

## PRESS RELEASE

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## AudioCodes Reports Second Quarter 2008 Results

### *Quarterly Revenues Rise 18.7% Year-Over-Year to Record \$45.7 million*

**Lod, Israel – July 29, 2008** – **AudioCodes (NasdaqGS: AUDC)**, a leading provider of Voice over Packet (VoP) technologies and Voice Network products, today announced financial results for the second quarter ended June 30, 2008.

Revenues for the second quarter ended June 30, 2008 were a record \$45.7 million compared to \$43.7 million for the quarter ended March 31, 2008 and \$38.4 million for the quarter ended June 30, 2007. Second quarter revenues grew 4.4% compared to the quarter ended March 31, 2008 and increased 18.7% compared to the second quarter of 2007. Net income in accordance with U.S. generally accepted accounting principles (GAAP) was \$1.6 million, or \$0.04 per diluted share, for the second quarter of 2008 compared to \$457,000 or \$0.01 per diluted share, for the first quarter of 2008 and a net loss of \$1.4 million, or (\$0.03) per diluted share, for the corresponding period last year.

Non-GAAP net income was \$3.6 million, or \$0.09 per diluted share, in the second quarter of 2008 compared to \$3.1 million, or \$0.07 per diluted share, in the first quarter of 2008 and \$1.4 million, or \$0.03 per diluted share, in the second quarter of 2007. Non-GAAP net income excludes (i) stock-based compensation expenses and (ii) amortization expenses related to the Nuera, Netrake and CTI Squared acquisitions. A reconciliation between net income on a GAAP basis and non-GAAP net income is provided in the tables that accompany the condensed consolidated financial statements contained in this release.

Net cash provided by operating activities was \$4.0 million in the second quarter of 2008 compared to \$2.7 million in the second quarter of 2007.

“We are very pleased to report yet another quarter of record revenues and growing profits, our fifth consecutive quarter of sequential growth,” stated Shabtai Adlersberg, Chairman of the Board, President and CEO of AudioCodes. “In the second quarter of 2008 we enjoyed continued momentum in our networking business which grew 10% sequentially and over 25% year-over-year.”

“This quarter we made an important step to diversify and grow our market reach and product offerings by introducing the Mediant™ 1000 Multi-Service Business Gateway (MSBG), our first converged voice and data services customer premises equipment (CPE) product. The Mediant 1000 MSBG integrates a VoIP media gateway with an enterprise level session border controller and data services such as switching, routing and security. The MSBG product provides us with access to a new market segment which is estimated by In-Stat, a market research firm, to be approximately \$500 million in 2008 and predicted to grow 30% annually to above \$1 billion by 2011,” continued Mr. Adlersberg.

“With progress made this quarter in new product initiatives and improved budget and expense control, we believe we have set a strong foundation for further success in coming years,” concluded Mr. Adlersberg.

AudioCodes repurchased approximately 1.8 million of its ordinary shares during the second quarter of 2008 at a cost of \$7.2 million. In the first half of 2008, AudioCodes has repurchased a total of 2.8 million ordinary shares at a total cost of \$11.4 million under the current stock repurchase program which authorized the Company to purchase up to 4,000,000 AudioCodes ordinary shares, or the equivalent of approximately 10% of the Company’s outstanding share capital.

Cash and cash equivalents, short-term and long-term marketable securities, short-term and long-term bank deposits and structured notes were \$147.3 million as of June 30, 2008 compared to \$137.6 million as of March 31, 2008, and \$130.5 million as of June 30, 2007. During the second quarter, AudioCodes borrowed \$15.0 million from a bank.

### **Conference Call & Web cast Information**

AudioCodes will conduct a conference call at 9:00 A.M., Eastern Daylight Time on Wednesday, July 30, 2008 to discuss the second quarter financial results. The conference call will 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](http://www.audiocodes.com).

