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, 2003

OR

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

For the transition period from to

Commission file number 0-30070

AUDIOCODES 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 70151, Israel

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
None	

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

Ordinary Shares, nominal value NIS 0.01 per share

(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, 2003, the Registrant had outstanding 37,785,595 Ordinary Shares, nominal value NIS 0.01 per share.

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 which financial statement item the registrant has elected to follow.

Item 17 ~ Item 18 ☒

PART I

Unless the context otherwise requires, "AudioCodes," "us," "we" and "our" refer to AudioCodes Ltd. and its subsidiaries.

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. SELECTED FINANCIAL DATA

We derived the consolidated statement of operations data for the years ended December 31, 2001, 2002 and 2003 and consolidated balance sheet data as of December 31, 2002 and 2003 from the audited consolidated financial statements set forth elsewhere in this Annual Report. We derived the consolidated statement of operations data for the years ended December 31, 1999, and 2000 and the consolidated balance sheet data as of December 31, 1999, 2000 and 2001 from audited consolidated financial statements that are not included in this Annual Report.

On October 6, 2000, we effected a two-for-one stock split in the form of a stock dividend. All share and per share data for periods prior to and including that date have been retroactively adjusted to reflect this stock split. All figures relating to outstanding shares exclude shares held in treasury.

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

	Year Ended December 31,				
	1999	2000	2001	2002	2003
Statement of Operations Data:					
Revenues	$31,204	$71,798	$35,734	$27,189	$44,228
Cost of revenues	11,921	28,029	21,942	13,006	20,037
Gross profit	19,283	43,769	13,792	14,183	24,191
Operating expense:					
Research and development, net	4,812	10,588	13,807	13,022	15,476
Selling and marketing	4,262	11,204	13,852	14,288	14,537
General and administrative	1,665	2,917	5,044	3,353	4,066
Total operating expenses	10,739	24,709	32,703	30,663	34,079
Operating income (loss)	8,544	19,060	(18,911)	(16,480)	(9,888)
Equity in losses of affiliated company	-	-	750	300	429
Financial income, net	2,471	8,057	6,388	2,623	1,883
Income (loss) before income taxes	11,015	27,117	(13,273)	(14,157)	(8,434)
Income taxes	355	438	-	-	-
Net income (loss)	$10,660	$26,679	$(13,273)	$(14,157)	$(8,434)
Basic net earnings (loss) per share	$ 0.35	$ 0.68	$ (0.34)	$ (0.37)	$ (0.22)
Diluted net earnings (loss) per share	$ 0.29	$ 0.62	$ (0.34)	$ (0.37)	$ (0.22)
Weighted average number of ordinary of shares used in computing basic net earnings (loss) per share	30,398	39,273	39,591	38,518	37,509
Weighted average number of ordinary shares used in computing diluted net earnings per share	36,163	43,051	39,591	38,518	37,509

	Year Ended December 31,				
	1999	2000	2001	2002	2003
Balance Sheet Data:					
Cash and cash equivalents	$ 60,500	$ 9,575	$ 50,086	$ 47,799	$ 48,898
Short-term bank deposits	57,052	135,598	79,984	63,074	-
Working capital	119,372	146,119	126,242	108,370	46,232
Long-term bank deposits and structured notes	-	-	-	-	50,270
Total assets	129,522	174,329	148,416	129,814	128,530
Shareholders' equity	120,325	149,720	131,255	113,384	106,518

B. CAPITALIZATION AND INDEBTEDNESS

Not applicable.

C. REASONS FOR THE OFFER AND USE OF PROCEEDS

Not applicable.

D. RISK FACTORS

We believe that the occurrence of any one or some combination of the following factors could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Business and Industry

The slowdown in capital expenditures by telecommunications service providers has had and could continue to have a material adverse effect on our results of operations.

A deterioration of economies around the world and economic uncertainty in the telecommunications market began in 2000 and continued through 2003. This resulted in a curtailment of capital investment by telecommunications carriers and service providers as well as users in the enterprise market (businesses who use the equipment). It also reduced our ability to forecast orders, also referred to as "low visibility". We cannot be sure whether increased expenditures will continue to be made in the telecommunications industry in general or in the voice over packet portion of the market. The decline in capital expenditures has reduced our sales compared to the year 2000, and may increase our inventories, result in additional pressure on the price of our products and prolong the time until we are paid, all of which would have a material adverse effect on the results of our operation s and on our cash flow from operations.

