

PRESS RELEASE

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AudioCodes Reports Second Quarter 2014 Results

Second quarter revenues increase 11.5% year-over-year to \$37.6 million

Lod, Israel – July 29, 2014 – AudioCodes (NasdaqGS: AUDC), a leading provider of converged voice solutions that enable enterprises and service providers to transition to all-IP voice networks, today announced financial results for the second quarter ended June 30, 2014.

Second Quarter 2014 Highlights:

- Revenues totaled \$37.6 million, an 11.5% increase over the year ago quarter
- Quarterly networking revenues totaled \$33.2 million, an increase of 15.3% year-over-year
- GAAP net loss of \$46,000, or \$0.00 per diluted share
- Non-GAAP net income of \$1.6 million, or \$0.04 per diluted share
- Revenues from sales of SBC products grew above 100% year-over-year
- Revenues from our New Products group category grew above 30% over the previous quarter

Revenues for the second quarter of 2014 were \$37.6 million, compared to \$36.0 million for the first quarter of 2014 and \$33.7 million for the second quarter of 2013.

Net loss in accordance with U.S. generally accepted accounting principles (GAAP) was \$46,000, or \$0.00 per diluted share, for the second quarter of 2014, compared to a GAAP net loss of \$278,000, or (\$0.01) per diluted share, for the first quarter of 2014, and GAAP net income of \$441,000, or \$0.01 per diluted share, for the second quarter of 2013.

Non-GAAP net income for the second quarter of 2014 was \$1.6 million, or \$0.04 per diluted share, compared to \$1.1 million, or \$0.03 per diluted share, for the first quarter of 2014, and \$1.0 million, or \$0.03 per diluted share, for the second quarter of 2013.

Non-GAAP net income (loss) excludes: (i) stock-based compensation expenses; (ii) amortization expenses related to intangible assets; and (iii) non-cash deferred tax expenses. A reconciliation of net income (loss) on a GAAP basis to a non-GAAP basis is provided in the tables that accompany the condensed consolidated financial statements contained in this press release.

Net cash used in operating activities for the second quarter of 2014 totaled \$386,000. Cash and cash equivalents, bank deposits and marketable securities were \$91.8 million as of June 30, 2014 compared to \$94.0 million as of March 31, 2014 and \$57.5 million as of June 30, 2013. The increase from a year ago was primarily a result of the receipt of net proceeds of approximately \$29.7 million in connection with a public offering of the Company's ordinary shares in March 2014.

"We are very pleased to report strong growth of our networking business for the second quarter of 2014. This business comprised 88% of our revenues in the quarter. Driven by solid progress across all market segments, our networking business revenues grew 15.3% over the year-ago quarter, and 8.1% over the previous quarter," said Shabtai Adlersberg, President and Chief Executive Officer of AudioCodes. "We experienced record sales of our Session Border Controller line which grew more than 100% over the year-ago quarter and more than 30% over the previous quarter. Sales of the New Products group category comprising of SBC, Multi-service routers and IP Phones increased more than 30% compared to the previous quarter. In addition to these successes, we continued to grow in the Microsoft Lync segment in-line with our stated plan for 2014 to grow this segment by more than 40% over 2013."

"To advance growth initiatives, we continue to introduce new products and solutions. The launch of AudioCodes One Box 365, a new One Voice for Lync solution that provides our partners an intuitive and quick way to bring enterprise voice alongside Office 365 in both pure cloud and hybrid on-premise solutions, expands our market opportunity in the Microsoft Lync ecosystem."

"During the quarter, we launched and opened our new Cloud Delivery Network Architecture (CDNA) Research and Development Center that is supported by the Israeli Office of the Chief Scientist. This new R&D center is expected to provide a highly efficient platform to develop new cutting edge cloud-based real-

time communications technologies and services, and to support further growth in revenues beginning in 2015. These activities are expected to further strengthen our foundation for AudioCodes' growth in the years ahead," concluded Mr. Adlersberg.

Conference Call & Web Cast Information

AudioCodes will conduct a conference call at 8:00 A.M., Eastern Time today to discuss the Company's first quarter 2014 operating performance, financial results and outlook. Interested parties may participate in the conference call by dialing one the following numbers:

United States Participants: +1 (877) 407-0778

International Participants: +1 (201) 689-8565

The conference call will also be simultaneously Web cast. Investors are invited to listen to the call live via Web cast at the AudioCodes corporate website at www.audiocodes.com.

