maintained by Tenant pursuant to this Section 14.1 must be written as primary policy coverage and not contributing with, or in excess of, any coverage carried by Landlord. All policies must name Tenant as the named insured party and (except for worker's compensation and property insurance) all policies shall name as additional insureds for on-going and completed operations, Landlord, Landlord's property manager, the holder(s) of any mortgage(s) encumbering the Premises, and all of their respective affiliates, members, officers, employees, agents and representatives, managing agents, and other designees of Landlord and its successors as the interest of such designees shall appear. In addition, Tenant agrees and shall provide thirty (30) days' prior written notice of suspension, cancellation, termination or non-renewal of coverage to Landlord. Tenant shall not self-insure for any insurance coverage required to be carried by Tenant under this Lease. Tenant shall have the right to provide the insurance coverage required under this Lease through a blanket policy, provided such blanket policy expressly affords coverage to the Premises and to Landlord as required by this Lease.

(c) Certificates of Insurance. Prior to the Commencement Date, Tenant shall deliver to Landlord certificates of insurance evidencing all insurance Tenant is obligated to carry under this Lease, together with a copy of the endorsement(s), specifically including, but not limited to, Waiver of Rights to Recover From Others, Additional Insureds (on-going and completed operations) and Contractual Liability endorsements. Within ten (10) days prior to the expiration of any such insurance, Tenant shall deliver to Landlord certificates of insurance evidencing the renewal of such insurance. Tenant's certificates of insurance must be on: (i) ACORD Form 27 with respect to property insurance; and (ii) ACORD Form 25 with respect to liability insurance or, in each case, on successor forms approved by Landlord.

(d) No Separate Insurance. Tenant shall not obtain or carry separate property insurance concurrent in form or contributing in the event of loss with that required by Section 14.1(a)(ii) unless Landlord and Tenant are named as insureds therein.

(e) Tenant's Failure to Maintain Insurance. If Tenant fails to maintain the insurance required by this Lease, Landlord may, but will not be obligated to, obtain, and pay the premiums for, such insurance. Upon demand, Tenant shall pay to Landlord all amounts paid by Landlord pursuant to this Section 14.1(e).

(f) Landlord's Insurance. Landlord shall carry replacement cost property

insurance on the Building.

14.2 Waiver of Subrogation. Landlord and Tenant agree to have all property insurance policies which are required to be carried by either of them hereunder endorsed to provide that the insurer waives all rights of subrogation which such insurer might have against the other party and Landlord's mortgagee, if any. By this clause, the parties intend and hereby agree that the risk of loss or damage to property shall be borne by the parties' insurance carriers. It is hereby agreed that Landlord and Tenant shall look solely to, and seek recovery from, only their respective insurance carriers in the event a loss is sustained for which property insurance is carried or is required to be carried under this Lease. Without limiting any release or waiver of liability or recovery contained in any other Section of this Lease, but rather in confirmation and furtherance thereof, Landlord waives all claims for recovery from Tenant, and Tenant waives all claims for recovery from Landlord, and their respective agents, partners and employees, for any loss or damage to any of its property insured under the insurance policies required hereunder.

14.3 Indemnification. Tenant hereby indemnifies, and shall pay, protect and hold Landlord harmless from and against all liabilities, losses, claims, demands, costs, expenses (including attorneys' fees and expenses) and judgments of any nature, (except to the extent Landlord is compensated by insurance maintained by Landlord or Tenant hereunder and except for such of the foregoing as arise from the gross negligence or willful misconduct of Landlord, its agents, servants or employees), arising, or alleged to arise, from or in connection with (i) any injury to, or the death of, any person or loss or damage to property on or about the Premises, (ii) any violation of any Legal Requirement or Insurance Requirement by Tenant or Tenant's Visitors, (iii) performance of any labor or services or the furnishing of any materials or other property in respect of the Premises, (iv) Tenant's occupancy of the Premises, (including, but not limited to, statutory liability and liability under workers' compensation laws), (v) any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, and (vi) any act or omission of Tenant. Tenant shall, at its sole cost and expense, defend any action, suit or proceeding brought against Landlord by reason of any such occurrence with independent counsel selected by Tenant and reasonably acceptable to Landlord. The obligations of Tenant under this Section 14.3 will survive the expiration or earlier termination of this Lease.

14.4 No Claims. Notwithstanding anything to the contrary contained in this Lease, Tenant shall not make any claim against Landlord for (a) any damage to, or loss of, any property of Tenant or any other person, (b) business interruption or indirect, special or consequential damages, or (c) any acts or omissions of any other tenants in the Building or on the Property. Tenant hereby waives all claims against Landlord with respect to the foregoing. The provisions of this Section 14.4 will survive the expiration or earlier termination of this Lease.

ARTICLE 15 ESTOPPEL CERTIFICATES

15.1 Estoppel Certificates. Upon not less than ten (10) business days' prior notice by Landlord, Tenant shall execute and deliver to Landlord a statement certifying (i) the Commencement Date, (ii) the Termination Date, (iii) the dates of any amendments or modifications to this Lease, (iv) that this Lease was properly executed and is in full force and effect without amendment or modification, or, alternatively, that this Lease and all amendments and

modifications have been properly executed and are in full force and effect, (v) the current annual Basic Rent, the current monthly installments of Basic Rent and the date on which Tenant's obligation to pay Basic Rent commenced, (vi) the current monthly installment of Additional Rent for Taxes and Landlord's Operating Expenses, (vii) the date to which Basic Rent and Additional Rent have been paid, (viii) the amount of the security deposit, if any, (ix) if applicable, that all work to be done to the Premises by Landlord has been completed in accordance with this Lease and has been accepted by Tenant, except as specifically provided in the estoppel certificate, (x) that no installment of Basic Rent or Additional Rent has been paid more than thirty (30) days in advance, except as specifically provided in the estoppel certificate, (xi) that Tenant is not in arrears in the payment of any Basic Rent or Additional Rent, except as specifically provided in the estoppel certificate, (xii) that, to the best of Tenant's knowledge, neither party to this Lease is in default in the keeping, observance or performance of any covenant, agreement, provision or condition contained in this Lease and no event has occurred which, with the giving of notice or the passage of time, or both, would result in a default by either party, except as specifically provided in the estoppel certificate, (xiii) that, to the best of Tenant's knowledge, Tenant has no existing defenses, offsets, liens, claims or credits against the Basic Rent or Additional Rent or against enforcement of this Lease by Landlord, except as specifically provided in the estoppel certificate, (xiv) that Tenant has not been granted any options or rights of first refusal to extend the Term, to lease additional space, to terminate this Lease before the Termination Date or to purchase the Premises, except as specifically provided in this Lease, (xv) that Tenant has not received any notice of violation of any Legal Requirement or Insurance Requirement relating to the Building or the Premises, except as specifically provided in the estoppel certificate, (xvi) that Tenant has not assigned this Lease or sublet all or any portion of the Premises, except as specifically provided in the estoppel certificate, (xvii) that no "hazardous substances" or "hazardous wastes" have been generated, manufactured, refined, transported, treated, stored, handled, disposed or spilled on or about the Premises, except as specifically provided in the estoppel certificate, and (xviii) such other matters as reasonably requested by Landlord. Tenant hereby acknowledges and agrees that such statement may be relied upon by any mortgagee, or any prospective purchaser, tenant, subtenant, mortgagee or assignee of any mortgage, of the Property or any part thereof.

15.2 Tenant's Failure to Execute Estoppel Certificate. If Tenant fails or otherwise refuses to execute an estoppel certificate in accordance with Section 15.1, then Landlord shall have the right to deliver to Tenant a notice in accordance with the terms of this Lease stating that Tenant has failed to timely deliver the estoppel certificate pursuant to Section 15.1, together with a fully completed estoppel certificate. If Tenant fails to deliver to Landlord an executed estoppel certificate satisfying the criteria set forth in Section 15.1 within five (5) business days after the delivery of such notice, then Tenant shall be deemed to be estopped from raising any claims which are contrary to the statements set forth in the estoppel certificate delivered by Landlord.

ARTICLE 16
ASSIGNMENT AND SUBLETTING

16.1 Prohibition. Except as otherwise expressly provided in this Article 16, Tenant shall not sell, assign, transfer, hypothecate, mortgage, encumber, grant concessions or licenses, sublet, or otherwise dispose of any interest in this Lease or the Premises, by operation of law or otherwise, without Landlord's prior written consent, which consent Landlord shall not unreasonably withhold or delay. Any consent granted by Landlord in any instance will not be construed to constitute a consent with respect to any other instance or request. If the Premises or any part thereof are sublet,

used, or occupied by anyone other than Tenant, or if this Lease is assigned by Tenant, Landlord will have the right to collect rent from the assignee, subtenant, user or occupant, but no such assignment, subletting, use, occupancy or collection will be deemed (i) a waiver of any of Landlord's rights or Tenant's obligations under this Article 16, (ii) the acceptance of such assignee, subtenant, user or occupant as tenant, or (iii) a release of Tenant from the performance of any its obligations under this Lease.

16.2 Tenant's Notice. If Tenant desires to sublet the Premises or assign this Lease, Tenant shall submit to Landlord a written notice ("*Tenant's Notice*") setting forth in reasonable detail:

- (a) the name and address of the proposed subtenant or assignee;
- (b) the terms and conditions of the proposed subletting or assignment (including the proposed commencement date of the sublease or the effective date of the assignment, which must be at least thirty (30) days after Tenant's Notice is delivered to Landlord);
- (c) the nature and character of the business of the proposed subtenant or assignee;
- (d) banking, financial, and other credit information relating to the proposed subtenant or assignee in reasonably sufficient detail to enable Landlord to determine the proposed subtenant's or assignee's financial responsibility; and
- (e) in the case of a subletting, complete plans and specifications for any work to be done in the Premises to be sublet.

16.3 Landlord's Response. Within thirty (30) days after Landlord's receipt of Tenant's Notice, Landlord shall notify Tenant whether Landlord (i) consents to the proposed sublet or assignment, or (ii) does not consent to the proposed sublet or assignment. Landlord will have the right to withhold its consent to the proposed sublease or assignment if (1) the proposed assignee's or subtenant's financial condition is not, in the reasonable judgment of Landlord, comparable to that of Tenant on the date this Lease was executed, (2) the quantity or location of the space proposed to be sublet or assigned is inappropriate in the reasonable judgment of Landlord, (3) the proposed sublease or assignment would be to an existing tenant, subtenant or other occupant of the Property (or to any subsidiary or affiliate of the foregoing), (4) the proposed sublease or assignment would be to any prospective tenant (or to a subsidiary or affiliate thereof) with whom Landlord has negotiated for the leasing of space in the Building or any other building owned by Landlord or an affiliate of Landlord during the six (6) month period prior to Landlord's receipt of Tenant's Notice, (5) the business of the proposed subtenant or assignee is not compatible with the type of occupancy of the Property, or such business will create increased use of the facilities of the Property, (6) the proposed sublease or assignment might adversely affect the quality or marketability of either the rentable area or the Property, or (7) the proposed subtenant or assignee will, in Landlord's reasonable judgment, demean the character of any building on the Property.

16.4 Requirements. In addition to the foregoing requirements,

- (a) no assignment or sublease will be permitted if, at the effective date of such assignment or sublease, Tenant is in default under this Lease;

(b) no assignment or sublease will be permitted unless Tenant agrees, at the time of the proposed assignment or sublease and in Tenant's Notice, to pay to Landlord, immediately upon receipt thereof, fifty percent (50%) of all Net Rental Proceeds;

(c) Tenant shall not advertise in any publication, flyer or electronic communication any sublease or assignment at a rate that is below the then market rate being charged by Landlord for space of like availability and quantity in the Building; and

(d) Tenant shall pay Landlord within ten (10) days after demand, as Additional Rent, all reasonable costs and expenses incurred or paid by Landlord in connection with any proposed assignment or subletting, including, without limitation, the costs of making investigations as to the acceptability of the proposed assignee or sublessee and any reasonable legal fees and expenses incurred in connection with the review of the proposed assignment or sublease and all of the documents and other information related thereto (which costs and expenses Tenant covenants and agrees to pay regardless of whether Landlord consents to the proposed assignment or sublease).

16.5 (a) Recapture. Prior to sending a Tenant's Notice pursuant to which Tenant proposes to assign this Lease, or sublease a portion of the Premises affecting, collectively with all other subleases then in effect, more than fifty percent (50%) of the rentable square footage of the Premises, Tenant shall give notice thereof to Landlord (a ***Pre-Market Notice***) and Landlord will have the right, exercisable by written notice (the ***Recapture Notice***) to Tenant within twenty (20) days after the Pre-Market Notice, to recapture the space described in Tenant's Pre-Market Notice (the ***Recapture Space***). The Recapture Notice will cancel and terminate this Lease with respect to the Recapture Space as of the date stated in Tenant's Notice for the commencement of the proposed assignment or sublease and Tenant shall surrender possession of the Recapture Space as of such date. Thereafter, the Basic Rent and Additional Rent will be equitably adjusted based upon the square footage of the Premises then remaining, after deducting the square footage attributable to the Recapture Space.

(b) Landlord's Exercise. If Landlord elects to exercise its recapture right and the Recapture Space is less than the entire Premises, then Landlord, at its sole expense, will have the right to make any alterations to the Premises required, in Landlord's reasonable judgment, to make such Recapture Space a self-contained rental unit. Landlord shall perform all such work, if any, with as little inconvenience to Tenant's business as is reasonably possible; provided, however, that (i) Landlord will not be required to perform such work after normal business hours or on weekends, and (ii) Landlord will not be deemed guilty of an eviction, partial eviction, constructive eviction or disturbance of Tenant's use or possession of the Premises on account of such work and will not be liable to Tenant on account of same.

16.6 Sublease Requirements. In addition to the foregoing requirements, each sublease must contain the following provisions:

(a) The sublease must be subject and subordinate to all of the terms and conditions of this Lease.

(b) At Landlord's option, if this Lease terminates prior to the expiration of the sublease, the subtenant must make full and complete attornment to Landlord for the balance of the

term of the sublease. Such attornment must be evidenced by an agreement in form and substance satisfactory to Landlord executed and delivered by subtenant within five (5) days after Landlord's request therefor.

(c) The term of the sublease must not extend beyond a date which is one day prior to the Termination Date.

(d) Without Landlord's prior consent, not to be unreasonably withheld or delayed in accordance with the provisions of this Article 16, the subtenant will not be permitted to further sublet all or any portion of the subleased space or to assign its sublease without Landlord's prior written consent.

(e) The subtenant must waive the provisions of any law that gives the subtenant any right to terminate the sublease or to surrender possession of the subleased if Landlord brings any proceedings to terminate this Lease.

16.7 Permitted Transfers. Notwithstanding anything to the contrary contained in this Article 16, any sublease or assignment to a Tenant Affiliate will not require Landlord's consent and will not be subject to Sections 16.1 (first sentence only), 16.2(d), 16.3, 16.4(b), 16.5 and 16.16, but all other provisions of this Article 16 will apply to such sublease or assignment. Tenant shall furnish Landlord with a copy of such sublease or assignment within five (5) days after execution thereof. "**Tenant Affiliate**" means any corporation or other entity controlled by, under common control with or which controls the original Tenant named in this Lease or in which original Tenant named in this Lease, directly or indirectly, has a fifty percent (50%) or greater voting or ownership interest, which Tenant Affiliate shall have a net worth no less than the greater of the net worth of Tenant on the date hereof and the net worth of Tenant on the date of the applicable assignment or sublease; provided, however, that in the event that Tenant provides a minimum of ten (10) business prior written notice to Landlord of a sublease or assignment to a Tenant Affiliate and the Guaranty attached hereto remains in full force and effect, the Tenant Affiliate net worth requirement shall be waived.