We have incurred losses for the past three years, are currently incurring losses, and may incur losses in the future.

We have incurred losses in each of the last three years. We incurred a net loss of $13.3 million in 2001, $14.2 million in 2002 and $8.4 million in 2003. We will need to generate increased revenues as well as manage our costs to return to and maintain profitability. We cannot be sure that we will be able to achieve or maintain profitability.

If new products we recently introduced or expect to introduce in the near future fail to generate the level of demand we originally 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 we recently introduced, such as our expanded offerings of Mediant and Stretto systems, or expect to introduce in the near future. We are involved in a continuous process to evaluate changing market demands and customer requirements and to develop and introduce new products, features and applications to meet changing demands and requirements. We need to be able 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 our operations may suffer.

Our industry is rapidly evolving and we may not be able to keep pace with technological changes, which could adversely affect our business.

The transmission of voice, data and fax over data networks is rapidly evolving. Short product life cycles place a premium on our ability to manage the transition from current products to new products. Our future success in generating revenues will depend on our ability to enhance our existing products and to develop and introduce new products and product features. These products and features must keep pace with technological developments and address the increasingly sophisticated needs of our customers. The development of new technologies and products is increasingly complex and uncertain. This increases the difficulty in coordinating the planning and production process and can result in delay in the introduction of new technologies and products.

We are dependent on the development of the VoP market to increase our sales.

The market for Voice over Packet, or VoP, services is currently being developed. A significant number of our new products are being offered to companies that provide products or services that utilize VoP. We cannot be sure that the delivery of telephone and other communications services over packet networks rather than over traditional telephone networks will expand. We cannot be sure that packet based voice networks will become widespread or that connections between packet networks and telephone networks will become commonplace. The adaptation process of connecting packet networks and telephone networks can be time consuming and costly. Sales of our VoP products will depend on the development of packet networks and the commercialization of VoP services. Commercialization of VoP services may also be impacted by changes, if any, in the regulatory environment affecting the provis ion or use of such services.

We may not be able to keep pace with emerging industry standards, which may make our products unacceptable to potential customers.

The failure to comply with evolving standards will limit acceptance of our products by market participants. Since our products are integrated into networks consisting of elements manufactured by various companies, they must comply with a number of current and future industry standards and practices established by various international bodies and industry forums.

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. 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. We may also have to pay additional fees to the developers of the technologies which constitute the newly adopted standards.

Our customers or potential customers may develop or prefer to develop their own technical solutions, and as a result, would not buy our products.

Our products are primarily sold as components or building blocks. Our customers incorporate our products into their product offerings, usually in conjunction with value-added services of their own or of third parties. Customers or 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 greater control over supplies, specifications and performance. Customers may therefore not buy components from an external manufacturer such as us. This could have an impact on the competition we face, our ability to sell our products and our revenues from operations.

We have depended on a few large customers. The loss of one of these customers or the reduction in purchases by a significant customer could have a material adverse effect on our revenue.

Historically, a substantial portion of our revenue has come from large purchases by a small number of original equipment manufacturers, known as OEMs, network equipment providers, systems integrators and distributors. For example, our top three customers accounted for approximately 26.9% of our total revenues in 2003, 22.4% of our total revenues in 2002 and 43.0% of our total revenues in 2001. Sales to Nortel Networks accounted for 14.3% of our revenues in 2003 compared to 1.4% of our revenues in 2002 and less than 1% of our revenues in 2001. Sales to Clarent Corporation (now part of Verso Corporation) accounted for 31.7% of our total revenues in 2001. Sales to Clarent accounted for less than 1% of our total revenues in 2002 and 2003. Our future operating results may depend, in part, on the success of our largest OEM customers in selling products incorporating our components and on our success in selling large quantities of our products to them. We generally do not enter into sales agreements in which the customer is obligated to purchase a set quantity of our products. We also do not generally enter into long term supply contracts with our customers.

Based on our experience, we expect that our customer base may change from period to period. If we lose a large customer and fail to add new customers there could be a material adverse effect on our results of operations.