## **About AudioCodes**

AudioCodes Ltd. (NasdaqGS: AUDC) provides innovative, reliable and cost-effective Voice over IP (VoIP) technology, Voice Network Products, and Value Added Applications to Service Providers, Enterprises, OEMs, Network Equipment Providers and System Integrators worldwide. AudioCodes provides a diverse range of flexible, comprehensive media gateway, and media processing enabling technologies based on VoIPerfect™ -- AudioCodes' underlying, best-of-breed, core media architecture. The company is a market leader in VoIP equipment, focused on VoIP Media Gateway, Media Server, Session Border Controllers (SBC), Security Gateways and Value Added Application network products. AudioCodes has deployed tens of millions of media gateway and media server channels globally over the past ten years and is a key player in the emerging best-of-breed, IMS based, VoIP market. The Company is a VoIP technology leader focused on quality and interoperability, with a proven track record in product and network interoperability with industry leaders in the Service Provider and Enterprise space. AudioCodes Voice Network Products feature media gateway and media server platforms for packet-based applications in the converged, wireline, wireless, broadband access, cable, enhanced voice services, video, and Enterprise IP Telephony markets. AudioCodes' headquarters and R&D are located in Israel with an additional R&D facility in the U.S. Other AudioCodes' offices are located in Europe, India, the Far East, and Latin America. 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 continuing products' demand; 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 disruptions from acquisitions and other factors detailed in AudioCodes' filings with the Securities and Exchange Commission. AudioCodes assumes no obligation to update the information in this release.

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Summary financial data follows

**AUDIOCODES LTD. AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

|   | <u>June 30,</u><br><u>2008</u> | <u>December 31,</u><br><u>2007</u> |
|---|--------------------------------|------------------------------------|
|   | <u>(Unaudited)</u>             |                                    |
| <b>ASSETS</b>   |                                |                                    |
| CURRENT ASSETS:                                       |                                |                                    |
| Cash and cash equivalents                             | \$ 40,016                      | \$ 75,063                          |
| Short-term bank deposits                              | 76,075                         | 18,065                             |
| Short-term marketable securities and accrued interest | 4,073                          | 17,244                             |
| Trade receivables, net                                | 29,708                         | 25,604                             |
| Other receivables and prepaid expenses                | 5,853                          | 6,592                              |
| Inventories   | 19,995                         | 18,736                             |
| Total current assets                                  | <u>175,720</u>                 | <u>161,304</u>                     |
| LONG-TERM INVESTMENTS:                                |                                |                                    |
| Long-term bank deposits                               | 27,109                         | 32,670                             |
| Investments in companies                              | 2,026                          | 1,343                              |
| Deferred tax assets                                   | 2,058                          | 2,058                              |
| Severance pay funds                                   | 11,871                         | 9,799                              |
| Total long-term investments                           | <u>43,064</u>                  | <u>45,870</u>                      |
| PROPERTY AND EQUIPMENT, NET                           | <u>7,361</u>                   | <u>7,094</u>                       |
| INTANGIBLE ASSETS, DEFERRED CHARGES AND<br>OTHER, NET | <u>17,043</u>                  | <u>19,007</u>                      |
| GOODWILL  | <u>111,212</u>                 | <u>111,212</u>                     |
| Total assets  | <u>\$ 354,400</u>              | <u>\$ 344,487</u>                  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>           |                                |                                    |
| CURRENT LIABILITIES:                                  |                                |                                    |
| Current maturities of long-term bank loans            | \$ 3,000                       | \$ -                               |
| Trade payables  | 12,129                         | 8,849                              |
| Other payables and accrued expenses                   | 24,405                         | 28,780                             |
| Total current liabilities                             | <u>39,534</u>                  | <u>37,629</u>                      |
| ACCRUED SEVERANCE PAY                                 | <u>13,121</u>                  | <u>11,168</u>                      |
| LONG-TERM BANK LOANS                                  | <u>12,000</u>                  | <u>-</u>                           |
| SENIOR CONVERTIBLE NOTES                              | <u>121,291</u>                 | <u>121,198</u>                     |
| Total shareholders' equity                            | <u>168,454</u>                 | <u>174,492</u>                     |
| Total liabilities and shareholders' equity            | <u>\$ 354,400</u>              | <u>\$ 344,487</u>                  |

