

# Orchestrating the New Voice Infrastructure



AudioCodes  
2001 Annual Report

# Dear Shareholders,

This year, I am addressing you against a background of continuing market challenges. Our company's determination and resolve to realize its long-term potential have been the cornerstone of our activities in 2001, and I believe this potential will be revealed in its true light in the coming years.

As investments in new communications networks were substantially lower and deployments of VoIP networks suffered considerably, the effect on our financial results was significant. Despite this downturn, we believe that our company remains the preferred choice in our markets, and continues to achieve important design wins. We remain dedicated to continuing our growth as a company through internal expansion. Funds raised in our public offerings in 1999 have continued to be utilized for this.

We entered into this difficult period with strong cash reserves and no debt on our balance sheet. This helped us to maintain R&D activity and expand our product lines, while regrouping and refocusing to fulfill our long-term strategy. As of December 31, 2001, cash reserves totaled \$130 million.

**Adapting to Changing Markets**

While our competitors and customers reacted to the market downturn by reducing staff and investment, we adopted a different approach, based on our belief in the potential for long-term growth of the Voice over Packet (VoP) market. We made the strategic decision to retain our development staff and even increase R&D and marketing expenditures. We leveraged our strong financial position to continue development of core competencies and to position the company to be able to take advantage of market opportunities when packet-enabled voice infrastructure investments begin anew.

In addition, in this past year, many large Network Equipment Providers (NEPs) and Original Equipment Manufacturers (OEMs) restructured, prioritized development, and recognized that they could no longer provide all the network elements and technologies required in the migration to VoP. As a result, many of these large NEPs and OEMs are now outsourcing major R&D projects. AudioCodes is well positioned to meet these needs, and this is reflected in our design win activity.

**Embarking on an OEM System Business Strategy**

The consensus of industry leaders regarding future deployments of VoP in building the new voice infrastructure in both fixed and wireless networks remains optimistic. New services, operational efficiency and capital cost expenditure savings promised by VoP are expected to continue to drive long-term deployment of new and converged voice and data networks.

As a technology leader, AudioCodes has evolved to offer more and more of the vital, and increasingly highly integrated, system components in VoP networks. We enabled VoP products by offering chips, followed by boards and modules. Our company emerged as an industry leader by supplying superior enabling technologies to NEP and OEM companies.

Today our markets are undergoing a complete metamorphosis. Substantial consolidation is leading to fewer market players. Current business models of leading telecom operators now rely on suppliers who can deliver economies of scale and stability.

**Shabtai Adlersberg**

Beyond that, these suppliers, including large NEPs and telecom equipment vendors, need to provide service providers with complex wireless, cable or fixed network solutions at a time when they lack the resources to develop a complete product portfolio internally. In order to better control our future, and help our NEP customers meet the challenge of deploying full network solutions, we enhanced our offerings to highlight full system VoP media gateways based on AudioCodes' proven enabling technologies.

With our new focus on offering complete VoP media gateway products and systems, we are better positioned to support NEPs and leading telecom OEMs, and to enable their new voice infrastructure offerings. Leading NEPs, who are already familiar with our superior enabling technologies, are open to incorporate AudioCodes' media gateway systems solutions into their network solutions. The Stretto™ line of high-density media gateways for wireless applications, introduced to the market at the end of 2001, has recently completed a successful beta program.

#### **A Multifaceted Product Development Strategy**

The move toward full system media gateway solutions is a natural progression. We realize that the potential and strength of our new solutions lie in the underlying enabling technologies we have developed, and will continue to develop and sell.

Our product development strategy is based on a flexible and open platform that can be deployed in a wide variety of new voice infrastructure networks. Our open architecture allows new features, as they are developed, to be adapted easily and quickly to other market applications. Currently, our team is working on adapting the Stretto™ wireless platform for rapid delivery and deployment in VoIP access and trunking markets, and for the enhanced services market.

#### **A Growing Base of New Customers**

While our 1999 and 2000 customer base has eroded due to decreased capital expenditures and financing difficulties, a more diversified product mix is allowing us to build a renewed customer base. Given that sales cycles in our markets are quite long, we expect revenue to be realized no sooner than nine to twelve months, or

more, once we are designed in with OEM or NEP partners. As a result, we believe we will return to a growing revenue pattern towards the end of 2002. Our objective in this environment remains to achieve as many design wins as possible and our marketing and business development efforts are focused on this. Achieving this objective is expected to enable us to emerge from the current market downturn a stronger company that is well positioned to grow and maintain our competitive edge.

