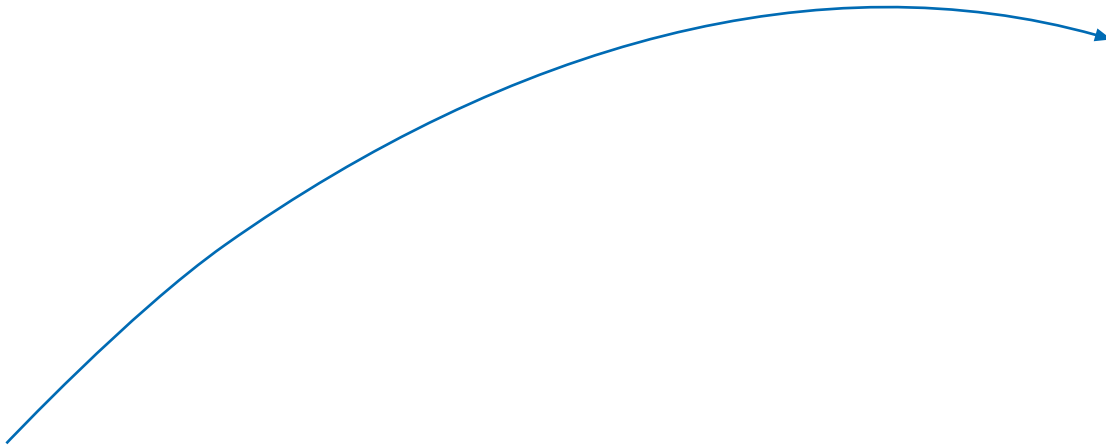


Enabling **Next Gen**  
**Voice Networks**



*AudioCodes 1999 Annual Report*



# Leadership. Innovation. Creativity.



**AudioCodes Ltd.** is the leading global supplier of enabling technologies and communications components for voice over packet networks. AudioCodes products are deployed by leading OEMs in the telecommunications and networking industries and have captured a very significant market share.

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*The heart of  
every object is  
what makes it  
unique ...*



*At AudioCodes, we are dedicated to  
devising the technology that is at the  
very heart of tomorrow's communications.*

***It's turning into an AudioCoded world...***

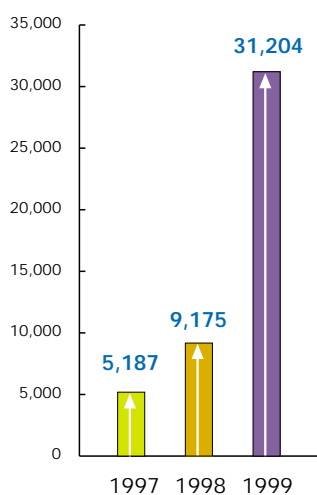


# Financial Highlights

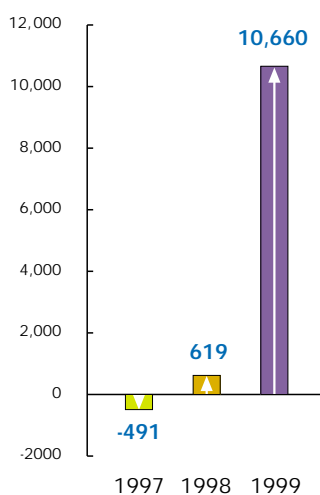
US \$ in thousands (except per share data)

Year ended December 31,	1995	1996	1997	1998	1999
Total Revenues	1,321	3,558	5,187	9,175	31,204
Gross Profit	646	1,517	2,606	5,917	19,283
R&D Expenses, Net	311	603	1,262	2,149	4,812
Net Income (Loss)	(180)	34	(491)	619	10,660
Diluted Earnings (Loss) Per Share	(0.02)	0.01	(0.05)	0.05	0.59
Shareholders' Equity	1,916	1,970	4,439	5,145	120,325

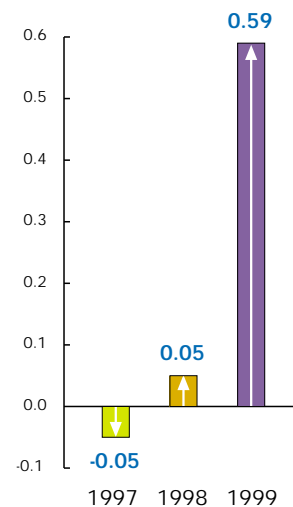
**REVENUES**  
(US \$ In Thousands)



**NET INCOME (LOSS)**  
(US \$ In Thousands)



**DILUTED EARNINGS (LOSS) PER SHARE** (US \$)



# Dear Shareholders,



1999 was an exciting, pivotal year for AudioCodes. This was the year that AudioCodes reinforced its position as the leading technology provider in the Voice over Packet (VoP) market. Our enabling technologies are at the core of the transition from circuit to packet networks. We are riding the crest of a market that is growing substantially due to two major trends: global deregulation and the emergence of a converged voice and data network. As the major supplier of the building blocks for enabling VoIP and VoATM, AudioCodes is providing the key elements for the next generation of voice networks.

Our initial public offering in May was a success, testifying to the market's appreciation of our achievements and potential. The IPO raised \$44 million. The IPO was followed by a secondary offering in October, raising an additional \$57 million. The capital infusion

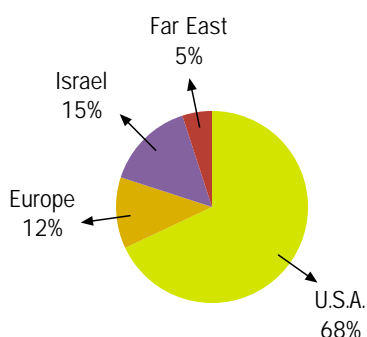


SHABTAI ADLERSBERG

provided us with the financial backing necessary for expanding the company and building our organization worldwide. Unburdened by debt and with a positive cash flow, AudioCodes will continue to pioneer new developments, expressing our long term commitment to setting the standards in our dynamic industry.