16.8 Events Constituting Assignment. Each of the following events will be deemed to be an assignment of this Lease and will require the prior written consent of Landlord in compliance with this Article 16 (including the delivery of a Tenant's Notice):

(a) any assignment or transfer of this Lease by operation of law;

(b) any hypothecation, pledge, or collateral assignment of this Lease;

(c) any involuntary assignment or transfer of this Lease in connection with bankruptcy, insolvency, receivership, or similar proceeding;

(d) any assignment, transfer, disposition, sale or acquisition of a controlling interest in Tenant to or by any person, entity, or group of related persons or affiliated entities, whether in a single transaction or in a series of related or unrelated transactions; provided, however, that in the event that Tenant provides a minimum of ten (10) business days prior written notice to Landlord of a sublease or assignment to such entity and the Guaranty attached hereto remains in full force and effect, the formal consent otherwise required by this Article 16 shall be waived; or

(e) any issuance of an interest or interests in Tenant (whether stock, partnership interests, or otherwise) to any person, entity, or group of related persons or affiliated entities, whether in a single transaction or in a series of related or unrelated transactions, which results in such person, entity, or group holding a controlling interest in Tenant. For purposes of the immediately foregoing, a “controlling interest” of Tenant means 25% or more of the aggregate issued and outstanding equitable interests (whether stock, partnership interests, membership interests or otherwise) of Tenant or the ability to control the management of the Tenant.

16.9 Assumption. It is a further condition to the effectiveness of any assignment otherwise complying with this Article 16 that the assignee execute, acknowledge, and deliver to Landlord an agreement in form and substance satisfactory to Landlord whereby the assignee assumes all obligations of Tenant under this Lease and agrees that the provisions of this Article 16 will continue to be binding upon it with respect to all future assignments and deemed assignments of this Lease.

16.10 Tenant Remains Liable. No assignment of this Lease or any sublease of all or any portion of the Premises will release or discharge Tenant from any liability under this Lease and Tenant will continue to remain primarily liable under this Lease.

16.11 Permits and Approvals. Tenant will be responsible for obtaining all required permits and approvals in connection with any assignment of this Lease or any subletting of the Premises. Tenant shall deliver copies of all such permits and approvals to Landlord prior to the commencement of any construction work, if construction work is to be done in connection with such sublease or assignment.

16.12 Deadline for Consummation of Assignment or Sublease. If Landlord consents to any proposed assignment or sublease and Tenant fails to consummate such assignment or sublease within ninety (90) days after Landlord gives such consent, Tenant will be required to again comply with all of the provisions this Article 16 before assigning this Lease or subletting any part of the Premises. Within ten (10) days after the execution of any sublease or assignment, Tenant shall deliver to Landlord a fully-executed copy of such sublease or assignment.

16.13 No Liability. Under no circumstances will Landlord be liable to Tenant for any failure or refusal to grant its consent to any proposed assignment or sublease. Tenant shall not claim any money damages by way of setoff, counterclaim or defense, based on any claim that Landlord unreasonably withheld its consent to any proposed sublease or assignment. Tenant’s sole and exclusive remedy will be an action for specific performance, injunction or declaratory judgment. In the event Tenant receives a final non-appealable judgment which rules that Landlord had acted unreasonably, then notwithstanding that it will not be entitled to damages hereunder, Landlord shall reimburse Tenant for its reasonable legal fees incurred in connection therewith.

16.14 Indemnification. If Landlord withholds its consent to any proposed assignment or sublease, Tenant shall defend, indemnify, and hold Landlord harmless from and against all liability, damages, costs, fees, expenses, penalties, and charges (including, but not limited to, reasonable attorneys’ fees and disbursements) arising out of any claims made by any brokers or other persons claiming a commission or similar compensation in connection with the proposed assignment or sublease.

16.15 (a) Bankruptcy. Notwithstanding anything to the contrary contained in this Lease,

if this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, all consideration payable in connection with such assignment shall be paid to Landlord and will be and remain the exclusive property of Landlord and will not constitute property of Tenant or of the estate of Tenant within the meaning of the Bankruptcy Code. All consideration constituting Landlord's property under the preceding sentence not paid to Landlord shall be held in trust for the benefit of Landlord and be promptly paid to or turned over to Landlord.

(b) Adequate Assurance. If Tenant proposes to assign this Lease pursuant to the provisions of the Bankruptcy Code to any person or entity who has made a bona fide offer to accept an assignment of this Lease on terms acceptable to Tenant, then Tenant shall deliver to Landlord written notice of such proposed assignment setting forth (i) the name and address of such person or entity, (ii) all of the terms and conditions of such offer, and (iii) the adequate assurance to be provided by Tenant to assure such person's or entity's future performance under this Lease, including, without limitation, the assurance referred to in Section 365(b)(3) of the Bankruptcy Code, or any such successor or substitute legislation or rule thereto, shall be given to Landlord by Tenant no later than twenty (20) days after receipt by Tenant, but in any event no later than ten (10) days prior to the date Tenant makes application to a court of competent jurisdiction for authority and approval to enter into such assignment and assumption. For the purposes of clause (iii) above, "adequate assurance" means the deposit of cash security in an amount equal to the Basic Rent and Additional Rent payable under this Lease for the next succeeding twelve (12) months (which annual Additional Rent shall be reasonably estimated by Landlord). Landlord will thereupon have the right, exercisable by written notice to Tenant given at any time prior to the effective date of the proposed assignment, to accept an assignment of this Lease upon the same terms and conditions and for the same consideration, if any, as the bona fide offer made by such entity or person for the assignment of this Lease. Any person or entity to which this Lease is assigned pursuant to the provisions of the Bankruptcy Code will be deemed without further act or deed to have assumed all of the obligations arising under this Lease on or after the date of such assignment. Any such assignee shall, upon demand, execute and deliver to Landlord an instrument confirming such assumption.

16.16 Landlord's Right to Negotiate. After Landlord recaptures the Recapture Space, Landlord will have the right to (i) negotiate directly with any proposed subtenant or assignee of Tenant, and (ii) enter into a direct lease with any proposed subtenant or assignee of Tenant for any space in the Building, including the space covered by the proposed sublease or assignment, on such terms and conditions as are mutually acceptable to Landlord and the proposed subtenant or assignee.

ARTICLE 17 CASUALTY

17.1 Notice. If any part of the Premises is damaged, Tenant shall promptly notify Landlord in writing of the extent of such damage.

17.2 Premises Not Untenantable. If the Premises are damaged, but no portion thereof is rendered untenantable, and this Lease is not terminated pursuant to Sections 17.4 or 17.5, Landlord shall, at its own expense, cause the Restoration to be completed as soon as reasonably practicable and the Basic Rent and Additional Rent will abate in accordance with the damage caused.

17.3 Premises Untenantable. If the Premises are damaged and rendered partially or wholly untenantable, and this Lease is not terminated pursuant to Section 17.4 or 17.5, Landlord shall, at its own expense, cause the Restoration to be completed as soon as reasonably practicable.

17.4 Termination. (a) If the Building is damaged and, in Landlord's sole judgment, the total cost of Restoration will equal or exceed thirty percent (30%) or more of the full insurable value of the Building, then Landlord will have the right to terminate this Lease by delivering a written termination notice to Tenant within sixty (60) days after the occurrence of such casualty. If Landlord exercises its right to terminate this Lease pursuant to this Section 17.4, all Basic Rent and Additional Rent will be prorated as of the date such casualty.

(b) If the Premises and/or the Building are damaged and, Restoration cannot be completed within two hundred seventy (270) days or if the Premises are damaged and rendered partially or wholly untenantable during the final year of the Term, Landlord and Tenant will each have the right to terminate this Lease by delivering a written termination notice to the other party within sixty (60) days after the occurrence of such casualty. If either Landlord or Tenant exercises its right to terminate this Lease pursuant to this Section 17.4, all Basic Rent and Additional Rent will be prorated as of the date of such casualty. Notwithstanding the foregoing, if Landlord terminates this Lease as a result of a casualty in the final year of the Term, Tenant will have the right to nullify such termination by exercising its renewal rights pursuant to Section 31.1.

17.5 Restoration. If the Net Award received by Landlord plus the amount of the Landlord's deductible is not adequate to complete Restoration or if the holder of any Underlying Encumbrance elects to retain the Net Award, Landlord will have the right to terminate this Lease by delivering a written termination notice to Tenant within sixty (60) days after the amount of such Net Award is ascertained or the date on which the holder of the Underlying Encumbrance notifies Landlord that it has elected to retain the Net Award. If Landlord exercises its right to terminate this Lease pursuant to this Section 17.5, all Basic Rent and Additional Rent will be prorated as of the date of such casualty. Landlord will have no Restoration obligation if (i) the damage to the Building results in the termination of any underlying ground lease, or (ii) such damage was caused, directly or indirectly by the act or negligence of Tenant or Tenant's Visitors.

ARTICLE 18 CONDEMNATION

18.1 Taking. Tenant hereby irrevocably assigns to Landlord any award or payment to which Tenant becomes entitled by reason of any Taking of all or any part of the Premises, except that Tenant will be entitled to any award or payment for the Taking of Tenant's trade fixtures or personal property or for relocation or moving expenses, provided the amount of the Net Award payable to Landlord with respect to the fee interest is not diminished. All amounts payable pursuant to any agreement with any condemning authority made in settlement of or under threat of any condemnation or other eminent domain proceeding will be deemed to be an award made in such proceeding. Tenant agrees that this Lease will control the rights of Landlord and Tenant with respect to any Net Award and any contrary provision of any present or future law is hereby waived.

18.2 Entire Premises. In the event of a Taking of the entire Premises, the Term will terminate as of the date when possession is taken by the condemning authority and all Basic Rent and Additional Rent will be prorated as of such date.

18.3 Portion of Premises. In the event of a Taking of thirty percent (30%) or more of the Premises, if Tenant determines in good faith that the Taking will have a permanent, material, adverse affect on Tenant's operations at the Premises, Tenant may, at any time either prior to or within sixty (60) days after the date the condemning authority takes possession of the applicable portion of the Premises, elect to terminate this Lease by delivering a written termination notice to Landlord. If Tenant fails to exercise such termination option, or if such option does not apply to a Taking, (i) Landlord shall, subject to any Excusable Delay and Section 18.4, cause Restoration to be completed as soon as reasonably practicable, but in no event later than ninety (90) days after the date the condemning authority takes possession of the applicable portion of the Premises, and (ii) the Basic Rent and Additional Rent thereafter payable will be equitably prorated based upon the square footage of the Building actually taken.

18.4 Restoration. If (a) the Net Award is inadequate to complete Restoration, or (b) in the case of a Taking of thirty percent (30%) or more of the Premises, Tenant has not elected to terminate this Lease pursuant to Section 18.3 hereof, then Landlord may elect either to complete such Restoration or terminate this Lease by delivering a written termination notice to Tenant within sixty (60) days after (i) the date the amount of the Net Award is ascertained, or (ii) the expiration of the sixty (60) day period during which Tenant may terminate this Lease pursuant to Section 18.3. If Landlord terminates this Lease pursuant to this Section 18.4, all Basic Rent and Additional Rent will be apportioned as of the date the condemning authority takes possession of the Premises. Landlord's obligation to perform Restoration is subject to the Net Award being made available to Landlord by any Lender or Master Landlord whose interest may be superior to Landlord.

ARTICLE 19 EVENTS OF DEFAULT

19.1 Events of Default. Any of the following occurrences, conditions or acts are an

"Event of Default" under this Lease:

(a) Tenant fails to pay any Basic Rent, Additional Rent or other amount payable by Tenant hereunder within five (5) days of the date such payment is due and remain uncured for a period of five (5) days following any written notice ("Rent Default Notice") to Tenant that payment is past due; provided, however, that no such Rent Default Notice shall be required, and Tenant shall be deemed to be in immediate default of any payment due hereunder if not made when due, if Landlord has previously delivered to Tenant any Rent Default Notice within three hundred sixty-five (365) days prior to any new Tenant default in payment of any Rent when due.

(b) Intentionally Omitted.

(c) Tenant or any guarantor of Tenant's obligations hereunder ("***Guarantor***") files a petition in bankruptcy pursuant to the Bankruptcy Code or under any similar federal or state law, or is adjudicated a bankrupt or becomes insolvent, or commits any act of bankruptcy as defined in any such law, or takes any action in furtherance of any of the foregoing.

(d) A petition or answer is filed proposing the adjudication of Tenant or any Guarantor as a bankrupt pursuant to the Bankruptcy Code or any similar federal or state law, and (i) Tenant or such Guarantor consents to the filing thereof, or (ii) such petition or answer is not discharged within sixty (60) days after the filing thereof.

(e) A receiver, trustee or liquidator (or other similar official) of Tenant or any Guarantor or of all or substantially all of its business or assets or of the estate or interest of Tenant in the Premises is appointed and not be discharged within sixty (60) days thereafter or if Tenant or such Guarantor consents to or acquiesces in such appointment.

(f) The estate or interest of Tenant in the Premises is levied upon or attached in any proceeding and such process is not vacated or discharged within sixty (60) days after such levy or attachment.

(g) Tenant uses or permits the use of the Premises for any purpose other than expressly specified in Section 8.1.

(h) Tenant fails to comply with any of the provisions of Article 11.

(i) Tenant fails to discharge any Lien within the time period set forth in

Article 12, which failure is not remedied within ten (10) business days following notice of default from Landlord.

(j) Tenant fails to maintain the insurance required by Article 14, or Tenant fails to deliver to Landlord the insurance certificates required by Article 14 within the time periods set forth in Section 14.1(c.) which failure is not remedied within ten (10) business days following notice of default from Landlord.

(k) Tenant fails to deliver to Landlord the estoppel certificate required by Article 15 within the time period set forth therein, which failure is not remedied within ten (10) business days following notice of default from Landlord.

(l) Tenant assigns this Lease or sublets all or any portion of the Premises without complying with all the provisions of Article 16.

(m) Tenant fails to deliver to Landlord the subordination agreement required by Section 23.1 within the time period set forth therein, which failure is not remedied within ten (10) business days following notice of default from Landlord.

(n) Tenant fails to comply with any Legal Requirement (including Environmental Law, Building Code or other legal compliance) or Insurance Requirement, or Tenant fails to provide an estoppel certificate requested by Landlord pursuant to the terms of this Lease, or to discharge a lien for which it or its contractor or agents is responsible and such failure continues for a period of ten (10) days after Landlord gives notice to Tenant specifying such default and demanding that the same be cured; provided, however, that Tenant shall be responsible for any fees, penalties, costs or expenses incurred with such delay in compliance.

(o) Tenant defaults in the observance or performance of any provision of this Lease other than those provisions contemplated by clauses (a) through (n) of this Section 19.1 and such default continues for thirty (30) days after Landlord gives notice to Tenant specifying such default and demanding that the same be cured; provided, however, if such failure cannot reasonably be cured within thirty (30) days, Tenant shall have such additional time as is reasonably necessary to cure such failure so long as Tenant commences its curative efforts within such thirty (30) day period and diligently prosecutes same to completion, such additional time not to exceed

ninety (90) days.