### **Building from Within for a Strong Future**

As I mentioned earlier, we retained our core development staff over the past year, and even increased R&D expenditures. We also continued to invest in our marketing and sales infrastructure, despite the current slowdown. These efforts are part of a strategic decision to continue to invest in our company, to be better positioned to continue as a leading force in the industry.

During 2001, we deployed a new Enterprise Resource Planning (ERP) system that is enabling us to improve operations. The ERP system solidified internal processes and systems, to prepare for expected increases in production, handle a diversified product portfolio and service a broad customer base. We expanded our management team, and continued to refine internal organizational and structural processes. We plan to continue our strategy of investing conservatively and cautiously, leveraging our financial position to support the company's future growth.

Our ability to remain strong in this difficult market, and simultaneously continue our long-term plans for growth, is a credit to our employees. Our staff has always been the cornerstone and strong foundation of our success. With the continued support of our employees and customers, and the loyalty and patience of our shareholders, we are confident in our ability to weather the storm and emerge a stronger company, positioned to lead in one of the industry's most promising markets.

March 2002

**Shabtai Adlersberg,**  
Co-Founder, President, Chief Executive  
Officer and Chairman of the Board

## Directors & Officers

### Senior Officers

- Shabtai Adlersberg** Chairman of the Board, President & Chief Executive Officer
- Mike Lilo** Chief Operating Officer & Chief Financial Officer

### Office Holders

- Lior Aldema** Vice President, Product Management
- Eyal Frishberg** Vice President, Operations
- Bruce Gellman** President, AudioCodes Inc.
- Benjamin Giloh** Vice President, Business Development
- Samuel Hadar** Vice President, Sales Far East
- Eyal Israeli** Vice President, Customer Support
- Eli Kaner** Vice President, Strategic Alliances
- Lea Korner** Vice President, Channel & Partnership Development
- Greg McQuay** Vice President, IPmedia
- Oded Morag** Vice President, Systems Sales Europe
- Eli Nir** Vice President, Research & Development
- Ben Rabinowitz** Vice President, Access & Switching
- Itamar Rosen** Vice President, Legal Affairs & Company Secretary
- Chaim Shachar** Vice President, Sales India
- Walter Shalev** Vice President, Sales Cable Access Systems
- Dr. Yoram Stettiner** Vice President, Advanced Technologies
- David Sullivan** Vice President, U.S. Sales

### Board of Directors

- Shabtai Adlersberg** Chairman of the Board, President & Chief Executive Officer
- Leon Bialik** Director
- Dr. Eyal Kishon** Director
- Doron Nevo** Director
- Dana Gross** Director

## Investor Relations

### Bill Zima

Global IR Consulting Services  
Thomson Financial  
75 Wall Street, 20th Floor  
New York, NY 10005  
Phone: (212) 509-5100  
Fax: (212) 363-3971

## Independent Auditors

### Kost Forer & Gabbay

A Member of Ernst & Young International  
3 Aminadav Street  
Tel Aviv, Israel 61575

## Transfer Agent

### American Stock Transfer & Trust Company

40 Wall Street, 46th Floor  
New York, NY 10005  
Phone: (212) 936-5100

*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; and other factors detailed in AudioCodes' filings with the Securities and Exchange Commission. AudioCodes assumes no obligation to update the information in this report.*

## **ABOUT AUDIOCODES**

AudioCodes Ltd. (NASDAQ: AUDC) designs, develops and markets Voice over Packet media gateway technologies and systems for converged networks. The company is a market leader in voice compression technology and the key originator of the ITU G.723.1 standard for the emerging Voice over IP market. AudioCodes' product line includes enabling technology products such as VoIP communication boards, VoIP media gateway modules, and VoP chip processors; as well as media gateway system solutions for packet networks in the wireline, wireless, broadband access and media server markets.

### **International Headquarters**

4 HaHoresh Street  
Yehud, Israel 56470  
Tel: +972-3-539-4000  
Fax: +972-3-539-4040

### **US Headquarters**

2890 Zanker Road, Suite 200  
San Jose, CA 95134  
Tel: (408) 577-0488  
Fax: (408) 577-0492

**E-Mail** [info@audiocodes.com](mailto:info@audiocodes.com)

© 2002 AudioCodes Ltd. All rights reserved. AC, AudioCodes, AudioCoded, AudioCodes logo, IPmedia, Mediant, MediaPack, MP-MLQ, NetCoder, Stretto, TrunkPack and VoicePacketizer are trademarks or registered trademarks of AudioCodes Ltd. All other products or trademarks are the property of their respective owners. The information and specifications in this document and the product(s) are subject to change without notice.

Ref. # LTRT-00421 04/02 V1.



[www.audiocodes.com](http://www.audiocodes.com)