By the fourth quarter of 1999, we posted our sixth consecutive quarter of growing profits and our eighth consecutive quarter of over 20% revenue growth, beating all our financial forecasts for 1999. Annual revenues grew from \$9.2 million in 1998 to \$31.2 million in 1999, an increase of 239.1%. Operating income increased by 1518%, from \$0.5 million in 1998 to \$8.5 million in 1999. Operating profit margins increased from 5.8% in 1998 to 27.4% in 1999. Net income also increased substantially, from \$0.6 million in 1998 to \$10.7 million in 1999, or from \$0.05 per share in 1998 to \$0.59 per share in 1999, a 1080% increase!

## GEOGRAPHICAL SALES - 1999



### The Relentless Pursuit of Excellence

Since our establishment, we have been committed to the pursuit of technological excellence. Our strong, consistent commitment to R&D enables us to maintain a leading position on the technological front. We pride ourselves on our ability to anticipate market needs and direct our development efforts to be ready with new product concepts as market demand for them begins to emerge. We were the first to introduce multi-channel Voice over Packet processors three years ago; and two years ago, were right on target with our comprehensive Voice over IP board solutions. Once again, we anticipated the market this year, and introduced our media gateway subsystem solutions in 1999. These have brought open-platform functionality, meeting a critical requirement of OEM telecommunication manufacturers.

AudioCodes is setting the standards for voice quality. 1999 saw the culmination of years of development of VoIP gateways as we succeeded in making our partners' systems and networks provide voice quality that matches traditional networks. Our best-of-breed voice compression and echo cancellation technologies have been the leading enablers of the switch to packet networks.

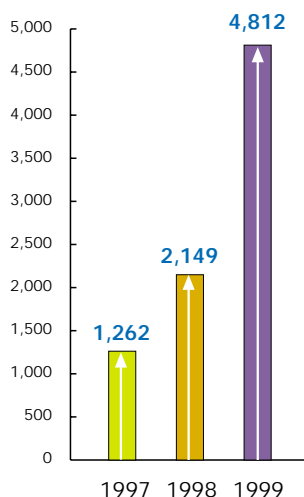
### An Innovative Product Portfolio that Delivers Value

We have leveraged our experience and proactive development efforts to offer a rich VoIP and VoATM product portfolio. We inaugurated the year 2000 with two new product line launches: media gateway subsystems and the media gateway modules. Our offerings feature enhanced functionality, flexibility and additional technological capabilities, such as signalling, network protocols and system software.

This improved functionality has resulted in extensive market adoption. AudioCodes technologies are being



**R&D EXPENSES**  
(US \$ In Thousands)



deployed in the equipment of the leading data and telecommunication equipment manufacturers across the globe. As testimony to this, *Forward Concepts*, the leading market forecaster for digital signal processing and vertical markets driven by DSP technology, recently reported that AudioCodes had captured 42.3% of the VoIP communication board market share in 1999 — greater than the combined market share of the next top three vendors combined! Our market dominance illustrates our commitment to the advancement of packet voice technologies and our intensive development and marketing efforts.

### Partnerships to Enhance Market Leadership

During 1999, AudioCodes' list of customers and

partners included most of the leading telecom and datacom manufacturers such as; Clarent, Nortel, Siemens, Lucent, Motorola, Cisco, Alcatel, Cirilium, VTG, Mockingbird, ITXC, Teles, VocalTec, Breezecom, VocalData, Arelnet, Hypercom, MultiTech, Radvision and others.

We maintain close ongoing relationships with our customers, providing customized solutions where necessary. These OEM relationships enhance our leadership position and serve as a basis for continued growth, while helping us stay attuned to new developments and trends in the industry.

### Facilitating Our Global Reach and Technological Leadership

1999 was a year of dynamic growth for our industry, and for our company. Worldwide, the number of employees has more than doubled and we have been highly successful in recruiting top professionals for our R&D, marketing and sales groups. The corporate management and marketing team has been strengthened, adding depth to our global marketing efforts.

In the U.S., our primary market, we now have offices in San Jose, California, Dallas, Texas and Chicago, Illinois. We have also expanded our presence in other parts of the world, particularly in the Far East. We opened an office in Beijing to tap the vast potential of the Chinese market. In addition, we appointed several leading representatives and agents in South Korea and Taiwan. In Europe, we are expanding our marketing efforts in the U.K., Germany and France.

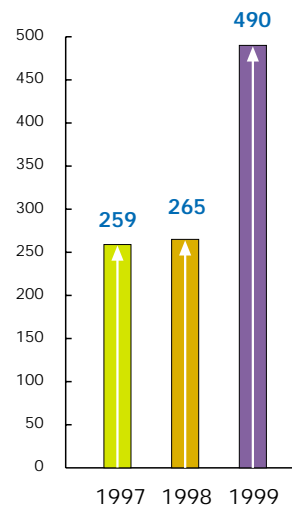
### The Sounds of the Future

As we look ahead and plan for the future, we see that our company is well positioned to take advantage of projected strong growth trends. Our media gateway and PMC module solutions introduced in the first quarter of this year were well received by the market. The initial feedback from the numerous beta site installations has been excellent. Commercial shipments should begin in the second half of 2000 and we believe that these new product lines will contribute a significant portion of our future revenues.

We continue to invest substantial resources in R&D. This commitment to developing new technologies will

### REVENUE BY EMPLOYEE

(\$ In Thousands)



help maintain the company's technological leadership in the future. Our vision of becoming a vital element in Voice over Packet networks has become a reality, and we are directing our efforts to the continued strengthening of our market position.