(p) Any Guarantor defaults under the terms and conditions of any guaranty delivered to Landlord and such default continues beyond any applicable cure periods contained therein, or if any of the representations and/or warranties made by any Guarantor are untrue or materially misleading as of the date of the guaranty is delivered to Landlord.

If the same default shall occur three (3) or more times in any consecutive twelve (12) month period, regardless if any such default is cured within the applicable notice and cure period, then there shall be deemed to be an Event of Default as of the fourth (4th) occurrence of such default, and Landlord shall have the right to exercise any remedies it may have at law or in equity or under this Lease.

Notwithstanding anything contained in this Section 19.1 to the contrary, in the event of an Emergency, each provision of this Section 19.1 regarding the time period within which to correct a non-monetary default will be deemed to be "as soon as possible" with diligent, continuous prosecution of corrective action. "**Emergency**" means a condition or potential condition that requires immediate action to (i) preserve the safety of persons or property, (ii) prevent the interruption or suspension of services deemed critical by Landlord to the operation of the Building, or (iii) avoid or correct a violation of any Legal Requirement.

ARTICLE 20 CONDITIONAL LIMITATIONS, REMEDIES

20.1 **Termination.** This Lease and the Term and estate hereby granted are subject to the limitation that, whenever an Event of Default has occurred and is continuing, Landlord will have the right, notwithstanding the fact that Landlord may have some other remedy hereunder or at law or in equity, to terminate this Lease on a date specified in a written termination notice delivered to Tenant, which date must be at least five (5) days after the date Tenant receives such termination notice. Upon the date specified in Landlord's termination notice, this Lease and the estate hereby granted will terminate with the same force and effect as if the date specified in Landlord's notice was the Termination Date.

20.2 **Remedies.** (a) Upon any termination of this Lease pursuant to this Article 20, or as required or permitted by law, Tenant shall immediately quit and surrender the Premises to Landlord, and Landlord may, enter upon, re-enter, possess and repossess the same, but only through summary proceedings if Tenant remains in possession of the Premises, and again have, repossess and enjoy the same as if this Lease had not been made, and in any such event Tenant and no person claiming through or under Tenant by virtue of any law or an order of any court will be entitled to possession or to remain in possession of the Premises but shall immediately quit and surrender the Premises.

(b) If Landlord terminates this Lease pursuant to this Article 20, Tenant will remain liable for (i) the sum of (x) all Basic Rent, Additional Rent and other amounts payable by Tenant hereunder until the date this Lease would have expired had such termination not occurred, and (y) all reasonable expenses incurred by Landlord in re-entering the Premises, repossessing the same, making good any default of Tenant, painting, altering or dividing the Premises, putting the same in proper repair, reletting the same (including any and all reasonable attorneys fees and disbursements and reasonable brokerage fees incurred in so doing), removing and storing any

property left in the Premises following such termination, and any and all reasonable expenses which Landlord may incur during the occupancy of any new tenant (other than expenses of a type that are Landlord's responsibility under the terms of this Lease); less (ii) the net proceeds of any reletting actually received by Landlord. Tenant agrees to pay to Landlord the difference between items (i) and (ii) above with respect to each month during the period that would have constituted the balance of the Term, at the end of such month. Any suit brought by Landlord to enforce collection of such difference for any one month will not prejudice Landlord's right to enforce the collection of any difference for any subsequent month. Tenant's liability under this Section 20.2(b) will survive the institution of summary proceedings and the issuance of any warrant thereunder.

(c) If Landlord terminates this Lease pursuant to Article 20, Landlord will have the right, to require Tenant to pay to Landlord, on demand, as liquidated and agreed final damages in lieu of Tenant's liability under Section 20.2(b), an amount equal to the difference between (i) the Basic Rent and Additional Rent, computed on the basis of the then current annual rate of Basic Rent and Additional Rent and all fixed and determinable increases in Basic Rent, which would have been payable from the date of such demand to the date when this Lease would have expired if it had not been terminated, and (ii) the then fair rental value of the Premises for the same period less the costs of reletting expenses, including the cost to paint, alter or divide the space, put the same in proper repair, reasonable attorneys' fees and disbursements, reasonable brokerage fees. Upon payment of such liquidated and agreed final damages, Tenant will be released from all further liability under this Lease with respect to the period after the date of such demand, except for those obligations that expressly survive the termination of this Lease. If, after the Event of Default giving rise to the termination of this Lease, but before presentation of proof of such liquidated damages, the Premises, or any part thereof, are relet by Landlord for a term of one year or more, the amount of rent reserved upon such reletting will be deemed to be the fair rental value for the part of the Premises relet during the term of such reletting.

20.3 Liquidated Damages. Nothing herein contained will limit or prejudice the right of Landlord, in any bankruptcy or insolvency proceeding, to prove for and obtain as liquidated damages by reason of such termination an amount equal to the maximum allowed by any bankruptcy or insolvency proceedings, or to prove for and obtain as liquidated damages by reason of such termination, an amount equal to the maximum allowed by any statute or rule of law whether such amount is greater or less than the excess referred to above.

20.4 Abandonment. If Tenant abandons the Premises, Landlord may, at its option and for so long as Landlord does not terminate Tenant's right to possession of the Premises, enforce all of its rights and remedies under this Lease, including the right to recover all Basic Rent, Additional Rent and other payments as they become due hereunder. Additionally, Landlord will be entitled to recover from Tenant all costs of maintenance and preservation of the Premises, and all costs, including attorneys' and receiver's fees, incurred in connection with the appointment of or performance by a receiver to protect the Premises and Landlord's interest under this Lease.

20.5 Indemnity Survives. Nothing herein will be deemed to affect Landlord's indemnification rights under Section 14.3.

20.6 Legal Fees. Tenant hereby agrees to pay, as Additional Rent, all reasonable attorneys' fees and disbursements (and all other costs or expenses of legal proceedings) which Landlord may incur or pay out by reason of, or in connection with: Any legal costs incurred arising

out of or in connection with any Tenant request under the Lease or any action, accommodation or activity undertaken by Landlord on behalf of Tenant arising out of or in connection with Tenant's tenancy; or any correspondence, action or proceeding relating to any default by Tenant in the performance of the terms, covenants and/or provisions of this Lease, or the termination of this Lease, based upon Tenant's failure to perform any of the terms, provisions covenants or conditions of this Lease, or arising out of an action brought or threatened by Tenant against Landlord in which Tenant is not awarded a final non-appealable judgment against Landlord, or any legal costs arising out of an action or proceeding brought by another tenant or tenants in the Building naming Landlord as a party and arising out of or in connection with Tenant or the Premises, or any legal costs arising out of Tenant's failure to pay rent in a timely manner or other default hereunder, whether or not an action or proceeding is commenced, and specifically including the issuance and service of a rent demand notice or notice to cure a default by Tenant under the terms, provisions covenants or conditions of this Lease. Tenant's obligations under this Paragraph shall survive the expiration of the Term hereof or any other termination of this Lease. This Paragraph is intended to supplement, and not to limit, other provisions of this Lease pertaining to indemnities and/or attorneys' fees. It is mutually agreed by and between Landlord and Tenant that the respective parties hereto shall, and they hereby do, waive trial by jury in any action proceeding or counterclaim brought by either of the parties hereto against the other on any matters whatsoever arising out of, or in any way connected with, this lease, the relationship of Landlord and Tenant, Tenant's use of, or occupancy of, the Premises, and any emergency statutory or any other statutory remedy. It is further mutually agreed that in the event Landlord commences any proceeding or action for possession, including a summary proceeding for possession of the Premises, Tenant will not interpose any counterclaim of whatever nature or description in any such proceeding, except for statutory mandatory counterclaims. Without limiting the generality of the foregoing, whenever Tenant requests Landlord to take any action not required of it hereunder or give any consent required or permitted under this Lease, Tenant will reimburse Landlord for Landlord's reasonable, out-of-pocket costs payable to third parties and incurred by Landlord in reviewing the proposed action or consent, including reasonable attorneys', engineers' or architects' fees, within thirty (30) days after Landlord's delivery to Tenant of a statement of such costs. Tenant will be obligated to make such reimbursement without regard to whether Landlord consents to any such proposed action.

20.7 Landlord's Cure Rights. If Tenant is in default of any of its obligations under this Lease, Landlord may, without waiving such default, perform such obligations for the account and at the expense of Tenant (a) immediately and without notice in the case of Emergency or with respect to the imposition of any Lien against all or any portion of the Premises, and (b) in any other case, if such default continues after thirty (30) days from the date Landlord delivers a written notice to Tenant stating Landlord's intention to perform such obligation for the account and at the expense of Tenant. Upon Landlord's demand, Tenant shall pay to Landlord all costs and expenses incurred by Landlord in performing any obligations of Tenant under this Lease.

20.8 Remedies Not Exclusive; No Waiver. Except as otherwise provided in this Article 20, no remedy or election hereunder will be deemed exclusive but will, wherever possible, be cumulative with all other remedies herein provided or permitted at law or in equity. No provision of this Lease will be deemed to have been waived by Landlord unless a written waiver from Landlord has first been obtained and, without limiting the generality of the foregoing, no acceptance of Basic Rent or Additional Rent subsequent to any default and no condoning, excusing or overlooking by Landlord on previous occasions of any default or any earlier written waiver will

be taken to operate as a waiver by the Landlord or in any way defeat or otherwise affect the rights and remedies of the Landlord hereunder. Both parties agree to use reasonable efforts to mitigate their damages and neither party shall be liable to the other for consequential damages, except that Tenant shall be responsible for consequential damages in the event of a Tenant holding over, as referenced in Section 24.3.

ARTICLE 21
ACCESS; RESERVATION OF EASEMENTS

21.1 Landlord's Access. (a) Landlord and Landlord's agents and representatives and parties designated by Landlord as having an interest in the Property will have the right, at all reasonable hours, to enter the Premises to: (1) examine the Premises; (2) make repairs and alterations that, in Landlord's sole judgment, are necessary for the safety and preservation of the Premises and the Building; (3) erect, maintain, repair or replace wires, cables, ducts, pipes, conduits, vents or plumbing equipment; (4) show the Premises to prospective new tenants during the last eighteen (18) months of the Term; and (5) show the Premises to any mortgagees or prospective purchasers of the Premises. Landlord shall give Tenant three (3) business days prior written notice before making any non-emergency entry onto the Premises.

(b) Landlord will have the right, at any time, to (1) change the arrangement and/or location of public entrances, passageways, doors, doorways, corridors, elevators, stairs, toilets or any other public parts of the Building; (2) make repairs, alterations or improvements to any portion of the Building; (3) designate portions of the Building and the Property as Common Areas and change such designations from time to time in Landlord's sole discretion, (4) change the name and/or number of the Building; and (5) change lawns, sidewalks, driveways, parking areas and/or streets adjacent to or around the Building, but shall not do any of the foregoing in a manner materially adversely affecting Tenant's rights to access and parking.

21.2 Emergency Access. Landlord may enter upon the Premises at any time in case of emergency without prior notice to Tenant.

21.3 No Liability. Landlord, in exercising any of its rights under this Article 21, will not be deemed guilty of an eviction, partial eviction, constructive eviction or disturbance of Tenant's use or possession of the Premises and will not be liable to Tenant for same.

21.4 Minimum Inconvenience. All work performed by Landlord in the Premises pursuant to this Article 21 shall be performed with as little inconvenience to Tenant's business as is reasonably possible.

21.5 Locks. Tenant shall not change any locks or install any additional locks on doors entering the Premises without immediately giving to Landlord a key to such lock. If, in an emergency, Landlord is unable to gain entry to the Premises by the unlocking the entry doors thereto, Landlord will have the right to forcibly enter the Premises and, in such event, Landlord will have no liability to Tenant for any damage caused thereby. Tenant will be solely responsible for any damage caused by Tenant's failure to give Landlord a key to any lock installed by Tenant.

21.6 Reservation of Rights. Without limiting the generality of the foregoing, Landlord reserves the right to make changes, alterations, additions, improvements, repairs and replacements to (i) those portions of the Premises that Landlord is obligated to maintain and repair pursuant to

Section 7.2, (ii) the Building and the Property, and (iii) fixtures and equipment in the Building, in each case as Landlord reasonably deems necessary to comply with any applicable Legal Requirements and/or to correct any unsafe condition; provided, however, that Landlord shall not unreasonably obstruct access to the Premises or unreasonably interfere with Tenant's use of the Premises or Common Areas. Nothing contained in this Article 21 will be deemed to relieve Tenant of any obligation to make any repair, replacement or improvement or comply with any applicable Legal Requirements.

ARTICLE 22
ACCORD AND SATISFACTION

No payment by Tenant or receipt by Landlord of a lesser amount than the rent herein stipulated will be deemed to be other than on account of the earliest stipulated rent. No endorsement or statement on any check or any letter accompanying any payment of rent will be deemed an accord and satisfaction and Landlord may accept any such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy provided in this Lease.

ARTICLE 23
SUBORDINATION

23.1 Subordination. (a) This Lease and the term and estate hereby granted are subject and subordinate to the lien of each mortgage which now or at any time hereafter affects all or any portion of the Premises or Landlord's interest therein and to all ground or master leases which now or at any time hereafter affect all or any portion of the Property (any such mortgage or ground lease being referred to herein as an "**Underlying Encumbrance**"); provided that Tenant receives from the holder of such Underlying Encumbrance a Non-Disturbance Agreement referred to in Section 23.1(b). From time to time, upon not less than ten (10) days' prior notice by Landlord, Tenant shall execute, acknowledge and deliver to Landlord any and all reasonable instruments required by the holder of any Underlying Encumbrance that may be necessary or proper to effect such subordination, or to confirm or evidence the same, provided that Tenant receives a Non-Disturbance Agreement referred to in Section 23.1(b). Such instrument shall confirm such holder's agreement not to disturb or otherwise diminish Tenant's interests or rights in and under this Lease, as provided in this Section 23.1.

(b) Landlord shall deliver to Tenant a Non-Disturbance Agreement from the holder of the existing Underlying Encumbrance on or by December 1, 2022, in the form described below (a "**Non-Disturbance Agreement**"). The Non-Disturbance Agreement shall be in the form substantially attached as **Schedule F**. In the event Tenant does not receive the Non-Disturbance Agreement in the form attached hereto as **Schedule F** (with the two Tenant comments thereon to be resolved to the mutual reasonable satisfaction of the parties) by December 1, 2022, then provided that: (i) Tenant has theretofore acted good faith and with commercially reasonable diligent efforts in working with lender to obtain the Non-Disturbance Agreement, and (ii) Landlord has been kept involved with such efforts and negotiations, then Tenant shall have the right on ten (10) business days notice to cure, to terminate this Lease, in which event the first month's rent paid by Tenant to Landlord shall be returned and neither party shall have any further liability to the other.

Landlord represents that it holds fee title to the Property and the only Underlying Encumbrance affecting it is that held by Lender as defined in *Schedule F*.

23.2 Conveyance by Landlord. If all or any portion of Landlord's estate in the Property is sold or conveyed to any person, firm or corporation upon the exercise of any remedy provided in any mortgage or by law or equity, such person, firm or corporation (a) will not be liable for any act or omission of Landlord under this Lease occurring prior to such sale or conveyance, (b) will not be subject to any offset, defense or counterclaim accruing prior to such sale or conveyance, (c) will not be bound by any payment prior to such sale or conveyance of Basic Rent, Additional Rent or other payments for more than one month in advance (except for any unapplied security deposit), and (d) will be liable for the keeping, observance and performance of the other covenants, agreements, terms, provisions and conditions to be kept, observed and performed by Landlord under this Lease only during the period such person, firm or corporation holds such interest.