Our quarterly results of operations have fluctuated in the past and we expect these fluctuations to continue. Fluctuations in our results of operations may disappoint investors and result in a decline in our share price.

We have experienced and expect to continue to experience significant fluctuations in our quarterly results of operations. In some periods, our operating results may be below public expectations. If this occurs, the market price of our ordinary shares could decline.

The following factors have affected our quarterly results of operations in the past and are likely to affect our quarterly results of operations in the future:

- 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 telephone company, distributor and original equipment manufacturer forecasts of their customers' demands;
- changes in our operating expenses;
- disruption in our sources of supply; and
- general economic conditions.

Therefore, the results of any past periods may not be relied upon as an indication of our future performance.

We have a limited order backlog. 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, and our expense levels are relatively fixed, or 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.

Generally, we sell to OEM or system integrator customers, as well as to distributors. 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.

We typically sell to OEM customers and system integrators, as well as to distributors. Our customers usually purchase equipment from several suppliers and may be trying to fulfill one of their customers' specific technical specifications. We rely heavily on our customers for sales of our products and to inform us about market trends and the needs of their customers. We cannot be certain that this information is accurate. If the information we receive is not accurate, we may be manufacturing products that do not have a customer or fail to manufacture products that customers want. Because we are selling products to OEMs, system integrators and distributors rather than end users, we have less control over the ultimate selection of products by end users.

The markets we serve are highly competitive and many of our competitors have much greater resources, which may make it difficult for us to maintain profitability.

Competition in our industry is intense, and we expect competition to increase. Acquisitions and strategic alliances in our industry have further increased competition. Examples of such recent merger and acquisition activity include the following: Lucent Technologies acquired Telica, Inc., Tekelec acquired Santera Systems, Inc., UTStarcom Inc. acquired Telos Corp., Brooktrout Inc. acquired Snowshoe Networks Inc., Conexant Systems, Inc. has spun off Mindspeed Technologies, Inc. to focus on chips for Voice over Packet among other businesses, Performance Technologies Inc. has acquired MapleTree Networks, ECI Telecom Ltd.'s NGTS division has merged with NextVerse Networks, Inc. to form Veraz Networks Inc., Tekelec has acquired Santera Systems, Inc., UTStarcom Inc. has acquired the Commworks division of 3Com Corp., among others. Silicon Spice, Inc. was acquired by Broadcom Corporation , Intel Corporation acquired VxTel, Inc., DSP Group acquired VoicePump and NMS Communications Corporation (formerly known as Natural MicroSystems Corporation) acquired InnoMediaLogic, Inc. (IML), Mobilee, Inc., and Lucent Technologies' voice enhancement and echo cancellation business. Increased competition could result in lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs.

Our competitors currently sell products that provide similar benefits to those that we sell. Our principal competitors in the sale of signal processing chips include Telogy Networks, a division of Texas Instruments, Broadcom Infineon, Centillium, Mindspeed, Netergy and VoicePump, a subsidiary of DSP Group. We expect that large manufacturers of generic signal processors, like Motorola and Agere Systems (formerly the microelectronics division of Lucent Technologies) and Intel (Vxtel) market competing processors.

Competition for our module level products includes manufacturers of high density Voice over Packet processors that compete with our high density Voice over Packet TrunkPack® Module products and chips. These include semiconductor manufacturers such as Texas Instruments, Mindspeed, and Centillium. Other vendors of module products that compete with our high density module products include Mapletree Networks that was recently acquired by Performance Technologies Inc., and Spectrum Signal Processing Inc.

Our principal competitors in the communications board market include NMS Communications, Dialogic Corporation (an Intel company), Blue Wave Systems (a Motorola Computer Group company), Brooktrout, Inc., Acculab and PIKA Technologies, Inc.

Our principal competitors in the area of analog media gateways (2 to 24 ports) for access and enterprise applications include Cisco Systems Inc., Mediatrix Telecom, Inc., Vega Stream Limited, Samsung, Innovaphone AG, Quintum Technologies, Tainet Communication System Corp., Welltech, Ascii Corp., D-Link Systems, Inc., Multitech Inc., Inomedia, OKE and LG.