This vision could never have been realized without the dedication, talent and commitment of our employees. They stand firmly behind our company's achievements, and are the reason AudioCodes has become the "Sound Choice" for the next generation of voice networks.

On behalf of the entire Board of Directors, I would like to thank our employees for their dedication, and our shareholders and partners for their vision, support and confidence.

**SHABTAI ADLERSBERG, Co-Founder,**  
*President, Chief Executive Officer and  
Chairman of the Board*



The world of telecommunications is taking off as fast as the sound of our voices travels to the other end of the planet. Deregulation and the opening of global markets have fueled an explosive demand for improved communication capabilities. As new technologies and an increasingly crowded marketplace force prices down, service providers and carriers must offer innovative, cost-effective solutions and superior quality of service to stay competitive.

New technologies like packet-based Internet Protocol (IP) networks have revolutionized communications and form the basis of next-gen voice networks.

voice and mediation over this emerging packet-based infrastructure.

Packet networks are being applied in a growing array of applications, including international telephony, access networks, Web-enabled call centers, unified messaging and broadband access networks.

Our technologies are one of the key components enabling the paradigm shift from circuit to packet-based networks. By anticipating new markets and initiating innovative solutions as market demand arises, we're delivering exceptional product performance with superior Digital Signal Processing, communication system technologies and speech algorithms.

# Empowering the VoIP Revolution...

This exciting convergence of voice and data transmission over single networks has accelerated growth, and is turning integrated data-centric networks into the dominant telecommunications vehicle in the world. The market potential for all next-generation packet networks and broadband access networks, such as DSL, wireless and cable, are advancing at lightening speed.

Our customers, the leading telecom and datacom OEMs (Original Equipment Manufacturers), need to deliver the equipment to meet this challenge. AudioCodes' sophisticated voice compression technologies, digital signal processing chips and packet voice networking products are enabling the overlay of

The era of data-centric, packet-based networks has arrived. For AudioCodes, the undisputed leader in VoP enabling technologies, **the sky is the limit!**