23.3 Cure Rights. In the event of a casualty or an act or omission by Landlord that gives Tenant the right to terminate this Lease or to claim a partial or total eviction, Tenant shall not exercise any such right or make any such claim until (i) Tenant has delivered written notice of such casualty, act or omission to the holder of each Underlying Encumbrance, and (ii) the holder of each Underlying Encumbrance has had a reasonable opportunity to, with reasonable diligence, remedy such casualty act or omission. Landlord shall provide Tenant with the name and current address of the holder of each Underlying Encumbrance.

23.4 Reasonable Modifications. If, in connection with obtaining financing for the Property or refinancing any mortgage encumbering the Property, the prospective Lender or Master Landlord requests reasonable modifications to this Lease as a condition precedent to such financing or refinancing, then Tenant shall not unreasonably withhold, delay or condition its consent to such modifications, provided that such modifications do not (i) increase the Basic Rent or Additional Rent, (ii) increase the security deposit, (iii) reduce the Term, (iv) affect the termination, extension or expansion options, (v) materially and adversely affect the leasehold interest created by this Lease, or (vi) materially and adversely affect the manner in which Tenant's operations are conducted at the Premises.

ARTICLE 24 TENANT'S REMOVAL

24.1 Surrender. Upon the expiration or earlier termination of this Lease, Tenant shall surrender the Premises to Landlord broom clean in the condition required to be maintained under Article 7. Any personal property remaining in the Premises after the expiration or earlier termination of this Lease will be deemed to have been abandoned by Tenant and Landlord will have the right to retain such property as its own or dispose of such property at Tenant's sole cost and expense.

24.2 Landlord's Early Entry. If, at any time during the last six (6) months of the Term, Tenant is not occupying any part of the Premises in connection with the conduct of its business, Landlord may elect, at its option, to enter such part of the Premises to alter and/or redecorate the same. Tenant hereby irrevocably grants to Landlord a license to enter such part of the Premises to perform such alterations and/or redecorations. Landlord's exercise of its rights under this Section 24.2 will not relieve Tenant from any of its obligation under this Lease.

24.3 Holding Over. If Tenant, or any assignee or subtenant of Tenant, holds over possession of the Premises beyond the expiration or earlier termination of this Lease, such holding over will not be deemed to extend the Term or renew this Lease but such holding over will continue upon the terms, covenants and conditions of this Lease except that the charge for use and occupancy of the Premises for each calendar month or portion thereof that Tenant or such assignee or subtenant holds over will be a liquidated sum equal to two (2) times the Basic Rent and Additional Rent payable for the month immediately preceding the expiration or earlier termination of this Lease, except for the first thirty (30) day period holding over in which the liquidated sum shall be equal to one and one-half (1.5) times the Basic Rent and Additional Rent payable for such month. The parties recognize and agree that the damage to Landlord resulting from any failure by Tenant or any assignee or subtenant of Tenant to timely surrender possession of the Premises will exceed the amount of the monthly Basic Rent and Additional Rent and will be impossible to accurately measure. If the Premises are not surrendered upon the expiration or earlier termination of this Lease, Tenant shall indemnify, defend and hold harmless Landlord against any and all losses and liabilities resulting therefrom, including, without limitation, any claims made by any succeeding tenant founded upon such delay. Nothing contained in this Lease will be construed as a consent by Landlord to the occupancy or possession of the Premises beyond the expiration or earlier termination of this Lease. Tenant shall, at its sole cost and expense, take all actions required to remove any assignee or subtenant of Tenant, or other party claiming rights to the Premises under or through Tenant upon the expiration or earlier termination of the Term. The provisions of this Article 24 will survive the expiration or earlier termination of this Lease.

ARTICLE 25
BROKER

Tenant represents and warrants to Landlord that Tenant has not had any dealings or entered into any agreements with any person, entity, realtor, broker, agent or finder in connection with the negotiation of this Lease other than the Brokers. Tenant shall indemnify and hold harmless Landlord from and against any loss, claim, damage, expense (including costs of suit and reasonable attorneys' fees) or liability for any compensation, commission or charges claimed by any other realtor, broker, agent or finder claiming to have dealt with Tenant in connection with this Lease. The provisions of this Article 25 will survive the expiration or sooner termination of this Lease.

ARTICLE
26 NOTICES

Every notice or other communication required or contemplated by this Lease shall be in writing and sent by: (i) certified or registered mail, postage prepaid, return receipt requested, or (ii) nationally recognized overnight courier, such as Federal Express or UPS, in each case addressed to the intended recipient at the address set forth in the Basic Lease Provisions or at such other address as the intended recipient previously designated by written notice to the other party. Notwithstanding the foregoing, all invoices, statements and Building Communications may be served by ordinary mail or otherwise delivered to Tenant at the Premises. "**Building Communications**" means any notice relating to the operation or maintenance of the Building that is given to substantially all of the tenants of the Building, including, without limitation amendments to the Building Rules and Regulations. Any notice delivered by the attorney for Landlord or Tenant shall be deemed to be delivered by Tenant or Landlord, as the case may be.

ARTICLE 27
NONRECOURSE

Tenant will have no recourse against any individual or entity comprising Landlord, including, without limitation, the members, partners, directors, trustees, and officers of Landlord, in connection with the occupancy and/or use of the Premises by Tenant and Tenant's Visitors; rather, Tenant agrees to look solely to Landlord's interest and estate in the Building for the satisfaction of Tenant's remedies arising out of or related to this Lease.

ARTICLE 28
SECURITY DEPOSIT

Intentionally Omitted.

ARTICLE 29
RENEWAL OPTION

- A. Provided that no Event of Default then exists under this Lease, Landlord agrees to grant Tenant a one-time non-recurring option ("Option") to renew the Lease for the period commencing on the first day of the one hundred twenty fourth (124th) full calendar month after the Commencement Date (the "Option Term Commencement Date") for an additional five (5) year term (the "Option Term") through the last day of the sixtieth (60th) full calendar month thereafter (the "Option Term Expiration Date"), upon the same terms and conditions contained in the Lease, except that: (i) the annual Basic Rent for the Option Term (the "Renewal Rent") shall be one hundred percent (100%) percent of the fair market value for the Option Term, to be established as of the time period which is six (6) months prior to the Option Term Commencement Date (the "Market Value Rent"), which Market Value Rent shall in no event be less than the Basic Rent due and payable on the Expiration Date. Upon Tenant's exercise of the Option, the Option Term shall be deemed a portion of the term of the Lease.
- B. The Option granted hereby must be exercised by Tenant by delivery of a written notice ("Option Notice") to Landlord on or by a date which is twelve (12) months prior the Expiration Date, TIME BEING OF THE ESSENCE WITH RESPECT TO TENANT'S DELIVERY OF SUCH OPTION NOTICE. If such notice is not received by such date, the Option shall be deemed null and void and of no further force and effect.
- C. The parties shall have fifteen (15) Business Days after Landlord receives the Option Notice in which to agree on the Renewal Rent. If the parties agree on the Renewal Rent during the aforesaid period, they shall immediately execute an amendment to the Lease stating the Renewal Rent.
- D. If the parties are unable to agree on the Renewal Rent within the aforesaid period, then within thirty (30) days after the expiration of that period, each party, at its cost and by giving notice to the other party, shall appoint a real estate appraiser with at least ten (10) years full time office building leasing appraisal experience in the Piscataway, New Jersey area, in order to finally establish the Renewal Rent for the Option Term in the manner hereinbelow set forth. If the two appraisers are appointed by the parties as stated in this paragraph, they shall meet promptly and attempt to set the Renewal Rent for the Option Term. If they are unable to agree within thirty (30) days after the second appraiser has been appointed, they shall attempt to elect a third appraiser meeting the qualifications stated in this paragraph within thirty (30) days after the last day the two appraisers are given to set

the Renewal Rent. If they are unable to agree on a third appraiser, either of the parties to the Lease by giving thirty (30) days notice to the other party, they shall apply to the American Arbitration Association for the selection of a third appraiser who meets the qualifications stated in this paragraph. Each of the parties shall bear one half of the cost of appointing the third appraiser and of paying the third appraiser's fee. The third appraiser, however selected, shall be a person who has not previously acted in any capacity for either party.

- E. Within thirty (30) days after the selection of the third appraiser, a majority of the appraisers shall set the Renewal Rent for the Option Term. If a majority of the appraisers are unable to set the Renewal Rent within the stipulated period of time, the three appraisals shall be added together and their total divided by three; the resulting quotient shall be the Renewal Rent for the Demised Premises during the Option Term, and all other Lease provisions shall remain unmodified and in full force and effect.
- F. After the Renewal Rent for the Option Term has been set, the appraisers shall immediately notify the parties and such determination shall be final and binding on the parties hereto.

ARTICLE 30
MISCELLANEOUS

30.1 Miscellaneous. This Lease may not be amended except by an instrument in writing signed on behalf of both parties. If any provision of this Lease is held unenforceable by a court of competent jurisdiction, all other provisions of this Lease will remain effective. If any provision of this Lease is held unenforceable only in part or degree, it will remain effective to the extent not held unenforceable. This Lease will bind and benefit both parties' permitted successors and assigns. The table of contents and the article and section headings contained in this Lease are for convenience of reference only and will not limit or otherwise affect the meaning of any provision of this Lease. This Lease may be executed in counterparts, each of which is an original and all of which together constitute one and the same instrument.

30.2 No Surrender. No act or thing done by Landlord or Landlord's agents during the Term will be deemed an acceptance of a surrender of the Premises, and no agreement to accept such surrender will be valid unless in writing and signed by Landlord. No employee of Landlord or Landlord's agents will have any authority to accept the keys to the Premises prior to the Termination Date and the delivery of keys to any employee of Landlord or Landlord's agents will not operate as an acceptance of a termination of this Lease or an acceptance of a surrender of the Premises.

30.3 Statements and Bills. Landlord's failure to prepare and deliver to Tenant any statement, notice or bill will in no way cause Landlord to forfeit or surrender its rights to collect any amounts due and owing to Landlord.

30.4 Tenant's Financials. Tenant and Guarantor shall keep proper books and records of account in accordance with generally accepted accounting principles consistently applied. Tenant and Guarantor shall deliver to Landlord, upon Landlord's written request, a balance sheet and statement of income and expense for the then current year. All financial statements must include a complete comparison with the figures for the preceding year and must be certified by (a) the chief financial officer of Tenant, or (b) if prepared by an independent, reputable certified public

accounting firm, by such accounting firm. Notwithstanding anything hereinabove to the contrary, provided for and so long as Guarantor financials are available to the public and readily accessible, Tenant and Guarantor shall not be required to independently provide financials under the terms of this paragraph. Notwithstanding the foregoing, to the extent Tenant does not have independent financials prepared, the terms of the foregoing paragraph shall apply only to the Guarantor hereunder.

30.5 No Offer. The submission of this Lease to Tenant for examination does not constitute an offer to lease the Premises on the terms set forth herein. This Lease will become effective only upon the execution and delivery of the Lease by Landlord and Tenant.

30.6 Access. Subject to all applicable Legal Requirements and to Landlord's rules and regulations, Tenant shall be permitted keyed access to the Premises twenty-four (24) hours per day, seven (7) days per week. Tenant shall be permitted to install and maintain, at its sole cost and expense, security card key locks and readers on all entry and exit doors to the Premises.

30.7 Rules and Regulations. Tenant, for itself and for Tenant's Visitors, covenants to comply with the Rules and Regulations attached hereto as *Schedule D*. Landlord will have the right, in its commercially reasonable judgment, to amend the Rules and Regulations from time to time, and Tenant, on behalf of itself and Tenant's Visitors, agrees to comply with such amendments after deliveries of copies thereof to Tenant or the posting of copies thereof in a prominent place in the Building. In case of any conflict or inconsistency between the provisions of this Lease and any Rules and Regulations, the provisions of this Lease shall control.

30.8 Signage. Tenant shall have the non-exclusive right to have signage on or near the entrances to the Premises ("*Tenant's Signage*"); provided that, (i) the location, size, materials, design and all other specifications of Tenant's Signage will be subject to Landlord's prior written consent, which consent shall not be unreasonably withheld or delayed; (ii) the method of attaching Tenant's Signage, shall be subject to Landlord's prior written consent, and (iii) Tenant's Signage shall comply with all applicable Legal Requirements. Tenant shall be responsible for all costs incurred in connection with the design, construction, installation, maintenance and repair, compliance with laws, and removal of Tenant's Signage. Tenant shall, at Tenant's sole cost and expense, remove Tenant's Signage promptly following the expiration or earlier termination of this Lease and shall restore the area of the Building or the Land to the condition it was in immediately prior to the installation of such Tenant's Signage. Tenant shall bear all costs and expenses of any repairs made necessary by the installation, maintenance or removal of Tenant's Signage.

30.9 Authority. Tenant represents and warrants to Landlord: (i) the execution and delivery of, the consummation of the transactions contemplated by and the performance of all its obligations under, this Lease by Tenant have been duly and validly authorized by its general partners, to the extent required by its partnership agreement and applicable law, if Tenant is a partnership or, if Tenant is a limited liability company, by its manager, representative(s) or members to the extent required by its operating agreement and applicable law or, if Tenant is a corporation, by its board of directors, if necessary, and by its stockholders, if necessary, at meetings duly called and held on proper notice for that purpose at which there were respective quorums present and voting throughout; (ii) no other approval, partnership, corporate, governmental or otherwise, is required to authorize any of the foregoing or to give effect to Tenant's execution and delivery of this Lease; and (iii) the individual (or individuals) who executes and delivers this Lease

on behalf of Tenant is authorized to do so.

30.10 Liability of Landlord. The Term "**Landlord**" as used in this Lease, so far as the covenants and agreements on the part of Landlord are concerned, shall be limited to mean and include only the owner (or lessee, as applicable) or Mortgagee(s) in possession at the time in question of the landlord's interest in this Lease. Landlord may sell its fee ownership or leasehold interest in the Building or the Property, and/or transfer or assign its rights under this Lease. In the event of any sale of such interest or transfer of such rights and upon the assumption, in writing, of the obligations of Landlord under this Lease by such assignee or transferee, Landlord herein named (and in case of any subsequent transfer, the then assignor) shall be automatically freed and relieved from and after the date of such transfer of all liability in respect of the performance of any of Landlord's covenants and agreements thereafter accruing, and such transferee shall thereafter be automatically bound by all of such covenants and agreements, subject, however, to the terms of this Lease; it being intended that Landlord's covenants and agreements shall be binding on Landlord, its successors and assigns, only during and in respect of their successive periods of such ownership).

ARTICLE 31
GUARANTY

In material consideration for Landlord's agreement to enter into this Lease, Tenant's ultimate parent entity is simultaneously herewith executing and delivering the Guaranty attached hereto as **Schedule E**. In connection therewith, Tenant represents, warrants and covenants that the stock of Tenant's ultimate parent entity is listed on NASDAQ.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have executed this Lease as of the date first above written.

Landlord:

KINGSBRIDGE 2005 LLC

By: _____
Name:
Title:

AUDICODES, INC.