**AUDIOCODES LTD. AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**In thousands, except share and per share data**

|   | <b>Six months ended</b> |             | <b>Three months ended</b> |             |
|---|-------------------------|-------------|---------------------------|-------------|
|   | <b>June 30,</b>         |             | <b>June 30,</b>           |             |
|   | <b>2008</b>             | <b>2007</b> | <b>2008</b>               | <b>2007</b> |
|   | <b>(Unaudited)</b>      |             | <b>(Unaudited)</b>        |             |
| Revenues  | \$ 89,390               | \$ 74,987   | \$ 45,651                 | \$ 38,444   |
| Cost of revenues  | 39,120                  | 32,881      | 19,996                    | 16,906      |
| Gross profit  | 50,270                  | 42,106      | 25,655                    | 21,538      |
| Operating expenses:   |                         |             |                           |             |
| Research and development, net   | 19,980                  | 20,381      | 9,744                     | 10,345      |
| Selling and marketing   | 23,343                  | 21,750      | 11,783                    | 10,910      |
| General and administrative  | 4,821                   | 4,726       | 2,321                     | 2,171       |
| Total operating expenses  | 48,144                  | 46,857      | 23,848                    | 23,426      |
| Operating income (loss)   | 2,126                   | (4,751)     | 1,807                     | (1,888)     |
| Financial income, net   | 895                     | 1,270       | 337                       | 766         |
| Income (loss) before taxes on income  | 3,021                   | (3,481)     | 2,144                     | (1,122)     |
| Income taxes  | 284                     | 842         | 144                       | 80          |
| Equity in losses of affiliated companies  | 633                     | 533         | 353                       | 204         |
| Net income (loss)   | \$ 2,104                | \$ (4,856)  | \$ 1,647                  | \$ (1,406)  |
| Basic net earnings (loss) per share   | \$ 0.05                 | \$ (0.11)   | \$ 0.04                   | \$ (0.03)   |
| Diluted net earnings (loss) per share   | \$ 0.05                 | \$ (0.11)   | \$ 0.04                   | \$ (0.03)   |
| Weighted average number of shares used in computing basic net earnings per share (in thousands)   | 42,210                  | 42,416      | 41,410                    | 42,519      |
| Weighted average number of shares used in computing diluted net earnings per share (in thousands) | 42,694                  | 42,416      | 41,873                    | 42,519      |

**AUDIOCODES LTD. AND ITS SUBSIDIARIES**  
**NON-GAAP PROFORMA STATEMENTS OF OPERATIONS**

In thousands, except share and per share data

|  | Six months ended |           | Three months ended |           |
|--|------------------|-----------|--------------------|-----------|
|  | June 30,         |           | June 30,           |           |
|  | 2008             | 2007      | 2008               | 2007      |
|  | (Unaudited)      |           | (Unaudited)        |           |
| Revenues   | \$ 89,390        | \$ 74,987 | \$ 45,651          | \$ 38,444 |
| Cost of revenues *) **)  | 37,823           | 31,171    | 19,374             | 16,025    |
| Gross profit   | 51,567           | 43,816    | 26,277             | 22,419    |
| Operating expenses:  |                  |           |                    |           |
| Research and development, net *)   | 18,883           | 18,795    | 9,364              | 9,594     |
| Selling and marketing *) **)   | 21,531           | 19,363    | 10,959             | 9,764     |
| General and administrative *)  | 4,423            | 4,370     | 2,166              | 2,160     |
| Total operating expenses   | 44,837           | 42,528    | 22,489             | 21,518    |
| Operating income   | 6,730            | 1,288     | 3,788              | 901       |
| Financial income, net  | 895              | 1,270     | 337                | 766       |
| Income before taxes on income  | 7,625            | 2,558     | 4,125              | 1,667     |
| Income taxes, net **)  | 284              | 136       | 144                | 80        |
| Equity in losses of affiliated companies   | 633              | 533       | 353                | 204       |
| Non-GAAP net income  | \$ 6,708         | \$ 1,889  | \$ 3,628           | \$ 1,383  |
| Non-GAAP diluted net earnings per share  | \$ 0.16          | \$ 0.04   | \$ 0.09            | \$ 0.03   |
| Weighted average number of shares used in computing non-GAAP diluted net earnings per share (in thousands) | 42,694           | 43,664    | 41,887             | 43,481    |

\*) Excluding stock-based compensation expenses related to options granted to employees and others as a result of the adoption of SFAR 123R as of January 1, 2006

\*\*) Excluding amortization of intangible assets related to the acquisitions of Nuera and Netrake during the third quarter of 2006 and to the acquisition of CTI Squared during the second quarter of 2007.