About AudioCodes

AudioCodes Ltd. (NasdaqGS: AUDC) designs, develops and sells advanced Voice-over-IP (VoIP) and converged VoIP and Data networking products and applications to Service Providers and Enterprises. AudioCodes is a VoIP technology market leader focused on converged VoIP and data communications and its products are deployed globally in Broadband, Mobile, Enterprise networks and Cable. The Company provides a range of innovative, cost-effective products including Media Gateways, Multi-Service Business Routers, Session Border Controllers (SBC), Residential Gateways, IP Phones, Media Servers, Value Added Applications and Professional Services. AudioCodes' underlying technology, VoIPerfectHD™, relies on AudioCodes' leadership in DSP, voice coding and voice processing technologies. AudioCodes' High Definition (HD) VoIP technologies and products provide enhanced intelligibility and a better end user communication experience in Voice communications. For more information on AudioCodes, visit <http://www.audiocodes.com>.

Statements concerning AudioCodes' business outlook or future economic performance; product introductions and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are "forward-looking statements" as that term is defined under U.S. Federal securities laws. Forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results to differ materially from those stated in such statements. These risks, uncertainties and factors include, but are not limited to: the effect of global economic conditions in general and conditions in AudioCodes'

industry and target markets in particular; shifts in supply and demand; market acceptance of new products and the demand for existing products; the impact of competitive products and pricing on AudioCodes' and its customers' products and markets; timely product and technology development, upgrades and the ability to manage changes in market conditions as needed; possible need for additional financing; the ability to satisfy covenants in the Company's loan agreements; possible disruptions from acquisitions; the ability of AudioCodes to successfully integrate the products and operations of acquired companies into AudioCodes' business; and other factors detailed in AudioCodes' filings with the U.S. Securities and Exchange Commission. AudioCodes assumes no obligation to update the information in this release.

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Summary financial data follows

**AUDICODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**
U.S. dollars in thousands

	June 30, 2014	December 31, 2013
	Unaudited	Audited
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 18,201	\$ 30,763
Short-term and restricted bank deposits	8,101	9,101
Short-term marketable securities and accrued interest	535	15,706
Trade receivables, net	30,794	26,431
Other receivables and prepaid expenses	8,503	6,199
Inventories	14,045	13,811
Total current assets	<u>80,179</u>	<u>102,011</u>
LONG-TERM ASSETS:		
Long-term and restricted bank deposits	\$ 5,382	\$ 6,697
Long-term marketable securities	59,582	-
Deferred tax assets	3,888	4,855
Severance pay funds	19,579	19,549
Total long-term assets	<u>88,431</u>	<u>31,101</u>
PROPERTY AND EQUIPMENT, NET	<u>2,959</u>	<u>3,191</u>
GOODWILL, INTANGIBLE ASSETS AND OTHER, NET	<u>37,323</u>	<u>38,001</u>
Total assets	<u><u>\$ 208,892</u></u>	<u><u>\$ 174,304</u></u>
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term bank loans	\$ 4,686	\$ 4,686
Trade payables	7,761	7,215
Senior convertible notes	53	353
Other payables and accrued expenses	18,887	17,958
Deferred revenues	9,872	6,940
Total current liabilities	<u>41,259</u>	<u>37,152</u>
LONG-TERM LIABILITIES:		
Accrued severance pay	\$ 19,689	\$ 19,845
Long-term bank loans	7,448	9,791
Deferred revenues and other liabilities	2,839	2,707
Total long-term liabilities	<u>29,976</u>	<u>32,343</u>
Total equity	<u>137,657</u>	<u>104,809</u>
Total liabilities and equity	<u><u>\$ 208,892</u></u>	<u><u>\$ 174,304</u></u>

AUDICODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands, except per share data