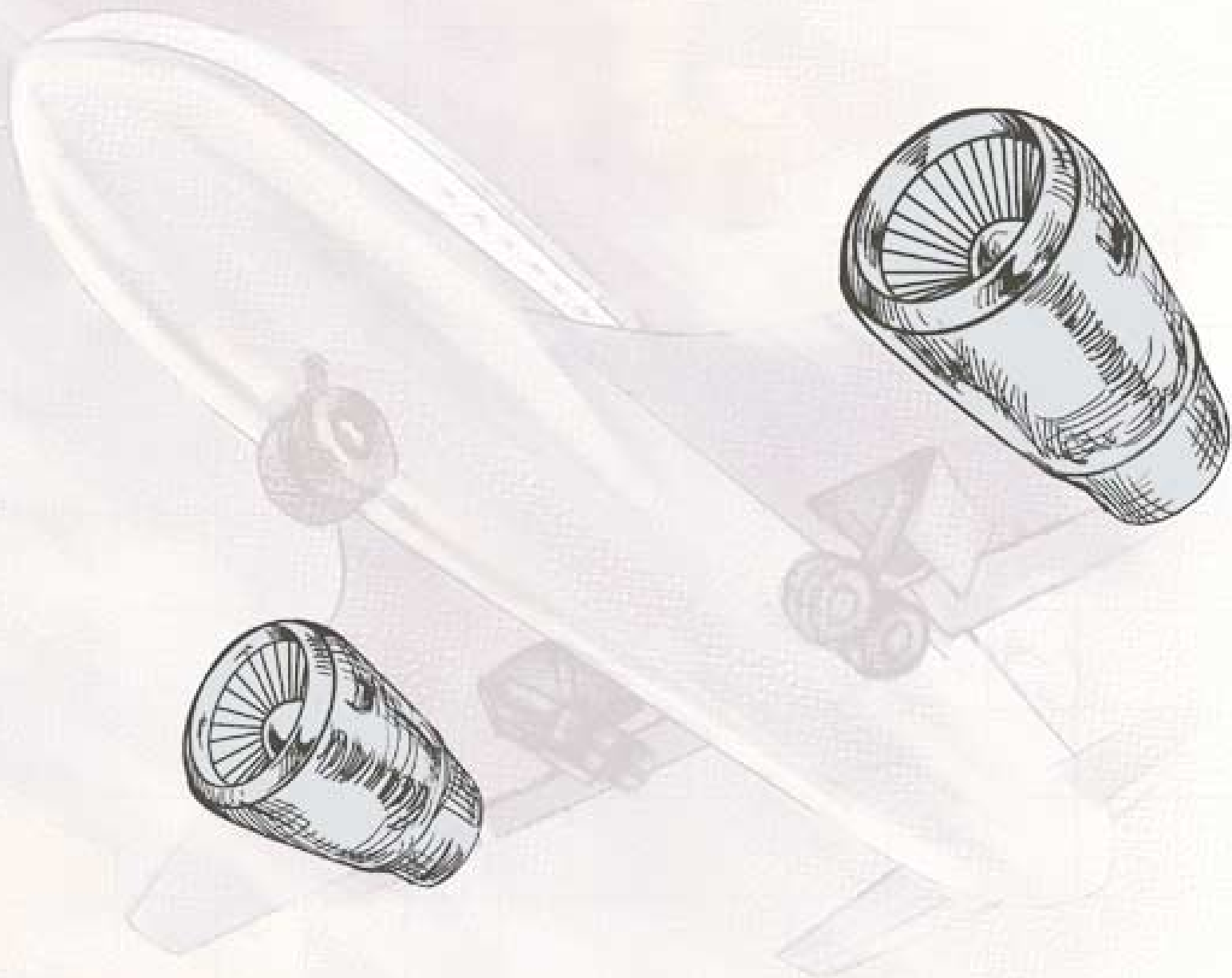


*MP-100*

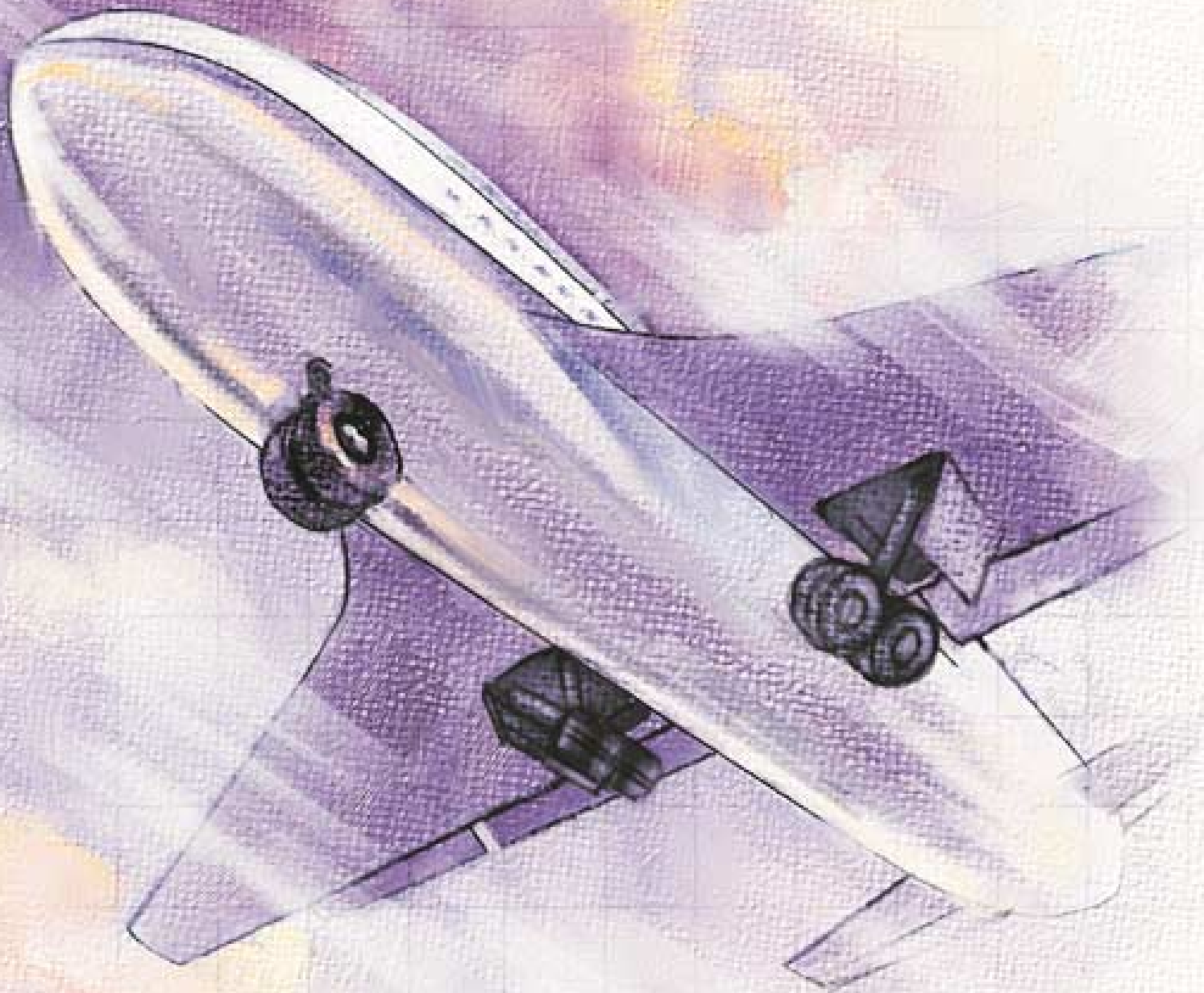


*MP-200*

*Analog and Digital Media Gateway Subsystems*



*... Where  
Innovation Soars!*



*The era of  
data-centric, packet-based networks  
has arrived. For AudioCodes, the undisputed leader in VoP enabling  
technologies, **the sky is the limit!***

When the world's leading OEMs select your technology time and again, there has to be a good reason. AudioCodes' core competencies in voice compression technologies, Digital Signal Processing (DSP) chipsets and VoIP subsystem technologies are what propelled our company to the pinnacle of the world of packet networks.

Our proprietary low-bit-rate voice compression algorithms deliver the highest quality and most efficient implementation in the market. This

have succeeded in developing algorithms that use minimal processing power and memory resources.

Our voice communication software is what makes voice over packet networks tick. Voice packetization software breaks data into packets, and adds addresses and control fields based on the appropriate packet network protocol.

To complement our line of AudioCoded™ solutions, we offer hardware architectures for high density multi-trunk voice over packet subsystems centered around two key processing elements: DSP chipsets and

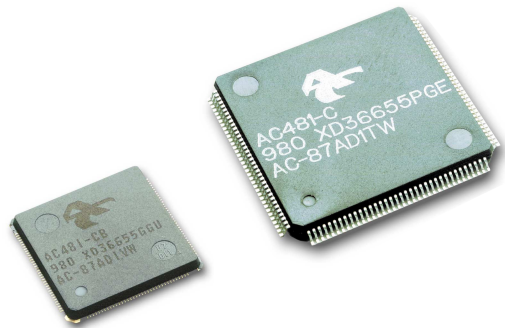
# Setting the Standards ...

technology enables uncompromising voice quality, lower cost per channel, fully integrated signal processing, low delay and improved bandwidth utilization. In fact, we were one of the innovators of the technology. Our patented MP-MLQ™ coder was adopted in 1995 by the ITU as the basis for the G.723.1 voice coding standard. This standard assures system manufacturers of full interoperability with other vendors' equipment.