By: _____
Name:
Title:

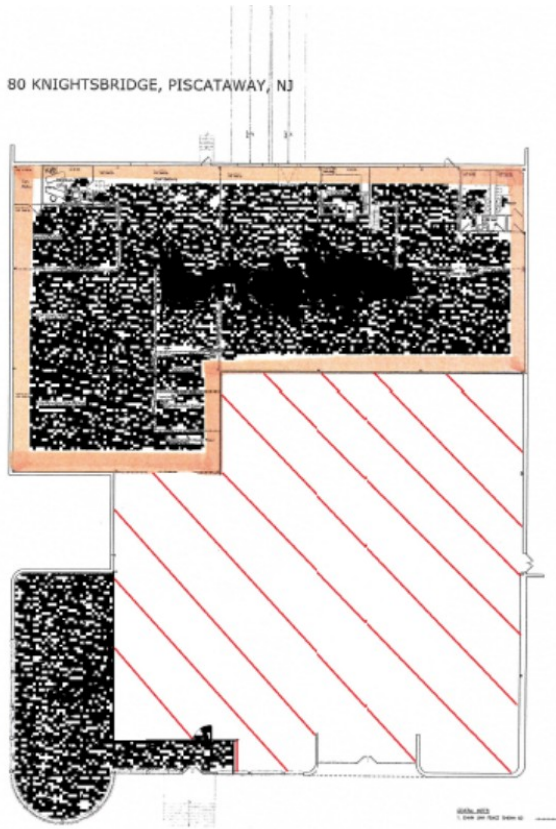
SCHEDULE A

PREMISES

HATCHED

BELOW

80 KNIGHTSBRIDGE, PISCATAWAY, NJ



SCHEDULE B

CONFIRMATION OF COMMENCEMENT AGREEMENT

This **CONFIRMATION AGREEMENT** (this "*Agreement*") is dated _____, 20 and is between **KINGSBRIDGE 2005 LLC**, ("*Landlord*"), and **AUDIOCODES, INC.** ("*Tenant*").

WITNESSETH

WHEREAS, Landlord and Tenant entered into that certain Lease Agreement dated May __, 2022 (the "*Lease*") covering certain premises in the building located at 80 Kingsbridge Road, Piscataway, New Jersey 08854, and

WHEREAS, Landlord and Tenant wish to set forth their agreements as to the commencement of the term of the Lease:

NOW THEREFORE, in consideration of the foregoing, the parties agree as follows:

1. Capitalized terms used herein but not defined have the meanings ascribed to them in the Lease.
2. The Commencement Date is _____, 20
3. The Rent Commencement Date is _____, 20 .
4. The Termination Date is _____, 20 .

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Very truly yours,

KINGSBRIDGE 2005 LLC

By: _____

Name:

Title:

SCHEDULE C
LANDLORD'S WORK

The Landlord's Work shall be limited to the performance of the work specifically set forth below, and shall be performed in a Building-standard manner and using Building-standard materials and finishes, and otherwise in accordance with Lease terms. Landlord shall make its own commercially reasonable determination as to the Landlord's Work.

Landlord's Work:

The Premises will be delivered in "as-is" condition inclusive of Landlord's already completed white-box work. Landlord's Work shall consist exclusively of installing a loading dock and two (2) tailboard loading doors at such time and in such manner (including location) as approved by the Township of Piscataway and causing such dock and doors to be fully operational. Tenant will be responsible for 25% ("Tenant's Share") of all costs (including all hard and soft costs relating to approval or otherwise) of the tailboard loading doors, provided that payment of Tenant's Share to Landlord must be made within ten (10) business days after the Commencement Date. Tenant's Share shall be deemed Additional Rent under the terms of the Lease.

LANDLORD'S CONTRIBUTION

After the Commencement Date, Landlord shall contribute up to \$117,648.00 ("Landlord's Contribution") towards the Tenant's initial work in the Premises ("Tenant's Initial Work"), with Tenant's Initial Work to be performed by Tenant in accordance with applicable Lease terms (including without limitation Article 7). Landlord shall reimburse Tenant for Tenant's Initial Work performed by Tenant up to the amount of Landlord's Contribution, in accordance with the terms hereof, provided that Tenant supplies Landlord with an appropriate requisition (the "Requisition") satisfactory to Landlord, which shall include at a minimum bills, receipts, lien waivers and releases in form reasonably satisfactory to Landlord from contractors, subcontractors, vendors and materialmen; and Tenant's certification of completion of Tenant's Initial Work. If Tenant is not in default under this Lease beyond any applicable grace and cure period and provided that all documents and information required by Landlord have been provided, within thirty (30) days after Landlord receives a complete Requisition upon the completion of Tenant's Initial Work, Landlord shall pay Tenant up to the amount of Landlord's Contribution. Tenant shall endeavor to complete Tenant's Initial Work within six (6) months of the Commencement Date. Any remaining portion of Landlord's Contribution not disbursed to Tenant after submission of a final Requisition in accordance with the express provisions hereof shall be and forever remain the property of Landlord.

SCHEDULE D
RULES AND REGULATIONS

In the event of any conflict or inconsistency between these rules and regulations and the attached Lease, the provisions of the Lease shall govern. All such rules shall be consistently and uniformly enforced with all tenants.

1. The rights of tenants in the entrances, corridors, elevators and escalators of the Building are limited to ingress to and egress from the tenants' premises for the tenants and their employees, licensees and invitees, and no tenant shall use, or permit the use of, the entrances, corridors, escalators or elevators for any other purpose. Fire exits and stairways are for emergency use only, and they shall not be used for any other purposes by the tenants, their employees, licensees or invitees. No tenant shall encumber or obstruct, or permit the encumbrance or obstruction of any of the sidewalks, plazas, entrances, corridors, escalators, elevators, fire exits or stairways of the Building. Landlord reserves the right to control and operate the public portions of the Building and the Property and the public facilities, as well as facilities furnished for the common use of the tenants, in such manner as Landlord, in its sole and absolute discretion, deems best for the benefit of the tenants generally.

2. Landlord may refuse admission to the Building outside of ordinary business hours to any person not known to the watchman in charge, if any, or not having a pass issued by Landlord or not properly identified, and may require all persons admitted to or leaving the Building outside of ordinary business hours to register. Any person whose presence in the Building or the Property at any time shall, in the sole judgement of Landlord, be prejudicial to the safety, character, reputation and interests of the Building, the Property or its tenants may be denied access to the Building or the Property or may be ejected therefrom. In case of invasion, riot, public excitement or other commotion, Landlord may prevent all access to the Building and the Property during the continuance of the same, by closing the doors or otherwise, for the safety of the tenants and protection of property at the Property. Landlord may require any person leaving the Building with any package or other object to exhibit a pass from the tenant from whose premises the package or object is being removed, but the establishment and enforcement of such requirement shall not impose any responsibility on Landlord for the protection of any tenant against the removal of property from the premises of the tenant. Landlord shall, in no way, be liable to any tenant for damages or loss arising from the premises of any tenant of the Building or the Property under the provisions of this rule.

3. No awnings or other protections over or around the windows shall be installed by any tenant, and only such window blinds as are supplied or permitted by Landlord shall be used in a tenant's premises.

4. There shall not be used in any space, or in the public halls or public portions of the Building, either by any tenant or by deliverymen, jobbers or others, in the delivery or receipt of mail, parcels, merchandise, any hand trucks, except those equipped with rubber tires and side guards which have been approved by Landlord. Landlord may refuse admission to the Building

to any person not complying with this requirement. No hand trucks will be allowed in passenger elevators.

5. All entrance doors in each tenant's premises shall be locked when the tenant's premises are not in use. Entrance doors shall not be left open at any time. All window blinds in each tenant's premises shall be lowered when reasonably required because of the position of the sun, during the operation of the Building air cooling system to cool or ventilate the tenant's premises.

6. No noise, including the playing of any musical instruments, radio or television, which in the sole judgment of Landlord, might disturb other tenants in the Building shall be made or permitted by any tenant, and no cooling shall be done in the tenant's premises, except as expressly approved in writing by Landlord. Nothing shall be done or permitted in any tenant's premises, and nothing shall be brought into or kept in any tenant's premises, which would impair or interfere with any of the Building Services or the proper and economic heating, cleaning or other servicing of the Building or the premises or the use or enjoyment by any other tenant of any other premises, nor shall there be installed by any tenant any ventilating, air cooling, electrical or other equipment of any kind which, in the sole judgment of Landlord, might cause any such impairment or interference. No dangerous, flammable, combustible or explosive object or material shall be brought into the Building or the Property by any tenant or with permission of any tenant.

7. Tenant shall not allow any cooking or food odors (if cooking is so permitted under its lease) to emanate from its premises into other portions of the Building. Tenant agrees that it shall use, at tenant's cost, a pest extermination contractor at such times or regular intervals as shall be necessary to prevent or eliminate infestation or otherwise as Landlord may reasonably require. Said extermination contractor shall be duly licensed and shall be approved in advance by Landlord.

8. No acids, vapors, coffee grinds, foreign substances or other materials shall be discharged or permitted to be discharged into the plumbing waste lines, vents or flues of the Building, which may obstruct or damage them. The water and wash closets and other plumbing fixtures in or servicing any tenant's premises shall not be used for any purpose other than the purpose for which they were designed or constructed, and no sweeping, rubbish, rags, acids, coffee or other foreign substances shall be deposited therein. All damages to facilities within the Premises or to any Building facilities resulting from any misuse of the fixtures shall be borne by the tenant who, or whose servants, employees, agents, visitors, invitees or licensees, shall have caused the same.

9. Except as per Article 29.8, no signs, advertisements, notices or other lettering shall be exhibited, inscribed, painted or affixed by any tenant on any part of the outside of the premises of the Building or inside of the Building without the prior written consent of Landlord. In the event of the violation of the foregoing by any tenant, Landlord may remove the same without any liability and may charge the expense incurred by such removal to the tenant or tenants violating this rule. Landlord herewith consents to the placement of tenant's logo on the entrance door of the Premises, the design of which shall be subject to Landlord's reasonably

approval. Disapproval, by way of example but not limitation, shall be deemed to be reasonable if Landlord believes that the location, size and design of such logo and identifying signs are not consistent and harmonious with other logos and identifying signs in the Building.

10. No tenant or occupant shall engage or pay any employees in the Building, except those actually working for such tenant or occupant in the Building, nor advertise for laborers giving an address at the Building.

11. The requirements of tenants will be attended to only upon application at the office of the Building Manager. Employees of Landlord or of Landlord's managing agent shall not perform any work or do anything outside of the regular duties, unless under special instructions from the office of Landlord.

12. Each tenant shall, at its expense, provide artificial light in the premises demised to such tenant for Landlord's agents, contractors and employees while performing janitorial or other cleaning services and making repairs or alterations in said premises.

13. The tenant's servants, employees, agents, visitors, invitees or licensees shall not loiter nor shall they smoke in or around the hallways, stairways, elevators, entryways, vestibules, roof, restrooms, basement areas, loading docks, lobbies or any other part of the Building used in common by the occupants thereof.

14. If the premises demised to any tenant become infested with vermin, such tenant, at its expense, shall cause its premises to be exterminated, from time to time, to the satisfaction of Landlord.

15. No tenant shall mark, paint, drill into, or in any way deface any part of its premises or the Building of which they form a part. No boring, cutting or stringing of wires shall be permitted, except with the prior written consent of Landlord, and as Landlord may direct. No tenant shall lay linoleum, or other similar floor covering so that the same shall come in direct contact with the floor of the its premises and, if linoleum or other similar floor covering is desired to be used, an interlining of builder's deadening felt shall be first affixed to the floor by a paste or other material, soluble in water. The use of cement or other similar adhesive material is expressly prohibited.

16. No additional locks and bolts of any kind shall be placed on any of the doors or windows by any tenant, nor shall any changes be made in existing locks and mechanisms thereof. Each tenant must, upon the termination of its tenancy, restore to Landlord all keys of stores, offices and toilet rooms, either furnished to, or otherwise procured by, such tenant, and in the event of the loss of any keys so furnished, such tenant shall pay to Landlord the cost thereof.

17. No contract of any kind with any supplier of towels, water, ice, toilet articles, waxing, rug shampooing, venetian blind washing, furniture polishing, lamp servicing, cleaning of electrical fixtures, removal of waste paper, rubbish or garbage, or other like service shall be entered into by tenant, nor shall any vending machine of any kind be installed in the Building without the prior written consent of Landlord with consent shall not be unreasonably withheld.

18. Landlord shall have the right to prescribe the weight, size and position of all safes and other bulky or heavy equipment and all freight brought into the Building or the Property by any tenant and the time of moving the same in and out of the Building or the Property. All such moving shall be done under the supervision of Landlord. Landlord will not be responsible for loss of or damage to any such equipment or freight from any cause; but all damage done to the Building or Property by moving or maintaining any such equipment or freight shall be repaired at the expense of such tenant. All safes shall stand on a base of such size as shall be designated by Landlord. Landlord reserves the right to inspect all freight to be brought into the Building and to exclude from the Building all freight which violates any of these Rules and Regulations or the Lease of which these Rules and Regulations are a part.

19. No machinery of any kind or articles of unusual weight or size will be allowed in the Building, without the prior written consent of Landlord. Business machines and mechanical equipment shall be placed and maintained by tenant, at tenant's expense, in settings sufficient, in Landlord's judgment, to absorb and prevent vibration, noise and annoyance to other tenants.

20. No bicycles, vehicles or animals of any kind shall be brought into or kept in or about the Property.

21. No awnings or other projections shall be attached to the outside walls of the Building. No curtains, blinds, shades or screens shall be attached to or hung in, or used in connection with any window or door of the Building, without the prior written consent of Landlord. Such curtains, blinds and shades must be of a quality, type, design, and color, and attached in a manner approved by Landlord.

22. Canvassing, soliciting and peddling in the Building and/or on the Property are prohibited, and tenant shall cooperate to prevent the same.

23. Landlord hereby reserves to itself any and all rights not granted to tenant hereunder, including, but not limited to, the following rights which are reserved to Landlord for its purposes in operating the Property: (a) The exclusive right to the use of the name of the Property for all purposes, except that tenant may use the name of the Property in its business address and for no other purpose; (b) The right to change the name of the Property, without incurring any liability to tenant for so doing; (c) The right to install and maintain a sign or signs on the exterior of the Property; (d) The exclusive right to use or dispose of the use of the roof of the Building; (e) The exclusive right to limit the space on the directory of the Property to be allotted to tenant; (f) The right to grant to anyone the exclusive right to conduct any particular business or undertaking in the Property.

APPENDIX I

DEFINITIONS

As used in this Lease, the following terms have the following meanings:

Additional Construction Cost: defined in *Schedule C*.

Annual Expense Reconciliation: defined in Section 5.4.

Bankruptcy Code: Title 11 of the United States Code, as amended, and all rules and regulations promulgated pursuant thereto.

Basic Rent: defined in the Basic Lease Provisions. Brokers: defined in the Basic Lease Provisions.

Building: defined in the Basic Lease Provisions. Building Communications: defined in Article 26.

Building Holidays: Saturday after 1:00 PM, Sunday, New Year's Day, President's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, the day after Thanksgiving and Christmas Day.

Building Hours: 8:00 AM to 6:00 PM, Monday through Friday, and 9:00 AM to 1:00 PM on Saturdays, except for Building Holidays.

Commencement Date: defined in Section 2.2(b).