Our principal competitors in the area of low density mid and high density digital media gateways include Cisco Systems, Veraz Networks, Sonus Networks, Nuera, Tekelec, General Bandwidth, Telica and Commatch. In addition we face competition in mid and high density gateways from internal development at companies such as Nortel, Lucent, Alcatel, Siemens, Huawei, UTstarcom, ZTE and others.

We expect to encounter significant competition as we seek to expand our presence and product portfolio in the market for VoIP products.

There is significant competition in the market for products utilized in the VoIP market. Our competitors include telecommunications companies, data communication companies and companies specializing in voice over IP products. Some of our current and potential competitors have greater name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources than we do.

Many of our competitors have the ability to offer vendor-sponsored financing programs to prospective customers. If we do not offer vendor-sponsored financing, we will be at a competitive disadvantage. We could also be forced to lower our prices to compete successfully and effectively against competitive product offerings and with competitors with broader product offerings who may be able to lower prices on products that compete with us because of their ability to recoup this loss of margin through sales of other products or services.

Voice, audio and other communications alternatives that compete with our products are being continually introduced. New communication alternatives may be based on traditional telephone lines, the Internet or cable networks and may be combined with other computing and broadcasting capabilities.

We expect that additional companies will compete in the packet based voice networks market. In the future, we may also develop and introduce other products with new or additional telecommunications capabilities or services. As a result, we may compete directly with telephone companies and other telecommunications infrastructure providers. Additional competitors may include companies that currently provide computer software products and services, such as telephone, media, publishing and cable television. The ability of some of our competitors to bundle other enhanced services or other products, such as video images, with VoIP products could give these competitors an advantage over us.

New entrants to the market may increase competition

The increasing market acceptance of voice over packet technology is attracting, and is expected to continue to attract, new entrants. Some of the leading communications equipment manufacturers have entered our market through acquisitions, and many of them have greater resources than we do. Combinations between semiconductor companies and companies providing software to them, such as the acquisition of Telogy Networks, Inc. by Texas Instruments Incorporated and the acquisition of HotHaus Technologies Inc. and Silicon Spice, Inc. by Broadcom Corporation, could result in further competition for us.

Offering to sell system level products that compete with the products manufactured by our customers could negatively affect our business.

AudioCodes has broadened product offerings from chips to boards, subsystems and gateway level products (systems). These products could compete with products offered by our customers. These customers could decide to decrease purchases from us because of this competition. This could result in a material adverse effect on our results of operations.

We rely on others to assemble 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. 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.

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

Texas Instruments Incorporated and DSP Group, Inc. 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 manufactures all of the communications processors currently used on our communications boards. These suppliers also supply many of our competitors and have entered into relationships and may enter into additional relationships with them.

Texas Instruments is also one of our major competitors in providing signal processing solutions. An unexpected termination of the supply of the chips provided by Texas Instruments or Motorola or disruption in their timely delivery, would require us to make a large investment in capital and manpower resources to shift to using 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 utilize other sole source suppliers upon whom we depend without having long term supply 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. 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 key electronic components could disrupt production, thereby adversely affecting our ability to deliver products and to support products previously sold to our customers.

As 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.

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 VoP 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 produced to hold in inventory, we may be required to write off excess and obsolete inventory, which would adversely affect our operating results and financial condition. We wrote off and wrote down excess inventory that was expected to be sold at a price lower than carrying value in the amount of $6.2 million in 2001, $1.7 million in 2002 and $835,000 in 2003.

We may not be able to retain a sufficient number of subcontractors to meet our production needs, which could hurt our ability to grow.

We have not entered into any long-term agreements or alternate source agreements with manufacturing subcontractors. Qualification of assembly and test subcontractors normally requires a significant investment of time. If our subcontractors are unable or unwilling to provide us with components or assembled products on a timely basis or if we need to find alternative subcontractors, our product shipments could be delayed significantly because we would have to go through the time consuming process of qualifying a new subcontractor. This could adversely affect our ability to grow. In addition, we have commenced additional manufacturing operations through sub-contractors in locations such as China and the United States. We cannot assure you that we will be able to control and oversee such operations to the same extent as we could in the past, when manufacturing, testing and shipment s were conducted only in Israel.

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. 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 may be further extended because of internal testing, field trials and requests for the addition or customization of features. This delays the time until we realize revenue and results in our investing significant 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 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 we are sued for infringing the intellectual property rights of third parties.