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Revenues:				
Products	\$ 57,917	\$ 53,712	\$ 29,369	\$ 27,541
Services	15,600	12,243	8,197	6,146
Total Revenues	73,517	65,955	37,566	33,687
Cost of revenues:				
Products	26,193	24,706	13,276	12,912
Services	3,961	3,104	2,036	1,566
Total Cost of revenues	30,154	27,810	15,312	14,478
Gross profit	43,363	38,145	22,254	19,209
Operating expenses:				
Research and development, net	16,228	14,280	8,416	6,970
Selling and marketing	22,895	18,956	11,669	9,742
General and administrative	3,716	4,116	1,802	2,077
Total operating expenses	42,839	37,352	21,887	18,789
Operating income	524	793	367	420
Financial income (expenses), net	102	(122)	15	81
Income before taxes on income	626	671	382	501
Taxes on income, net	(950)	(138)	(428)	(60)
Equity in losses of an affiliated company, net	-	(21)	-	-
Net income (loss)	\$ (324)	\$ 512	\$ (46)	\$ 441
Basic net earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ 0.00	\$ 0.01
Diluted net earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ 0.00	\$ 0.01
Weighted average number of shares used in computing basic net earnings (loss) per share (in thousands)	41,600	38,035	43,230	38,060
Weighted average number of shares used in computing diluted net earnings (loss) per share (in thousands)	41,600	38,615	43,230	38,653

AUDICODES LTD. AND ITS SUBSIDIARIES
NON-GAAP PROFORMA STATEMENTS OF OPERATIONS
U.S. dollars in thousands, except per share data

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Revenues:				
Products	\$ 57,917	\$ 53,712	\$ 29,369	\$ 27,541
Services	15,600	12,243	8,197	6,146
Total Revenues	73,517	65,955	37,566	33,687
Cost of revenues:				
Products	25,762	24,412	13,063	12,788
Services	3,845	3,037	1,976	1,538
Total Cost of revenues (1) (2)	29,607	27,449	15,039	14,326
Gross profit	43,910	38,506	22,527	19,361
Operating expenses:				
Research and development, net (1)	15,922	14,094	8,253	6,877
Selling and marketing (1) (2)	22,167	18,566	11,278	9,533
General and administrative (1)	3,303	3,842	1,595	1,940
Total operating expenses	41,392	36,502	21,126	18,350
Operating income	2,518	2,004	1,401	1,011
Financial income (expenses), net	102	(122)	15	81
Income before taxes on income	2,620	1,882	1,416	1,092
Taxes on income, net (3)	11	(138)	153	(60)
Equity in losses of an affiliated company, net	-	(21)	-	-
Net income	\$ 2,631	\$ 1,723	\$ 1,569	\$ 1,032
Diluted net earnings per share	\$ 0.06	\$ 0.04	\$ 0.04	\$ 0.03
Weighted average number of shares used in computing basic net earnings per share (in thousands)	43,175	38,922	44,616	38,949

(1) Excluding stock-based compensation expenses related to options and restricted stock units granted to employees and others.

(2) Excluding amortization of intangible assets related to the acquisitions of Nuera, Netrake, CTI Squared and Mailvision assets.

(3) Excluding non-cash deferred tax expenses.

Note: Non-GAAP measures should be considered in addition to, and not as a substitute for, the results prepared in accordance with GAAP. The Company believes that non-GAAP information is useful because it can enhance the understanding of its ongoing economic performance and therefore uses internally this non-GAAP information to evaluate and manage its operations. The Company has chosen to provide this information to investors to enable them to perform comparisons of operating results in a manner similar to how the Company analyzes its operating results and because many comparable companies report this type of information.

AUDIOCODES LTD. AND ITS SUBSIDIARIES
RECONCILIATION OF GAAP NET INCOME (LOSS) TO NON-GAAP NET INCOME (LOSS)
U.S. dollars in thousands, except per share data

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
GAAP net income (loss)	\$ (324)	\$ 512	\$ (46)	\$ 441
GAAP net earnings (loss) per share	\$ (0.01)	\$ 0.01	\$ 0.00	\$ 0.01
Cost of revenues:				
Stock-based compensation (1)	51	19	25	10
Amortization expenses (2)	496	342	248	142
	547	361	273	152
Research and development, net:				
Stock-based compensation (1)	306	186	163	93
Selling and marketing:				
Stock-based compensation (1)	546	238	300	133
Amortization expenses (2)	182	152	91	76
	728	390	391	209
General and administrative:				
Stock-based compensation (1)	413	274	207	137
Income taxes:				
Deferred tax (3)	961	-	581	-
Non-GAAP net income	\$ 2,631	\$ 1,723	\$ 1,569	\$ 1,032
Non-GAAP diluted net earnings per share	\$ 0.06	\$ 0.04	\$ 0.04	\$ 0.03

- (1) Stock-based compensation expenses related to options and restricted stock units granted to employees and others.
(2) Amortization of intangible assets related to the acquisitions of Nuera, Netrake, CTI Squared and Mailvision assets.
(3) Non-cash deferred tax expenses.