Common Areas: those areas of the Property, wherever located, which have been designated and improved from time to time for the common use by or for the benefit of more than one occupant of the Property or which are used in connection with the maintenance or operation of the Property, including, without limitation, all parking areas, roadways, curbs, sidewalks, medians, landscaped areas and planters; all porch and lobby areas; corridors; hallways; passageways; public restrooms; security stations; storage, equipment, machine, meter, mechanical, plumbing, computer, telephone and electrical rooms, stations, conduit, shafts, raceways and the like; common lounges, kitchen areas, conference and meeting rooms (including furniture, fixtures and equipment appurtenant thereto); stairs, ramps, elevators, truck serviceways; loading areas; trash disposal facilities; and with respect to all the foregoing, all equipment and appurtenances thereto; but excluding all portions of the Property which are designated and intended for the use by a single occupant of the Property.

Emergency: defined in Section 19.1.

Environmental Laws: all current and future statutes, regulations, codes and ordinances of any governmental entity, authority, agency and/or department relating to (i) air emissions, (ii) water discharges, (iii) noise emissions, (iv) air, water or ground pollution or (v) any other environmental or health matter.

Estimated Time Delay: defined in *Schedule C*.

Event of Default: defined in Section 19.1.

Excusable Delay: any delay caused by governmental action, or lack thereof; shortages or unavailability of materials; labor disputes (including, but not limited to, strikes, slow downs, job actions, picketing and/or secondary boycotts); fire, explosion or other casualty; delays in transportation; delays due to adverse weather conditions; acts of God; directives or requests by any governmental entity, authority, agency or department; any court or administrative orders or regulations; adjustments of insurance; acts of declared or undeclared war, warlike conditions in this or any foreign country; acts of terrorism, public disorder, riot or civil commotion; or by anything else beyond the reasonable control of Landlord, including delays caused directly or indirectly by an act or a failure to act by Tenant or Tenant's Visitors.

Extension Notice: defined in Section 31.1. Extension Period: defined in Section 31.1. Landlord's Work: defined in *Schedule C*.

Insurance Expenses: mean the cost of premiums and other charges for fire, other casualty, rent and liability insurance covering the Property and any other insurance covering the Property and the Building.

Insurance Requirements: all terms of any insurance policy maintained by Landlord with respect to the Property and all requirements of the National Board of Fire Underwriters (or any other body exercising similar function) applicable to or affecting all or any part of the Premises.

Land: defined in the Basic Lease Provisions.

Landlord: the party defined as such in the first paragraph of this Lease, including at any time after the date hereof, the then owner of Landlord's interest in the Premises.

Landlord's CAM Expenses: the total costs incurred by Landlord for operating, maintaining, repairing and managing the Property and all improvements, fixtures and equipment from time to time constituting the Building, Common Areas, and the Property. Excluding debt service, the costs incurred by Landlord in operating and maintaining the Building and the Property include, but are not limited to: (i) management fees, or if there is no managing agent or if the managing agent is affiliated with Landlord, the fees that would customarily be charged by an independent first class managing agent; (ii) the costs of operating, cleaning, maintaining, repairing, restoring and replacing (except to the extent proceeds of insurance or condemnation awards are available therefor), or otherwise providing the following: heating, ventilating and air-cooling equipment and systems (including any energy management and building management systems); elevator systems and equipment; all parking areas, roadways, curbs, sidewalks, medians, planters (including repairs and resurfacing thereof); utility supply systems (but not the cost of such utilities to the extent included in Utility Expenses), drainage and sanitary sewerage systems, water supply lines, wells, emergency generators, fire sprinkler and fire suppression systems, security and alarm systems and services (including maintenance, repairs and replacements thereof); maintenance and

repair of vehicles and other tools and equipment (used exclusively at the Property); laundry and towel service; Property identification signs, public address systems; the roof, walls, windows, doors, ceilings and floors of the Building; sweeping, cleaning, snow removal (including, but not limited to, snow removal from the roof of the Building and the roof of any other building on the Property) and line painting of all parking areas and roadways; landscaping services (including replacement of trees, shrubs, and other plantings); janitorial services and window cleaning; supplies; removal of garbage and other refuse; painting, redecorating or other work which is standard for or periodically performed in the Building; providing on and off site traffic direction and parking control; the cost of repair of any insured casualty to the extent of the deductible amount under the applicable insurance policy; total compensation and benefits (including premiums for workmen's compensation and other insurance and taxes, including social security taxes and payroll taxes, which may be levied against Landlord in respect of such compensation and benefits) paid to or on behalf of personnel employed at the Property; licenses, permit and inspection fees; parking area surcharges or levies; and rent paid for the leasing of any equipment used in the operation, maintenance and repair contemplated herein; any taxes now or hereafter imposed upon Landlord with respect to operating expenses as contemplated herein; accounting and legal fees; personal property taxes; any sales, use or service taxes incurred in connection with the operation of the Property; seasonal decorations and promotional events for the Building or Property, and (iii) capital improvements amortized over the useful life of such improvement (but, in each Lease Year there shall be included only the amortized portion of such capital improvement) which are repairs, replacements or improvements made to the Property that are made in order to reduce Landlord's CAM Expenses or any improvement or alteration required to comply with applicable provisions of Legal Requirements which were not enacted and applicable to the Property as of the Commencement Date. The above definition of Landlord's CAM Expenses shall not be construed as a representation or warranty that items of equipment, facilities or services listed therein are or from time to time will be in existence or available at the Property. Landlord's CAM Expenses shall not include: (a) brokerage fees and/or commissions, advertising expenses and expenses for leasing and renovating space for tenants; (b) water, sewer, gas and electricity charges paid or reimbursed to Landlord by any tenant of the Building, including charges attributable to overtime heat, ventilation or air-cooling for Tenant or other tenants of the Building; (c) compensation and benefits payable to employees not directly attributable to the Property, (d) capital expenses attributable to tenant fit up expenses or for painting, redecorating or other work which Landlord, at its sole expense is required to perform exclusively for Tenant or for any other tenant in leased areas of the Building; (e) off-site improvements unrelated to operation of the Property; (f) capital expenses attributable to the expansion of Building and the Property; (g) any capital expenditure that are not included in the clause (iii) of the definition of Landlord's CAM Expenses above; (h) expenses for repairs or other work occasioned by fire, windstorm or other insured casualty; (i) legal expenses in negotiating and enforcing the terms of any tenant lease; (j) interest and amortization payments on any mortgage or mortgages, and rental under any ground or underlying lease or leases; (k) expenses for restoration of the Building required as a result of a condemnation; (l) the cost of special services separately paid by particular tenants in the Building, (m) the cost of utilities included in Utility Expenses or costs for utilities charged to or paid by Tenant pursuant to Section 6.3, and (n) the cost of insurance to the extent included in Insurance Expenses. In determining Landlord's CAM Expenses, for any Lease Year during which less than ninety-five percent (95%) of the rentable square feet of the Building was occupied by tenants for more than sixty (60) days during such Lease Year, the actual CAM Expenses for such Lease Year shall be increased on the basis of variable (but not fixed) CAM Expenses, to the amount which normally would have been

incurred for such Lease Year had such occupancy of the Building been ninety-five percent (95%) throughout such Lease Year.

Landlord's Estimated Operating Expenses: defined in Section 5.2. Landlord's Expense Statement: defined in Section 5.2.

Landlord's Final Tax Statement: defined in Section 4.4. Landlord's Operating Expenses: defined in Section 5.1(a). Landlord's Tax Statement: defined in Section 4.2.

Lease Year: each calendar year, or partial calendar year, during the Term.

Legal Requirements: all statutes, codes, ordinances, regulations, rules, orders, directives and requirements of any governmental entity, authority, agency, bureau, board, office, commission and/or department (or official thereof), and including covenants and restrictions of record, which now or at any time hereafter may be applicable to the Property or any part thereof, including, but not limited to, all Environmental Laws.

Lender: the holder of any mortgage or deed of trust which may now or hereafter encumber the Property.

License: defined in Section 8.4(a).

Lien: any mortgage, pledge, lien, charge, encumbrance or security interest of any kind, including any inchoate mechanic's or materialmen's lien.

Major Work: defined in Section 7.3(b).

Master Landlord: the landlord under any ground lease or lease of all or any portion of the Property, subject to the space leases, which may now or hereafter affect all or any portion of the Property.

Monthly Expense Payment: defined in Section 5.3. Monthly Tax Payment: defined in Section 4.3.

NAICS: defined in Section 11.9.

Net Award: any insurance proceeds or condemnation award payable in connection with any damage, destruction or Taking, less any expenses incurred by Landlord in recovering such amount.

Net Rental Proceeds: in the case of a sublease, the amount by which the aggregate of all rents, additional charges or other consideration payable under a sublease to Tenant by the subtenant (including sums paid for the sale or rental of Tenant's fixtures, leasehold improvements, equipment, furniture or other personal property) exceeds the sum of (i) the Basic Rent plus all

amounts payable by Tenant pursuant to the provisions hereof during the term of the sublease in respect of the subleased space, (ii) actual brokerage commissions, providing same are at prevailing rates, due and owing to a real estate brokerage firm, and, (iii) reasonable legal fees incurred by Tenant in connection with the sublease, (iv) free rent granted to the subtenant, (v) cost of work incurred by Tenant in preparing the premises for the sublease and (vi) the then net unamortized or undepreciated cost of the fixtures, leasehold improvements, equipment, furniture or other personal property included in the subletting; and in the case of an assignment, the amount by which all sums and other considerations paid to Tenant by the assignee of this Lease for or by reason of such assignment (including sums paid for the sale of Tenant's fixtures, leasehold improvements, equipment, furniture or other personal property) exceeds the sum of (i) actual brokerage commissions, provided same are at prevailing rates due and owing to a real estate brokerage firm, and, (ii) the then net unamortized or undepreciated cost of the fixtures, leasehold improvements, equipment, furniture or other personal property sold to the assignee.

Objection Notice: defined in *Schedule C*.

OFAC: defined in Article 30.

Order or Orders: defined in Article 30.

Permitted Use: defined in the Basic Lease Provisions.

Preliminary Plans: defined in *Schedule C* Premises: defined in the Basic Lease Provisions.

Prime Rate: the prime commercial lending rate publicly announced from time to time by Citibank N.A. or its successor bank.

Projected Taxes: defined in Section 4.2.

Property: the Land, the Building, all other buildings on the Land, and all other buildings or improvements hereafter constructed on the Land from time to time.

Punch List Items: defined in Section 2.2(c). Recapture Notice: defined in Section 16.5(a). Recapture Space: defined in Section 16.5(a).

Rent Payment Date: the first day of each consecutive calendar month during the Term.

Restoration: the restoration, replacement or rebuilding of the Building (excluding any alterations, additions and improvements installed by Tenant and any trade fixtures and personal property owned by Tenant) or any portion thereof as nearly as practicable to its value, condition and character immediately prior to any damage, destruction or Taking.

Security: defined in the Basic Lease Provisions.

Substantially Completed or Substantial Completion: defined in Section 2.2(c).

Taking: a taking of all or any part of the Property, or any interest therein or right accruing thereto, as the result of, or in lieu of, or in anticipation of, the exercise of the right of condemnation or eminent domain pursuant to any law, general or special, or by reason of the temporary requisition of the use or occupancy of the Property or any part thereof, by any governmental authority, civil or military.

Taxes: with respect to each governmental authority levying or imposing the same, all taxes and assessments (general, special, betterment, ordinary or extraordinary, foreseen and unforeseen) levied, charged, assessed, imposed upon or which become due and payable out of or in respect of and become a lien on the Land and all improvements constructed on the Land from time to time, including, without limitation, charges imposed in respect of the ownership, operation, management, use, leasing or alteration of the Property and/or Premises, or any portion thereof; the various estates in and to the Property and/or Premises, or any portion thereof; the Basic Rent and Additional Rent payable to Landlord pursuant to this Lease; and all franchise, income, profit or other taxes, fees and charges, however designated, which, due to a future change in the method of taxation, may be levied or imposed on Landlord in substitution in whole or in part for, or in lieu of, or in addition to, any tax which would otherwise constitute Taxes, as heretofore defined. Nothing contained in this Lease shall require Tenant to pay any estate, inheritance, gift, succession, transfer, corporate franchise or income tax of Landlord, nor shall any of same be deemed Taxes, except as provided in the last phrase of the preceding sentence (relating to changes in method of taxation).

Tenant: the party defined as such in the first paragraph of this Lease.

Tenant Affiliate: defined in Section 16.7.

Tenant Delay: defined in Section 2.2(c).

Tenant Improvement: defined in Section 7.4(a).

Tenant's Notice: defined in Section 16.2.

Tenant's Proportionate Share: defined in Basic Lease Provisions.

Tenant's Signage: defined in Section 29.8.

Tenant's Visitors: Tenant's agents, servants, employees, subtenants, contractors, invitees, licensees and all other persons invited by Tenant onto the Property and/or into the Premises as guests or doing lawful business with Tenant.

Tenant's Work: defined in *Schedule C*.

Term: defined in Basic Lease Provisions.

Termination Date: defined in Basic Lease Provisions.

Underlying Encumbrance: defined in Section 23.1.

Utility Expenses: all utility and energy costs, including any fuel surcharges or adjustments with respect thereto, incurred for water, sewer, gas, or other utilities and heating, ventilating and air conditioning for the Building and Property (not separately billed to a tenant in the Building). In determining the Utility Expenses for any Lease Year during which less than ninety-five percent (95%) of the rentable square feet of the Building was occupied by tenants for more than sixty (60) days during such Lease Year, the actual Utility Expenses for such Lease Year shall be increased on the basis of variable (but not fixed) Utility Expenses, to the amount which normally would have been incurred for such Lease Year had such occupancy of the Building been ninety-five percent (95%) throughout such Lease Year.

Working Plans: defined in *Schedule C*.

**SCHEDULE E
PARENT GUARANTY**

Agreement dated as of May 13 2022, by AudioCodes Ltd., having a principal business address at _____
("Parent" or "Guarantor").

RECITALS

A. **AUDIOCODES, INC.** ("Tenant"), is party to a lease ("Lease") with **KINGSBRIDGE 2005 LLC** (hereinafter "Landlord"), whereby Tenant currently leases from Landlord an agreed upon **14,706** rentable square feet (the "Demised Premises") of the building known as 80 Kingsbridge Road, Piscataway, New Jersey 08854.

B. As a material inducement to Landlord to enter into the Lease, Landlord has requested Parent to provide the guaranty described below to Landlord, and Parent has agreed to provide such guaranty.

C. Accordingly, Parent agrees as follows:

1. Parent, as the ultimate parent entity of Tenant, guarantees to Landlord the payment of all base rent, additional rent and payment obligations of Tenant under the Lease (the "Obligations"). This is a guaranty of payment and performance, and not only of collection. Landlord may, at its option, proceed against Parent and Tenant, jointly and severally, or Landlord may proceed against Parent under this Guaranty without commencing any suit or proceeding of any kind against Tenant, or without having obtained any judgment against Tenant.

2. The Obligations of Parent under this Agreement are unconditional, are not subject to any set-off or defense based upon any claim Parent may have against Landlord, and will remain in full force and effect without regard to any circumstance or condition, including, without limitation: (a) any modification or extension of the Lease (except that the liability of Parent hereunder will apply to the Lease as so modified or extended); (b) any exercise or non-exercise by Landlord of any right or remedy in respect of the Lease, or any waiver, consent or other action, or omission, in respect of the Lease; (c) any transfer by Landlord or Tenant in respect of the Lease or any interests or rights in the Demised Premises, by assignment, sublease or otherwise except as provided in the Lease; (d) any bankruptcy, insolvency, receivership, reorganization, composition, adjustment, dissolution, liquidation or other like proceeding involving or affecting Landlord or Tenant or their obligations, properties or creditors, or any action taken with respect to such obligations or properties or the Lease, by any trustee or receiver of Landlord or Tenant, or by any court, in any such proceeding; (e) any defense to or limitation on the liability or obligations of Tenant under the Lease, or any invalidity or unenforceability, in whole or in part, of any obligation of Tenant under the Lease or of any term of the Lease; or (f) any transfer by Parent of any or all of the equity of Tenant or the control thereof. This Guaranty shall also apply with respect to any period in which Tenant is occupying the Demised Premises as a holdover tenant, month-to-month tenant, tenant at will, tenant at sufferance or statutory tenant.