Our success and ability to compete depend in large 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 sold in foreign countries that provide less protection to intellectual property than that provided under U.S. or Israeli laws.

Any intellectual property claims against us, even 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 get 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 the product so that it becomes non-infringing, which may have an adverse impact on the results of our operations.

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. The holders of patents from which we have not obtained licenses may 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.

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.

In the United States, changes in governmental regulation are being considered that may negatively impact the VoIP telephony market. For example, the Federal Communications Commission (FCC) has to date treated providers of telephone services over the public Internet as "enhanced service providers". Enhanced service providers are currently exempt from federal and state regulations governing common carriers, including the obligation to pay access charges and contribute to the universal service fund. The FCC is examining the enactment of new regulations governing Internet telephony and the question of whether certain forms of telephone services over the Internet should be subject to the same FCC regulations as telecommunications services.

VoIP equipment can be used as a way to provide telecommunication sevices while bypassing the local service operator, in what is sometime referred to as "toll bypass". Telecommunications traffic is diverted from traditional telephone lines to the public Internet, thus avoiding long distance call charges. As the use of VoIP to provide telecommunication services increases, phone companies are seeking the adoption of regulations that would require providers or users of such diverted calls to pay a charge to local service providers.

On March 10, 2004, the FCC released a Notice of Proposed Rule Making that seeks to establish a regulatory framework for Internet Protocol-Enabled Services, including VoIP services. The Notice of Proposed Rule Making seeks comments on how various IP-enabled services, including VoIP, should be differentiated for regulatory purposes, and whether there are technical or other characteristics of particular VoIP services that warrant differential regulatory treatment. When the FCC enacts new regulations governing VoIP, or if it determines that certain telephony providers over the public Internet, or the services they provide, are subject to current FCC regulations governing common carriers, then some of the service providers that buy equipment from our customers may be forced to pay access charges and make universal service contributions, or may be subject to other taxes, fees o r restrictions under any such new regulations. The required payment of additional taxes, fees or charges for VoIP services may impact the profitability of these services and the use of VoIP services or technology.

The enactment of any additional regulation or taxation of communications over the public 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 legislative or regulatory reforms in the United States or elsewhere in the world may have on private telecommunication networks 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 incoroprate encryption standards into our products in a manner that will insure 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.

A significant portion of our revenues is generated outside of the U.S. and Israel and we intend to continue to expand our operations internationally and therefore our results of operations could suffer if we are unable to manage our international operations effectively.

We generated 48% of our revenues in 2002 and 36% of our revenues in 2003 outside of the U.S. and Israel. Part of our strategy is to expand our penetration in existing foreign markets and to enter new foreign markets. Our ability to penetrate some international markets may be limited due to different technical standards, protocols or product requirements in different markets. Expansion of our international business will require significant management attention and financial resources. Our international sales and operations are subject to numerous risks inherent in international business activities, including:

- economic and political instability in foreign countries;
- staffing and managing foreign operations;
- increased risk of collection; and
- burdens that may be imposed by tariffs and other trade barriers.

If we are unable to address these risks, our foreign operations may be unprofitable or the value of our investment in our foreign operations may decrease.

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.

The threat of terrorism worldwide is impacting the global economy. Combined with the political unrest in Israel, this could have a material adverse effect on our results of operations.

The threat of the use of weapons of mass destruction and global terrorism are impacting the global economy. The future course of the unrest in Iraq and its effect on the global economy and the telecommunications industry cannot be predicted. In addition, since September 2000, the State of Israel and its inhabitants have been subjected to repeated terrorist attacks. The hostilities between the State of Israel and the Palestinians continued during the past year, with no end in sight to this intense conflict. This conflict can have both direct and indirect impacts on our business, as well as on the price of our shares. An adverse impact may occur as a result of, among other things, military service obligations of our key employees, changes in monetary and fiscal policies or the willingness of customers outside Israel to buy our products, including demands for additional assurance s concerning availability of our products.

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

Foreign currency fluctuations may affect the prices of our products. Our prices in all countries are denominated primarily in dollars. If there is a significant devaluation in a specific country, the prices of our products will increase relative to the local currency and may be less competitive. We cannot be sure that our international customers will continue to place orders denominated in dollars. The introduction into circulation of the Euro in January 2002 may place pressure on us to sell to European customers in Euro rather than dollar prices. This could make our revenues subject to fluctuation in the Euro/dollar exchange rate.