**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 as well.

**AUDIOCODES LTD. AND ITS SUBSIDIARIES**  
**RECONCILIATION BETWEEN GAAP NET INCOME AND NON-GAAP NET INCOME**  
**In thousands, except per share data**

|  | Six months ended<br>June 30, |            | Three months ended<br>June 30, |            |
|--|------------------------------|------------|--------------------------------|------------|
|  | 2008                         | 2007       | 2008                           | 2007       |
|  | (Unaudited)                  |            | (Unaudited)                    |            |
| GAAP Net income (loss)                 | \$ 2,104                     | \$ (4,856) | \$ 1,647                       | \$ (1,406) |
| GAAP Diluted earnings (loss) per share | \$ 0.05                      | \$ (0.11)  | \$ 0.04                        | \$ (0.03)  |
| Cost of revenues:                      |                              |            |                                |            |
| Stock-based compensation (*)           | 228                          | 331        | 88                             | 161        |
| Amortization expenses(**)              | 1,069                        | 1,379      | 534                            | 720        |
|  | 1,297                        | 1,710      | 622                            | 881        |
| Research and development, net:         |                              |            |                                |            |
| Stock-based compensation (*)           | 1,097                        | 1,586      | 380                            | 751        |
| Selling and marketing:                 |                              |            |                                |            |
| Stock-based compensation (*)           | 1,290                        | 1,865      | 563                            | 885        |
| Amortization expenses(**)              | 522                          | 522        | 261                            | 261        |
|  | 1,812                        | 2,387      | 824                            | 1,146      |
| General and administrative:            |                              |            |                                |            |
| Stock-based compensation (*)           | 398                          | 356        | 155                            | 11         |
| Income tax effect(**)                  | -                            | 706        | -                              | -          |
| Non- GAAP Net income                   | \$ 6,708                     | \$ 1,889   | \$ 3,628                       | \$ 1,383   |
| Non-GAAP Diluted earnings per share    | \$ 0.16                      | \$ 0.04    | \$ 0.09                        | \$ 0.03    |

\*) Stock-based compensation expenses related to options granted to employees and others as a result of the adoption of SFAR 123R as of January 1, 2006.

\*\*\*) Amortization of intangible assets related to the acquisitions of Nuera and Netrake during the third quarter of 2006 and to the acquisition of CTI Squared during the second quarter of 2007.