Note: Non-GAAP measures should be considered in addition to, and not as a substitute for, the results prepared in accordance with GAAP. The Company believes that non-GAAP information is useful because it can enhance the understanding of its ongoing economic performance and therefore uses internally this non-GAAP information to evaluate and manage its operations. The Company has chosen to provide this information to investors to enable them to perform comparisons of operating results in a manner similar to how the Company analyzes its operating results and because many comparable companies report this type of information.

AUDICODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
U.S. dollars in thousands

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<u>Cash flows from operating activities:</u>				
Net income (loss)	\$ (324)	\$ 512	\$ (46)	\$ 441
Adjustments required to reconcile net income or loss to net cash provided by or used in operating activities:				
Depreciation and amortization	1,629	1,379	773	597
Amortization of marketable securities premiums and accretion of discounts, net	195	192	156	85
Equity in losses of an affiliated company, net	-	21	-	-
Increase (decrease) in accrued severance pay, net	(186)	114	26	(152)
Stock-based compensation expenses	1,316	717	695	373
Decrease in long-term deferred tax assets, net	967	-	496	-
Amortization of senior convertible notes discount and deferred charges	(15)	-	-	-
Decrease (increase) in accrued interest on marketable securities, bank deposits and structured notes	174	52	(4)	45
Increase in trade receivables, net	(4,363)	(2,229)	(3,751)	(1,524)
Increase in other receivables and prepaid expenses	(2,370)	(736)	(231)	(96)
Decrease (increase) in inventories	(234)	3,331	(277)	2,065
Increase (decrease) in trade payables	546	(535)	(1,515)	991
Increase in deferred revenues	3,273	3,200	17	1,348
Increase (decrease) in other payables and accrued expenses	953	726	3,275	(112)
Net cash provided by (used in) operating activities	<u>1,561</u>	<u>6,744</u>	<u>(386)</u>	<u>4,061</u>
<u>Cash flows from investing activities:</u>				
Purchase of marketable securities	(60,170)	-	(60,170)	-
Decrease (increase) in short-term deposits, net	1,000	(269)	-	(675)
Investment in affiliated company	-	(1,211)	-	(596)
Proceeds from redemption of long-term bank deposits	1,381	1,312	851	851
Proceeds from redemption of marketable securities upon maturity	15,390	4,000	4,000	4,000
Purchase of property and equipment	(719)	(673)	(308)	(395)
Net cash provided by (used in) investing activities	<u>(43,118)</u>	<u>3,159</u>	<u>(55,627)</u>	<u>3,185</u>

AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
U.S. dollars in thousands

	Six months ended		Three months ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
<u>Cash flows from financing activities:</u>				
Repayment of senior convertible notes	(285)	-	-	-
Repayment of long-term bank loans	(2,343)	(5,343)	(1,367)	(2,866)
Consideration related to payment of acquisition of NSC	-	(515)	-	(120)
Consideration related to payment of acquisition of Mailvision	(233)	-	(233)	-
Proceeds from issuance of shares upon exercise of options and warrants	2,112	210	388	81
Proceeds from issuance of shares, net	29,744	-	-	-
Payment of issuance costs	-	-	(111)	-
Net cash provided by (used in) financing activities	<u>28,995</u>	<u>(5,648)</u>	<u>(1,323)</u>	<u>(2,905)</u>
Increase (decrease) in cash and cash equivalents	(12,562)	4,255	(57,336)	4,341
Cash and cash equivalents at the beginning of the period	<u>30,763</u>	<u>15,219</u>	<u>75,537</u>	<u>15,133</u>
Cash and cash equivalents at the end of the period	<u>\$ 18,201</u>	<u>\$ 19,474</u>	<u>\$ 18,201</u>	<u>\$ 19,474</u>