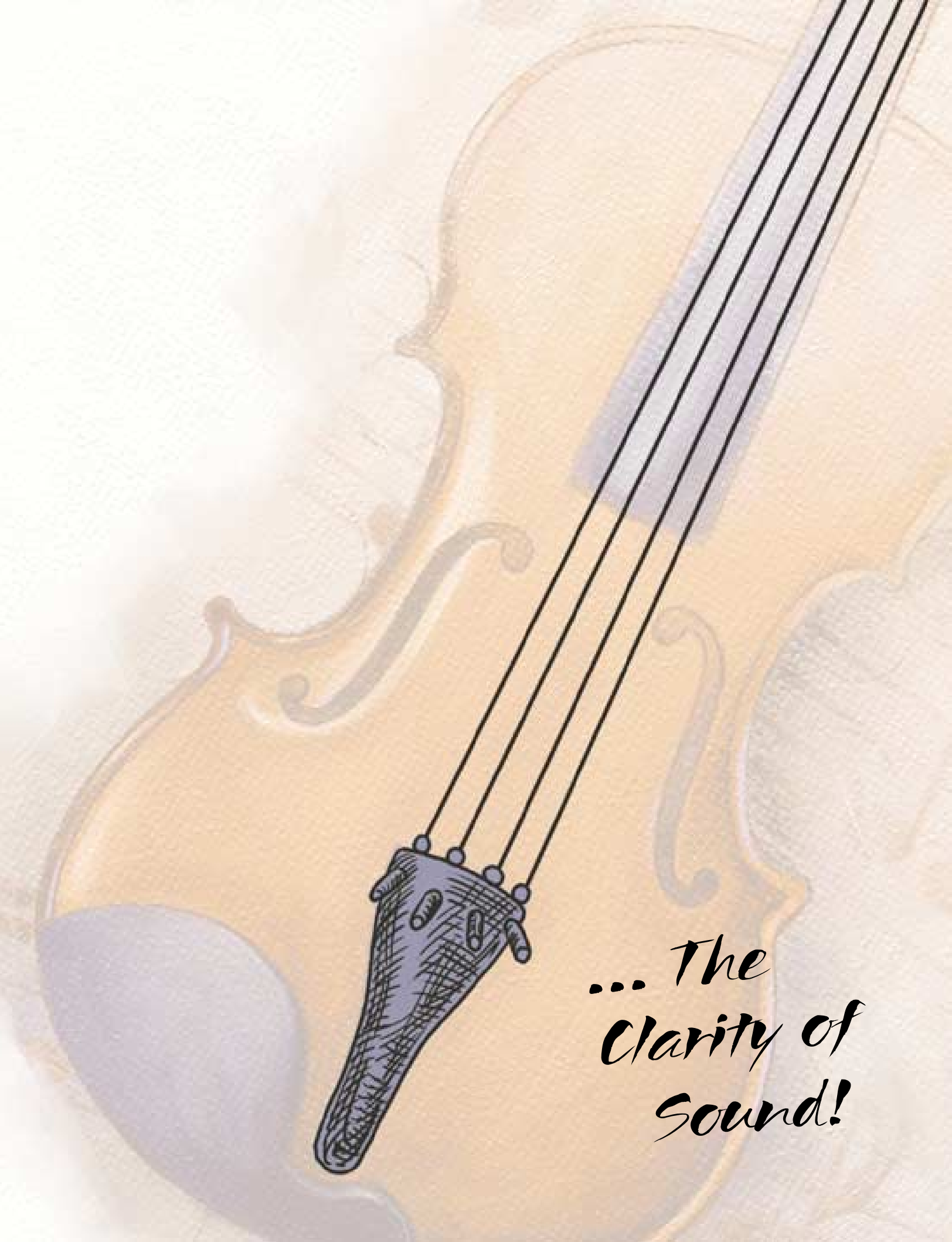
The efficiency of AudioCodes' library empowers us to pack more functionality into our voice over packet processors. These functions include echo cancellation, voice activity detection, facsimile and data modem, telephony signaling processing and network improvement processing such as jitter buffering and error synchronization. Leveraging our extensive experience in DSP solutions, we

packet processors. Our hardware architectures optimize overall system performance, reliability, capacity, size, cost and power consumption.

AudioCodes is hitting the high notes with state-of-the-art technology and our R&D efforts are directed toward making sure the harmony continues. It's an orchestrated effort and one of the reasons that AudioCodes is **the sound choice!**