**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**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

**U.S. dollars in thousands**

|  | <b>Six months ended</b> |               | <b>Three months ended</b> |                |
|--|-------------------------|---------------|---------------------------|----------------|
|  | <b>June 30,</b>         |               | <b>June 30,</b>           |                |
|  | <b>2008</b>             | <b>2007</b>   | <b>2008</b>               | <b>2007</b>    |
|  | <b>(Unaudited)</b>      |               | <b>(Unaudited)</b>        |                |
| <u>Cash flows from operating activities:</u>   |                         |               |                           |                |
| Net income (loss)  | \$ 2,104                | \$ (4,856)    | \$ 1,647                  | \$ (1,406)     |
| Adjustments required to reconcile net income to net cash provided by operating activities:           |                         |               |                           |                |
| Depreciation and amortization  | 3,855                   | 4,049         | 1,939                     | 1,975          |
| Net loss from sale of marketable securities  | -                       | -             | -                         | -              |
| Amortization of marketable securities premiums and accretion of discounts, net                       | (16)                    | 53            | (7)                       | 17             |
| Equity in losses of affiliated companies   | 633                     | 533           | 353                       | 204            |
| Increase (decrease) in accrued severance pay, net  | (119)                   | 227           | (268)                     | (21)           |
| Stock-based compensation expenses  | 3,013                   | 4,138         | 1,186                     | 1,808          |
| Amortization of senior convertible notes discount and deferred charges                               | 102                     | 100           | 51                        | 50             |
| Decrease (increase) in accrued interest on marketable securities, bank deposits and structured notes | (99)                    | (319)         | 163                       | (206)          |
| Increase in deferred tax assets  | -                       | (347)         | -                         | (210)          |
| Decrease (increase) in trade receivables, net  | (4,104)                 | 5,126         | (5,495)                   | 1,980          |
| Decrease (increase) in other receivables and prepaid expenses  | (206)                   | (633)         | 442                       | 272            |
| Decrease (increase) in inventories   | (1,259)                 | (3,729)       | 915                       | (1,791)        |
| Increase (decrease) in trade payables  | 3,280                   | 432           | 2,596                     | (1,011)        |
| Increase (decrease) in other payables and accrued expenses   | 625                     | (4,811)       | 449                       | 1,048          |
| Increase in deferred tax liabilities   | -                       | 706           | -                         | -              |
| Other  | -                       | 4             | -                         | 3              |
| Net cash provided by operating activities  | <u>7,809</u>            | <u>673</u>    | <u>3,971</u>              | <u>2,712</u>   |
| <u>Cash flows from investing activities:</u>   |                         |               |                           |                |
| Proceeds from sale and maturity of marketable securities   | 13,000                  | 16,600        | 2,000                     | 7,800          |
| Proceeds from sale of bank deposits  | 18,094                  | 25,000        | 10,029                    | -              |
| Investments in companies   | (1,316)                 | (538)         | (731)                     | (338)          |
| Payment for acquisition of CTI Squared*)   | (5,000)                 | (4,897)       | -                         | (4,397)        |
| Purchase of property and equipment   | (2,167)                 | (1,352)       | (1,251)                   | (474)          |
| Investment in short-term deposit   | (70,104)                | -             | (70,075)                  | -              |
| Investment in long-term deposit  | (255)                   | (11,000)      | (255)                     | (11,000)       |
| Net cash provided by (used in) investing activities  | <u>(47,748)</u>         | <u>23,813</u> | <u>(60,283)</u>           | <u>(8,409)</u> |



**AUDIOCODES LTD. AND ITS SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (Cont.)**

**U.S. dollars in thousands**

|  | <b>Six months ended</b> |                  | <b>Three months ended</b> |                  |
|--|-------------------------|------------------|---------------------------|------------------|
|  | <b>June 30,</b>         |                  | <b>June 30,</b>           |                  |
|  | <b>2008</b>             | <b>2007</b>      | <b>2008</b>               | <b>2007</b>      |
|  | <u>(Unaudited)</u>      |                  | <u>(Unaudited)</u>        |                  |
| <u>Cash flows from financing activities:</u>   |                         |                  |                           |                  |
| Repurchase of shares   | (11,408)                | -                | (7,186)                   | -                |
| Increase in current maturities of long-term bank loans                                     | 3,000                   | -                | 3,000                     | -                |
| Long-term bank loans received  | 12,000                  | -                | 12,000                    | -                |
| Proceeds from issuance of shares upon exercise of options and employee stock purchase plan | 1,300                   | 2,730            | 81                        | 255              |
| Net cash provided by financing activities  | <u>4,892</u>            | <u>2,730</u>     | <u>7,895</u>              | <u>255</u>       |
| Increase (decrease) in cash and cash equivalents   | (35,047)                | 27,216           | (48,417)                  | (5,442)          |
| Cash and cash equivalents at the beginning of the period                                   | <u>75,063</u>           | <u>25,171</u>    | <u>88,433</u>             | <u>57,829</u>    |
| Cash and cash equivalents at the end of the period   | <u>\$ 40,016</u>        | <u>\$ 52,387</u> | <u>\$ 40,016</u>          | <u>\$ 52,387</u> |

\*)Excluding cash and cash equivalents