3. Parent waives presentment and demand for payment, notice of non-payment or non-performance, and any other notice or demand to which Parent might otherwise be entitled.

4. Parent will reimburse Landlord for all costs and expenses incurred by Landlord in connection

with the enforcement of the Lease or this Guaranty, including, without limitation, reasonable attorneys' fees.

5. For purposes of this Guaranty, any Letter of Credit or Security Deposit hereafter deposited with Landlord under the Lease shall not be credited against amounts due or payable by Tenant under the Lease or by Parent under the term of this Guaranty.
 6. Notwithstanding any payments made by Parent pursuant to this Guaranty, Parent shall not seek to enforce or collect upon any rights which Parent now has or may acquire against Tenant either by way of subrogation, indemnity, reimbursement or contribution for any amount paid under this Guaranty until all amounts due and owing by Tenant to Landlord shall have been paid in full.
 7. Should Landlord be obligated in any bankruptcy proceeding to repay to Tenant or Parent or to any trustee, receiver or other representative of Tenant or Parent any amounts previously paid which are part of the Obligations, then this Guaranty shall be reinstated in the amount of such repayment. Landlord shall not be required to litigate or otherwise dispute its obligation to make such repayment if it in good faith on the advice of counsel believes that such obligation exists.
 8. Parent waives trial by jury of all issues arising in any action, suit or proceeding to which Landlord and Parent may be parties in connection with this Guaranty.
 9. Parent, at its expense, will execute, acknowledge and deliver all instruments and take all action as Landlord from time to time may request for the assuring to Landlord the full benefits intended to be created by this Guaranty.
 10. No delay by Landlord in exercising any right under this Guaranty nor any failure to exercise the same will waive that right or any other right.
 11. All notices and other communications given pursuant to this Guaranty shall be in writing and shall be: (1) mailed by first class, United States Mail, postage prepaid, certified, with return receipt requested, and addressed to Landlord at the address set forth in the Lease, and to Parent at the address set forth above; (2) hand delivered to the intended addressee; (3) sent by a nationally recognized overnight courier service; or (4) sent by confirmed email or facsimile transmission during normal business hours followed by a copy of such notice sent in another manner permitted hereunder. All notices shall be deemed given upon the earlier to occur of actual receipt, one (1) Business Day following deposit with a nationally recognized overnight courier service, or five (5) days following deposit in the United States mail. The parties hereto may change their addresses by giving notice thereof to the other in conformity with this provision.
 12. As material inducement to Landlord to enter into the Lease, Parent specifically represents and warrants and covenants and agrees, as the case may be that Parent consents to jurisdiction by a court or arbitrator located in the State of New Jersey.
 13. All remedies of Landlord by reason of this Guaranty are separate and cumulative remedies and no one remedy, whether exercised by Landlord or not, will be in exclusion of any other remedy of Landlord and will not limit or prejudice any other legal or equitable remedy which Landlord may have.
-

14. If any provision of this Guaranty or the application thereof to any person or circumstance will to any extent be held unenforceable, the remainder of this Guaranty or the application of such provision to persons or circumstances other than those as to which it is held unenforceable, will not be affected thereby, and each provision of this Guaranty shall be valid and enforceable to the fullest extent permitted by law.

15. This Guaranty will inure to the benefit of and may be enforced by Landlord and its successors or assigns, and will be binding upon and enforceable against Parent and its successors, assigns, heirs and personal representatives. If there is more than one Parent, Parent's obligations and liabilities under this Guaranty will be joint and several.

16. This Guaranty by Parent, as tendered to Landlord as a material inducement to the Lease, represents the entire understanding between the parties hereto as to the matters addressed herein and may not be modified, amended, supplemented or terminated except in a writing signed by the Landlord. All prior understandings and agreements as to the matters addressed herein, oral or written, express or implied, are hereby merged herein.

17. This Guaranty may be executed and delivered as a ".pdf" attachment to an e-mail with the same force and effect as if it were originally executed and delivered.

IN WITNESS WHEREOF, Parent has duly executed this Guaranty as of the day and year first above written.

EIN# _____

By: _____

Name:

Title:

SCHEDULE F

(For Recorder's Use Only)

SUBORDINATION, NONDISTURBANCE AND ATTORNMENT AGREEMENT

(UBS 2018-C13, Loan No. 030315037)

THIS SUBORDINATION, NONDISTURBANCE, AND ATTORNMENT AGREEMENT (this "**Agreement**") is entered into as of _____, 2022 (the "**Effective Date**"), among **WELLS FARGO BANK, NATIONAL ASSOCIATION, AS TRUSTEE FOR THE BENEFIT OF THE REGISTERED HOLDERS OF UBS COMMERCIAL MORTGAGE TRUST 2018-C13, COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2018-C13, AND IN ITS CAPACITY AS "LEAD SECURITIZATION NOTE HOLDER"** ("**Lender**"), whose address is c/o Midland Loan Services, a division of PNC Bank, National Association, 10851 Mastin Street, Suite 300, Overland Park, Kansas 66210 (Re: Kingsbridge 2005, LLC et al; Loan No. 030315037), **AUDICODES, INC.**, a _____ corporation ("**Tenant**"), whose address is 80 Kingsbridge Road, Piscataway, New Jersey 08854, and **KINGSBRIDGE 2005 LLC**, a Delaware limited liability company ("**Landlord**"), whose address is 2362 Nostrand Avenue, Suite 7, Brooklyn, New York 11210, with reference to the following facts:

A. Landlord owns the real property known as 80 Kingsbridge Road and having a street address of 80 Kingsbridge Road, Piscataway, New Jersey 08854, such real property, including all buildings, improvements, structures and fixtures located thereon (all or any portion thereof being referred to herein as the "**Landlord's Premises**"), as more particularly described on **Exhibit A**.

B. Cantor Commercial Real Estate Lending, L.P., a Delaware limited partnership ("**Original Lender**") made a loan to Kingsbridge 2005, LLC, and 691 Central Avenue SPE, LLC, each a Delaware limited liability company ("**Additional Borrowers**") and Landlord in the original principal amount of \$93,000,000.00 (the "**Loan**").

C. To secure the Loan, Landlord and Additional Borrowers encumbered the Landlord's Premises by entering into that certain Mortgage and Security Agreement dated as of September 7, 2018, for the benefit of Original Lender (as amended, increased, renewed, extended, spread, consolidated, severed, restated, or otherwise changed from time to time, the "**Security Instrument**") recorded in the applicable land records of Essex County, New Jersey.

D. Lender is now the holder of the Security Instrument and has authority to enter into this Agreement.

E. Pursuant to a Lease Agreement dated as of May 10, 2022 together with any amendments, modifications and renewals approved in writing by Lender to the extent such approval is required by the Security Instrument (the "**Lease**"), Landlord demised to Tenant a portion of the Landlord's Premises (the "**Tenant's Premises**").

F. Lender has been requested by Landlord and Tenant to enter into this Agreement, and Tenant and Lender desire to agree upon the relative priorities of their interests in the Landlord's Premises and their rights and obligations if certain events occur.

NOW, THEREFORE, for good and sufficient consideration, Tenant and Lender agree:

1. **Definitions.** The following terms shall have the following meanings for purposes of this Agreement:
 - 1.1. **"Construction-Related Obligation"** means any obligation of Former Landlord (as hereinafter defined) under the Lease to make, pay for, or reimburse Tenant for any alterations, demolition, or other improvements or work at the Landlord's Premises, including the Tenant's Premises.¹ **"Construction-Related Obligation"** shall not include: (a) reconstruction or repair following any fire, casualty or condemnation which occurs after the date of attornment hereunder, but only to the extent of the insurance or condemnation proceeds actually received by Successor Landlord for such reconstruction and repair, less Successor Landlord's actual expenses in administering such proceeds; or (b) day-to-day maintenance and repairs.
 - 1.2. **"Foreclosure Event"** means (a) foreclosure under the Security Instrument; (b) any other exercise by Lender of rights and remedies (whether under the Security Instrument or under applicable law, including bankruptcy law) as holder of the Loan and/or the Security Instrument, as a result of which Successor Landlord becomes owner of the Landlord's Premises; or (c) delivery by Former Landlord to Lender (or its designee or nominee) of a deed or other conveyance of Former Landlord's interest in the Landlord's Premises in lieu of any of the foregoing.
 - 1.3. **"Former Landlord"** means Landlord and/or any other party that was landlord under the Lease at any time before the occurrence of any attornment under this Agreement.
 - 1.4. **"Offset Right"** means any right or alleged right of Tenant to any offset, defense (other than one arising from actual payment and performance, which payment and performance would bind a Successor Landlord pursuant to this Agreement), claim, counterclaim, reduction, deduction, or abatement against Tenant's payment of Rent or performance of Tenant's other obligations under the Lease, arising (whether under the Lease or other applicable law) from acts or omissions of Former Landlord and/or from Former Landlord's breach or default under the Lease.²
 - 1.5. **"Rent"** means any fixed rent, base rent or additional rent under the Lease.
 - 1.6. **"Successor Landlord"** means any party that becomes owner of the Landlord's Premises as the result of a Foreclosure Event.
 - 1.7. **"Termination Right"** means any right of Tenant to cancel or terminate the Lease or to claim a partial or total eviction arising (whether under the Lease or under applicable law) from Former Landlord's breach or default under the Lease.
2. **Subordination.** The Lease, and all right, title and interest of the Tenant thereunder and of the Tenant to and in the Landlord's Premises, are, shall be, and shall at all times remain, subject and subordinate to the Security Instrument, the lien imposed by the Security Instrument, and all advances made under the Security Instrument.

¹ Tenant proposed change to be submitted to lender for review.

² Tenant proposed change to be submitted to lender for review.

3. Payment to Lender. In the event Tenant receives written notice (the “**Rent Payment Notice**”) from Lender or from a receiver for the Landlord’s Premises that there has been a default under the Security Instrument and that rentals due under the Lease are to be paid to Lender or to the receiver (whether pursuant to the terms of the Security Instrument or of that certain Assignment of Rents and Leases executed by Landlord as additional security for the Loan), Tenant shall pay to Lender or to the receiver, or shall pay in accordance with the directions of Lender or of the receiver, all Rent and other monies due or to become due to Landlord under the Lease, notwithstanding any contrary instruction, direction or assertion of Former Landlord. Landlord hereby expressly and irrevocably directs and authorizes Tenant to comply with any Rent Payment Notice, notwithstanding any contrary instruction, direction or assertion of Landlord, and Landlord hereby releases and discharges Tenant of and from any liability to Landlord on account of any such payments. The delivery by Lender or the receiver to Tenant of a Rent Payment Notice, or Tenant’s compliance therewith, shall not be deemed to: (i) cause Lender to succeed to or to assume any obligations or responsibilities as landlord under the Lease, all of which shall continue to be performed and discharged solely by the applicable Landlord unless and until any attornment has occurred pursuant to this Agreement; or (ii) relieve the applicable Former Landlord of any obligations under the Lease. Tenant shall be entitled to rely on any Rent Payment Notice. Tenant shall be under no duty to controvert or challenge any Rent Payment Notice. Tenant’s compliance with a Rent Payment Notice shall not be deemed to violate the Lease. Tenant shall be entitled to full credit under the Lease for any Rent paid to Lender pursuant to a Rent Payment Notice to the same extent as if such Rent were paid directly to Former Landlord.
4. Nondisturbance, Recognition and Attornment.
- 4.1. No Exercise of Security Instrument Remedies against Tenant. So long as (i) the Lease has not expired or otherwise been terminated by Former Landlord and (ii) there is no existing default under or breach of the Lease by Tenant that has continued beyond applicable cure periods (an “**Event of Default**”), Lender shall not name or join Tenant as a defendant in any exercise of Lender’s rights and remedies arising upon a default under the Security Instrument unless applicable law requires Tenant to be made a party thereto as a condition to proceeding against Former Landlord or prosecuting such rights and remedies. In the latter case, Lender may join Tenant as a defendant in such action only for such purpose and not to terminate the Lease or otherwise diminish or interfere with Tenant’s rights under the Lease or this Agreement in such action.
- 4.2. Nondisturbance and Attornment. So long as (i) the Lease has not expired or otherwise been terminated by Former Landlord, (ii) an Event of Default has not occurred, and (iii) no condition exists which would cause or entitle Former Landlord to terminate the Lease on its terms, or to dispossess the Tenant that would not be an Event of Default, then, if and when Successor Landlord takes title to the Landlord’s Premises: (a) Successor Landlord shall not terminate or disturb Tenant’s possession of the Tenant’s Premises under the Lease, except in accordance with the terms of the Lease and this Agreement; (b) Successor Landlord shall be bound to Tenant under all the terms and conditions of the Lease (except as provided in this Agreement); (c) Tenant shall recognize and attorn to Successor Landlord as Tenant’s direct landlord under the Lease as affected by this Agreement; (d) the Lease shall continue in full force and effect as a direct lease, in accordance with its terms (except as provided in this Agreement), between Successor Landlord and Tenant; and (e) Successor Landlord shall have all the rights and remedies of the landlord under the Lease, including, without limitation, rights or remedies arising by reason of any Event of Default by Tenant under the Lease, whether occurring before or after the Successor Landlord takes title to the Landlord’s Premises.

- 4.3. Protection of Successor Landlord. Notwithstanding anything to the contrary in the Lease or the Security Instrument, neither Lender nor Successor Landlord shall be liable for or bound by any of the following matters:
- a. Claims against Former Landlord. Any Offset Right or Termination Right that Tenant may have against any Former Landlord relating to any event or occurrence before the date of attornment, including any claim for damages of any kind whatsoever as the result of any breach by Former Landlord that occurred before the date of attornment. The foregoing shall not limit Tenant's right to exercise against Successor Landlord any Offset Right or Termination Right otherwise available to Tenant because of events occurring after the date of attornment.
 - b. Construction-Related Obligations. Any Construction-Related Obligation of Former Landlord.
 - c. Prepayments. Any payment of Rent that Tenant may have made to Former Landlord for more than the current month.
 - d. Payment; Security Deposit. Any obligation: (a) to pay Tenant any sum(s) that any Former Landlord owed to Tenant or (b) with respect to any security deposited with Former Landlord, unless such security was actually delivered to Lender or to Successor Landlord.
 - e. Modification, Amendment or Waiver. Any modification or amendment of the Lease, or any waiver of any terms of the Lease, made without Lender's written consent if such consent is required by the Security Instrument.
 - f. Surrender, Etc. Any consensual or negotiated surrender, cancellation, or termination of the Lease, in whole or in part, agreed between Former Landlord and Tenant, unless effected unilaterally by Tenant pursuant to the express terms of the Lease.
 - g. Partial Lease Assignment. Any assignment of one or more provisions of the Lease or the beneficial interest therein not constituting the whole of the Lease.
 - h. Covenants. Any covenants or obligations of or applicable to Former Landlord to the extent they apply to or affect any property other than the Landlord's Premises.
5. Lender's Right to Cure.
- 5.1. Notice to Lender. Copies of all notices and other communications given by Tenant to Former Landlord of a breach of or default under the Lease by Former Landlord shall also be simultaneously provided to Lender. Notwithstanding anything to the contrary in the Lease or this Agreement or the Security Instrument, before exercising any Termination Right or Offset Right, Tenant shall provide Lender with notice of the breach or default by Former Landlord giving rise to same (the "**Default Notice**") and, thereafter, the opportunity to cure such breach or default as provided for below.
 - 5.2. Lender's Cure Period. After Lender receives a Default Notice, Lender shall have a period of thirty (30) days beyond the time available to Former Landlord under the Lease in which to cure the breach or default by Former Landlord, or, in the event that such cure cannot be completed within such cure period, Lender shall have such reasonable period of time as is required to diligently prosecute such cure to its completion. Lender shall have no obligation to cure (and shall have no liability or obligation for not curing) any breach or default by Former Landlord.