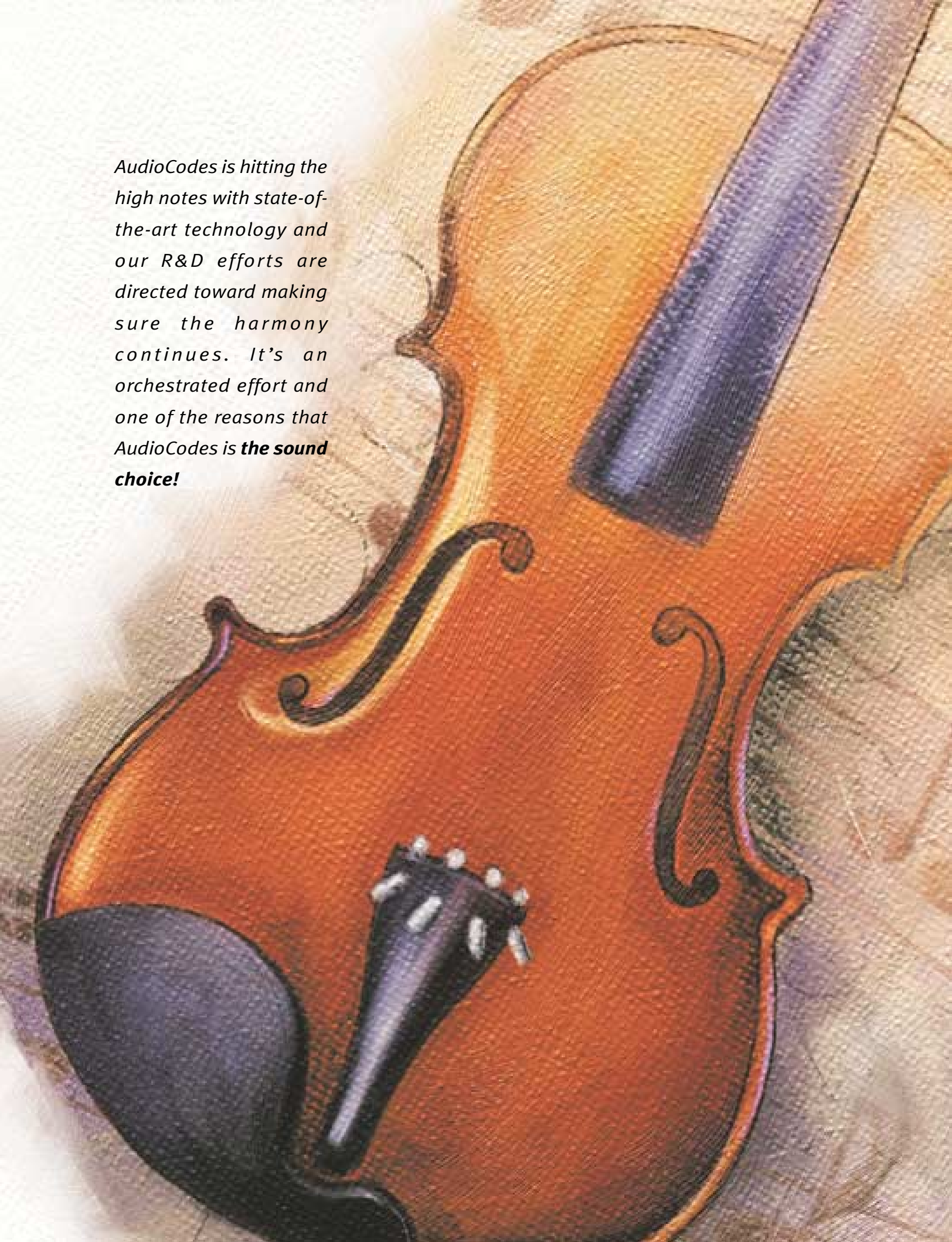


*Voice over Packet Processors*



*... The  
Clarity of  
Sound!*

*AudioCodes is hitting the high notes with state-of-the-art technology and our R&D efforts are directed toward making sure the harmony continues. It's an orchestrated effort and one of the reasons that AudioCodes is **the sound choice!***



AudioCodes has succeeded in outpacing the market by anticipating demand. Delivering the right products at the right time has been our trademark, and a key factor in enabling our customers to gain a competitive advantage. AudioCoded technology is enabling our customers to shorten development cycles and drastically reduce time-to-market. This, in turn, is accelerating the pace of the entire industry.

Our product line is the result of a comprehensive business strategy to extend our technology leadership and our focus on communication components in rapid-growth markets for high-end systems. In addition, our products are designed to expand system capabilities and leverage our success in VoIP and VoATM as well as to expand into the VoDSL and wireless access markets.

could operate in gateways, linking circuit-switched networks to packet networks. These communication boards offer a complete VoIP subsystem, and the highest density required by the market.

Next, we strengthened our position as the leading turnkey solution provider by becoming the first to offer media gateway modules in smaller form factors. These products meet the requirements for NextGen Access platforms that do not typically comply with open telephony architecture and are the most scalable and efficient media gateway modules available.

As the trend towards carrying voice over packet networks grew stronger, we recognized that the demand for increased "plug and play" characteristics was around the corner. Our digital module and subsystem media gateways offer MGCP-controlled Voice over IP communication for long distance and enterprise network systems.

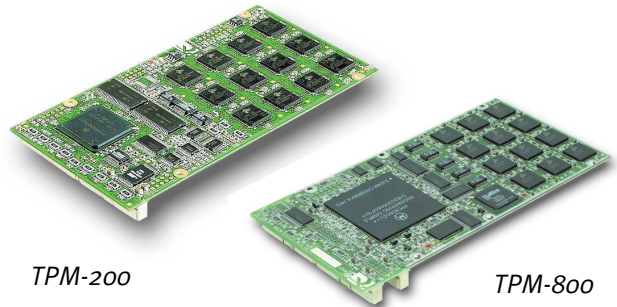
# Accelerating time-to-market ...

AudioCodes' product line has grown both quantitatively and qualitatively. But more importantly, it has evolved with the market. We have incorporated our algorithms, technologies and system design expertise into four product lines: signal processor chips, communication boards, media gateway subsystems and media gateway modules.

Our chipset solutions were the first of their kind on the market. These signal processor chips are the basic building blocks our customers use to enable their products to transmit voice over packet networks.

As the market matured, AudioCodes anticipated the need for more comprehensive solutions that

The market will grow considerably over the next several years. Carefully watching the trends, AudioCodes will continue to offer pace-setting **solutions in a timely fashion.**



*Digital Media Gateway Modules*



*... With  
Pace-Setting  
Products!*





*The market will grow considerably over the next several years. Carefully watching the trends, AudioCodes will continue to offer **pace-setting solutions in a timely fashion.***

By the end of 1999, over 40 percent of global Internet telephony traffic was flowing through systems with AudioCoded™ components.\* That's because the world's leading OEMs have selected AudioCodes enabling products repeatedly. These include **Cisco, Lucent, VocalTec, Alcatel, Nortel, Clarent, Siemens** and many others.