6. Exculpation of Successor Landlord. Notwithstanding anything to the contrary in this Agreement or the Lease, upon any attornment pursuant to this Agreement, the Lease shall be deemed to have been automatically amended to provide that Successor Landlord's obligations and liabilities under the Lease shall never extend beyond Successor Landlord's (or its successors' or assigns') interest, if any, in the Landlord's Premises from time to time, including insurance and condemnation proceeds (except to the extent reinvested in the Landlord's Premises), Successor Landlord's interest in the Lease, and the proceeds from any sale or other disposition of the Landlord's Premises by Successor Landlord (collectively, "**Successor Landlord's Interest**"). Tenant shall look exclusively to Successor Landlord's Interest (or that of its successors and assigns) for payment or discharge of any obligations of Successor Landlord under the Lease as affected by this Agreement. If Tenant obtains any money judgment against Successor Landlord with respect to the Lease or the relationship between Successor Landlord and Tenant, then Tenant shall look solely to Successor Landlord's Interest (or that of its successors and assigns) to collect such judgment. Tenant shall not collect or attempt to collect any such judgment out of any other assets of Successor Landlord.
7. Miscellaneous.
- 7.1. Notices. All notices or other communications required or permitted under this Agreement shall be in writing and given by personal delivery or by nationally recognized overnight courier service that regularly maintains records of items delivered. Each party's address is as set forth in the opening paragraph of this Agreement, subject to change by notice under this paragraph. Notices shall be effective upon delivery if sent by personal delivery and the next business day after being sent by overnight courier service.
- 7.2. Successors and Assigns. This Agreement shall bind and benefit the parties, their successors and assigns, any Successor Landlord, and its successors and assigns. Upon assignment of the Security Instrument by Lender, all liability of the Lender/assignor shall terminate.
- 7.3. Entire Agreement. This Agreement constitutes the entire agreement between Lender and Tenant and Landlord regarding the subordination of the Lease to the Security Instrument and the rights and obligations of Tenant, Lender and Landlord as to the subject matter of this Agreement.
- 7.4. Interaction with Lease and with Security Instrument. If this Agreement conflicts with the Lease, then this Agreement shall govern as between the parties and any Successor Landlord, including upon any attornment pursuant to this Agreement. This Agreement supersedes, and constitutes full compliance with, any provisions in the Lease that provide for subordination of the Lease to, or for delivery of non-disturbance agreements by the holder of, the Security Instrument. Lender confirms that Lender has consented to Landlord's entering into the Lease.
- 7.5. Lender's Rights and Obligations.
- a. Except as expressly provided for in this Agreement, Lender shall have no obligations to Tenant with respect to the Lease. If an attornment occurs pursuant to this Agreement, then all rights and obligations of Lender under this Agreement shall terminate, without thereby affecting in any way the rights and obligations of Successor Landlord provided for in this Agreement.
- b. Neither this Agreement, the Security Instrument or any of the related loan documents, nor the Lease shall, prior to any acquisition of the Landlord's Premises by Lender, operate to give rise to or create any responsibility or liability for the control, care, management or repair of the Landlord's Premises upon the Lender, or impose responsibility for the carrying out by Lender of any of the covenants, terms or conditions of the Lease, nor shall said instruments operate to make

Lender responsible or liable for any waste committed on the Landlord's Premises by any party whatsoever, or for dangerous or defective conditions of the Landlord's Premises, or for any negligence in the management, upkeep, repair or control of the Landlord's Premises, which may result in loss, injury or death to Tenant, or to any tenant, licensee, invitee, guest, employee, agent or stranger.

- c. Lender may assign to any person or entity its interest under the Security Instrument and/or the related loan documents, without notice to, the consent of, or assumption of any liability to, any other party hereto. In the event Lender becomes the Successor Landlord, Lender may assign to any other party its interest as the Successor Landlord without the consent of any other party hereto.
- 7.6. Landlord's Rights and Obligations. Nothing herein contained is intended, nor shall it be construed, to abridge or adversely affect any right or remedy of Landlord under the Lease, including upon the occurrence of an Event of Default by Tenant under the Lease. This Agreement shall not alter, waive or diminish any of Landlord's obligations under the Security Instrument, any of the related loan documents, or the Lease.
- 7.7. Option or Right to Purchase the Landlord's Premises or the Loan. Notwithstanding any other provision contained herein, this Agreement does not constitute an agreement by nor a consent of Lender to any provision whatsoever in the Lease allowing or providing for any right or option to Tenant, any affiliate of Tenant or any successor or assignee of Tenant to purchase, in whole or in part, either the Landlord's Premises or the Loan or any of the instruments or documents evidencing the Loan or securing payment of the Loan and neither Lender nor any assignee of or successor to Lender shall be bound in any way by any such right or option.
- 7.8. Interpretation; Governing Law. The interpretation, validity and enforcement of this Agreement shall be governed by and construed under the internal laws of the state where the Landlord's Premises are located, excluding its principles of conflict of laws.
- 7.9. Amendments. This Agreement may be amended, discharged or terminated, or any of its provisions waived, only by a written instrument executed by the parties hereto.
- 7.10. Due Authorization. Each party represents that it has full authority to enter into this Agreement, which has been duly authorized by all necessary actions.
- 7.11. Execution. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one and the same instrument.
- 7.12. Attorneys' Fees. All costs and attorneys' fees incurred in the enforcement hereof shall be paid by the non-prevailing party.
- 7.13. Headings. The headings in this Agreement are intended to be for convenience of reference only, and shall not define the scope, extent or intent or otherwise affect the meaning of any portion hereof.
- 7.14. WAIVER OF JURY TRIAL. TENANT AND LANDLORD EACH HEREBY KNOWINGLY, VOLUNTARILY AND INTENTIONALLY, AFTER CAREFUL CONSIDERATION AND AN OPPORTUNITY TO SEEK LEGAL ADVICE, WAIVE THEIR RESPECTIVE RIGHTS TO HAVE A TRIAL BY JURY IN RESPECT OF ANY LITIGATION ARISING OUT OF OR IN ANY WAY CONNECTED WITH ANY OF THE PROVISIONS OF THIS AGREEMENT, OR ANY OTHER DOCUMENTS EXECUTED IN CONJUNCTION HEREWITH, ANY TRANSACTION CONTEMPLATED BY THIS AGREEMENT, THE LANDLORD'S

PREMISES, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF LANDLORD, TENANT OR LENDER. THIS PROVISION IS A MATERIAL INDUCEMENT FOR LENDER TO ENTER INTO THIS AGREEMENT.

(REMAINDER OF PAGE LEFT INTENTIONALLY BLANK)

IN WITNESS WHEREOF, this Agreement has been duly executed by Lender, Tenant and Landlord as of the Effective Date.

LENDER:

WELLS FARGO BANK, NATIONAL ASSOCIATION, AS TRUSTEE FOR THE BENEFIT OF THE REGISTERED HOLDERS OF UBS COMMERCIAL MORTGAGE TRUST 2018-C13, COMMERCIAL MORTGAGE PASS-THROUGH CERTIFICATES, SERIES 2018-C13, AND IN ITS CAPACITY AS "LEAD SECURITIZATION NOTE HOLDER"

By: Midland Loan Services, a division of PNC Bank, National Association as its Master Servicer and attorney in fact

By: _____
Name: _____
Title: _____

STATE OF KANSAS)
) ss.
COUNTY OF JOHNSON)

On this _____ day of _____, 2022, before me, a Notary Public in and for the State of Kansas, personally appeared _____, personally known to me (or proved to me on the basis of satisfactory evidence) to be the person who executed this instrument, on oath stated that he/she was authorized to execute the instrument, and acknowledged that he/she is the Senior Vice President and Servicing Officer of Midland Loan Services, a division of PNC Bank, National Association to be the free and voluntary act and deed of said company for the uses and purposes mentioned in the instrument.

IN WITNESS WHEREOF, I have hereunto set my hand and official seal the day and year first above written.

(seal) _____

(Print Name)
NOTARY PUBLIC in and for the State of
Kansas.

My appointment expires _____

TENANT:

AUDIOCODES, INC., a _____ corporation

By: _____
Name: _____
Title: _____

STATE OF _____)
)
COUNTY OF _____)

The foregoing instrument was acknowledged before me this ____ day of _____, 2022, by _____ as _____ of Acosta Inc., a _____ corporation, on behalf of the corporation. He/She is personally known to me or has produced a driver's license as identification.

NOTARY PUBLIC, STATE OF _____

Print or Stamp Name of Notary

My Commission Expires:

[Notarial Seal]

[Signature Page to
Subordination, Nondisturbance and Attornment Agreement]

EXHIBIT A

LEGAL DESCRIPTION

LEGAL DESCRIPTION OF 80 KINGSBRIDGE ROAD, PISCATAWAY, NEW JERSEY

Tract II-80 Kingsbridge Road

All that certain lot, piece or parcel of land, with the buildings and improvements thereon erected, situate, lying and being in the Township of Piscataway, County of Middlesex, State of New Jersey.

BEGINNING at a point in the southwesterly side of Kingsbridge Road therein distant northwesterly 422.06 feet from the intersection of the same with the northwesterly side of Centennial Avenue, if the same were produced to meet at an intersection; thence

1. Along said side of Kingsbridge Road North 37 degrees 54 minutes 40 seconds West 332.19 feet to a point of curve in the same; thence
2. Still along the same northwesterly on the arc of a curve curving to the left with a radius of 80.00 feet for a distance of 124.78 feet to a point of tangency in the same, thence
3. Still along the same South 52 degrees 43 minutes 10 seconds West 450.85 feet; thence
4. South 37 degrees 54 minutes 40 seconds East 415.77 feet; thence
5. North 52 degrees 14 minutes 15 seconds East 529.94 feet to Kingsbridge Road and the point or place of BEGINNING

BEING part of Lot #8, Block 503-B, Map of Kingsbridge #4, Piscataway, New Jersey, filed in the Registered's Office of Middlesex County, on May 11, 1972 as Map #3551 File #959.

The above description is in accordance with a survey made by George J. Anderson, LLC dated August 24, 2018.

NOTE: Being Lot(s) 8.01, Block 6702, Tax Map of the Township of Piscataway, County of Middlesex, State of New Jersey.

[Signature Page to
Subordination, Nondisturbance and Attornment Agreement]

Building and Tenancy Lease Agreement, dated November 16, 2022, by and between Naimi Towers Ltd. and AudioCodes Ltd.

(English Summary of Document in Hebrew)

Building and Tenancy Lease Agreement, dated November 16, 2022, by and between Naimi Towers Ltd. (“Lessor”) and AudioCodes Ltd. (“AudioCodes”).

Agreement regarding the building and lease of a new building for AudioCodes in “Park Naimi” (Or Yehuda area municipal area as further detailed in the agreement).

Leased Property: Approximately 10,000 square meters and an additional 250 marked parking spaces, with an option to reduce the leased area to 7,500 square meters (Due until December 31, 2022) and/or to lease another 50 unmarked parking spaces. Furthermore, AudioCodes has the right to lease up to 200 square meters of storage areas, for [---] NIS per square meter (plus VAT).

Commencement and Lease period: Upon completion and delivery of the building according to Plans, agreed to March 31, 2023, for a period of seven years with an option to extend the lease for one additional period of five years.

Price: For main premises [---] NIS per square meter per calendar month (plus VAT). The price for the marked parking is [---] NIS (plus VAT) per space in the parking area and for the unmarked spaces is [---] NIS (plus VAT).

All the above prices exclude all taxes and are linked thereafter to changes in the Israeli Consumer Price Index from January 2023 (Agreed that the calculation of index differences for the year 2023 only will be as follows: if the annual index increases by more than [---]%, linkage differences will be paid at the rate of [---]%, and only half of the increase above 3%).

Additional Payments: Building Management Company – [---] NIS per square meter or [---] according to the higher of the above per calendar month, linked to changes in the Israeli Consumer Price Index from January 2023 (plus VAT).

Rent increase: Increase may occur after 7 years and the exercise of the one option periods. There is a maximum increase of [---]%.

Term: 144 months. AudioCodes has the option to terminate the agreement after a period of seven years.

Restrictions on use: AudioCodes is permitted to conduct the business of a high-tech company, including, but not limited to, maintaining offices, laboratories, and any use necessary for the current activity of the tenant, provided that the activity is permitted according to the urban building scheme. AudioCodes has the right to sublease up to 33% of the building as further detailed in the agreement.

Security Deposit: AudioCodes is required to provide a guarantee equivalent to Two months rent plus management fees (plus VAT) linked to changes in the Israeli Consumer Price Index.

LIST OF SUBSIDIARIES OF AUDIOCODES LTD.

Name of Subsidiary	Place of Incorporation
AudioCodes Inc.	Delaware, USA

CERTIFICATION PURSUANT TO
SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Shabtai Adlersberg, certify that:

1. have reviewed this annual report on Form 20-F of AudioCodes Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2023

/s/ SHABTAI ADLERSBERG

Shabtai Adlersberg

President and Chief Executive Officer

CERTIFICATION PURSUANT TO
SECTION 302(A) OF THE SARBANES-OXLEY ACT OF 2002

I, Niran Baruch, certify that:

1. have reviewed this annual report on Form 20-F of AudioCodes Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2023

/s/ NIRAN BARUCH

Niran Baruch

Vice President Finance and Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of AudioCodes Ltd., or the Company, on Form 20-F for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof, or the Report, I, Shabtai Adlersberg, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: April 24, 2023

/s/ SHABTAI ADLERSBERG

Shabtai Adlersberg
President and Chief Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of AudioCodes Ltd., or the Company, on Form 20-F for the period ending December 31, 2022 as filed with the Securities and Exchange Commission on the date hereof, or the Report, I, Niran Baruch, Vice President Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: April 24, 2023

/s/ NIRAN BARUCH

Niran Baruch

Vice President Finance and Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements (Form F-3ASR No. 333-238867) and our Registration Statement (Form S-8 Nos. 333-11894, 333-13268, 333-105473, 333-144823, 333-144825, 333-160330, 333-170676, 333-13378, 333-190437, 333-210438, 333-230388 and 333-264535) of AudioCodes Ltd. of our reports dated April 24, 2023, with respect to the consolidated financial statements of AudioCodes Ltd., and the effectiveness of internal control over financial reporting of AudioCodes Ltd. included in this Annual Report (Form 20-F) for the year ended December 31, 2022.

Tel Aviv, Israel
April 24, 2023

/s/ KOST, FORER, GABBAY AND KASIERER
A member of Ernst & Young Global