Over **40%**  
of VoIP traffic  
is **AudioCoded!**

#### Why AudioCodes?

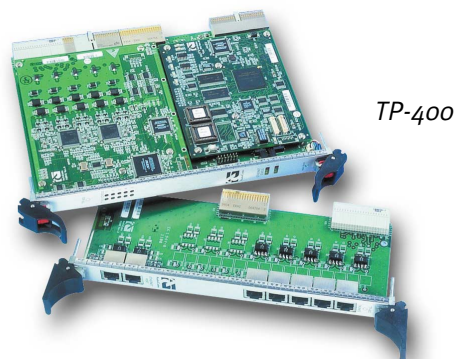
Because these companies know that the best way to gain a competitive advantage and stay ahead is to choose the company that has always been a step ahead. A company that time and time again has consistently anticipated what the market needs and what its customers require to meet the market's demand.

Our customers have seen their development cycles cut drastically thanks to our reliable, superior technology and they understand that the best way to stay at the head of the pack is to partner with a leader of the pack.

We pride ourselves on our close relationship with customers. That's why AudioCodes' support extends beyond delivering sophisticated hardware and software. We play a vital role in our customers' development efforts, from the earliest stages. This allows us to deliver the very

best, most appropriate solutions to fulfill our customers needs.

On the often rough seas of technological innovation, AudioCodes' technologies, products and sound business approach are **a beacon of light and assurance.**

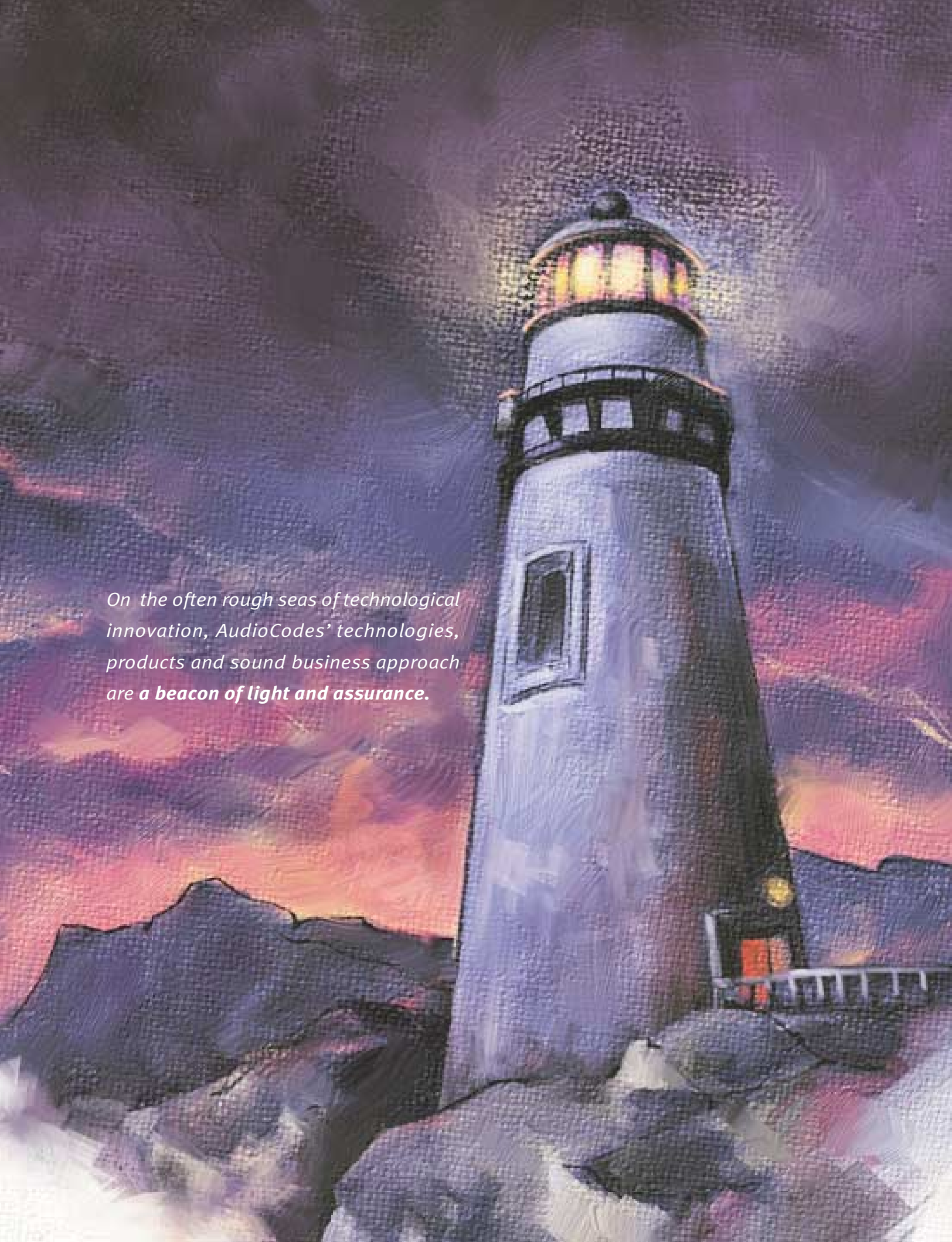


VoIP Communication Boards

\* Sources - Forward Concepts, March 2000, and IP Telephony Clearinghouse - A Business Model, 1999 iLOCUS.



*... We're  
Lighting  
The Way!*

A tall, white lighthouse with a black railing around the top, situated on a rocky island. The sky is a dramatic mix of purple, blue, and orange, suggesting a sunset or sunrise. The lighthouse is illuminated from within, casting a warm glow. The overall style is painterly and atmospheric.

*On the often rough seas of technological innovation, AudioCodes' technologies, products and sound business approach are **a beacon of light and assurance.***

The prime resource of any organization is the people that make it all happen. We take tremendous pride in our staff, and invest substantial resources to recruit and train the best and brightest professionals. We value our employees and actively foster long-term commitment and growth.

# We are Driven.

AudioCodes' staff is made up of a unique combination of seasoned professionals, and wiz-kids straight out of school. Side-by-side, some of the most experienced and inventive engineers and technology specialists in the telecommunications industry work together with some of the most creative young talent to emerge from the leading universities and technological institutes.

The environment is dynamic and fast-paced, providing an atmosphere of creativity, ingenuity and innovation... where employees work in tandem to contribute their very best.

All employees benefit from an attractive options package and the rewards to the Company are discernable in the responsibility for the future of our Company and high motivation in rising to the formidable challenges that our industry poses.

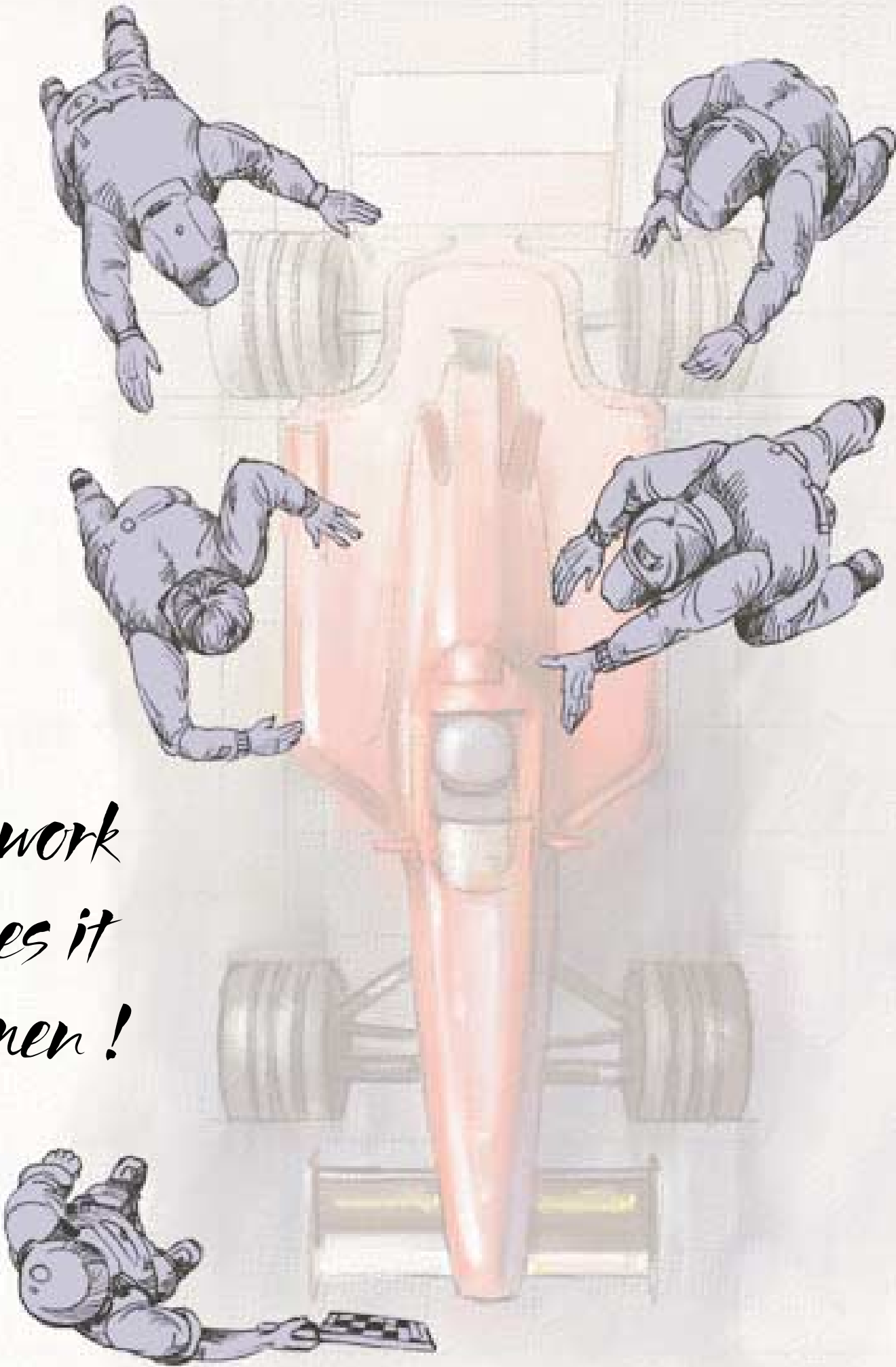
Worldwide, our staff has nearly doubled. Offices and subsidiaries across the world enjoy full support

from corporate headquarters and we have maintained a unique atmosphere of entrepreneurial creativity and excitement. One might call it a dynamic atmosphere – unencumbered by heavy bureaucracy.

Teamwork is responsible for enabling us to reach the top. Teamwork between our employees and departments as well as teamwork with our customers and partners. **We are committed to what it takes to win the race.**



*Teamwork  
makes it  
happen!*



*Teamwork is responsible for enabling us to reach the top. Teamwork between our employees and departments as well as teamwork with our customers and partners. We are committed to what it takes **to win the race.***