Epidemics, such as the recent SARS epidemic, could adversely affect out ability to conduct business internationally.

The spread of an epidemic and any resulting quarantines or the fear that an epidemic may be occurring can affect the willingness and ability of our customers and employees to conduct business in an affected or perceived affected region. This could have an adverse impact on our ability to sell our products and revenues from operations. For example, our employees, customers or suppliers may be reluctant to travel in or through an affected area and restrictions on movement or reduced working hours may apply.

We may be unable to attract sales representatives who will 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.

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

Because our products are complex and our market is evolving, 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 Chief Executive Officer. If Shabtai Adlersberg is unable or unwilling to continue with us, our results of operations could be materially and adversely affected.

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 need highly-qualified technical personnel who are capable of developing technologies and products and providing the technical support required by our customers. Such personnel were and may again be in great demand and we may not be successful in attracting, integrating or retaining them when and as required.

We intend to expand our business through acquisitions that could result in diversion of resources and extra expenses. This could disrupt our business and adversely affect our financial condition.

Part of our strategy is to pursue acquisitions of, or investments in, businesses and technologies or to establish joint ventures to expand our business. For example, in April 2003, we purchased a product group from Nortel Networks and in May 2004 we purchased Ai-Logix Inc. We also increased our holdings in a privately held speech-recognition company during 2003. We recognized losses from this investment in our results of operations in each of the past three years. 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. If any acquisition, investment or joint venture were to occur, we may not realize t he intended benefits of the acquisition, investment or joint venture and we may incur future losses from such 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;
- amortization of intangibles and potential impairment of goodwill; and
- write-offs of in-process research and development.If acquisitions disrupt our operations, our business may suffer.

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

We have actively 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. If we are unable to manage our expanding 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.

We may not be able to raise additional financing for our future capital needs on favorable terms, or at all, which could limit our ability to grow and to continue our longer term expansion plans.

We may need to raise additional capital in the future to continue our longer term expansion plans. 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 and increase our financing costs.

We extend credit to customers for purchases of our products. We could incur charges in our statement of operations if we are unable to collect these accounts receivable.

A portion of our receivables result from credit extended to customers for purchases of our products. We cannot be sure that we will be able to collect all of these accounts receivable. The failure to collect accounts receivable could adversely affect our cash flow position and results of operations.

Our gross profit percentage could be negatively impacted by increased manufacturing costs and other factors. This could adversely affect our results of operations.

Our gross profit percentage has increased in each of the past two years. However, our gross profit percentage is still lower than in 1999 and 2000. The recent increase in our gross profit percentage could be negatively affected by an increase in manufacturing costs, a shift in our sales mix towards our less profitable products, increased customer demand for longer product warranties and increased cost pressures as a result of increased competition. Acquisitions of new businesses could also negatively affect our gross profit percentage, which could cause an adverse effect on our results of operations.

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 to our customers sales support and maintenance. Customers may request us to 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 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 or maintenance. We may be required to supply upgraded 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 or maintenance.

Risks Related to the Market for Our Shares

Our stock price has fluctuated significantly and could continue to fluctuate significantly.

The market price for our ordinary shares, as well as the prices of shares of other technology companies, has been volatile. 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;
- 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;
- the conditions of the securities markets, particularly in the technology and Israeli sectors; and
- political, economic and other developments in the State of Israel and world-wide.

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 ordinary shares are traded on more than one market and this may result in price variations.

Our ordinary shares are traded primarily on the Nasdaq National Market and on The Tel Aviv Stock Exchange. Trading in our ordinary shares on these markets is made in different currencies (U.S. dollars on the Nasdaq National Market, and New Israeli Shekels on The Tel Aviv Stock Exchange), and at different times (resulting from different time zones, different trading days and hours and different public holidays in the United States and Israel). Consequently, the trading prices of our ordinary shares on these two markets generally differ, resulting from the factors described above as well as differences in exchange rates. Any change in the trading price of our ordinary shares on one of these markets could influence a change in the trading price of our ordinary shares on the other market.

There may be an adverse effect on the market price of our shares as a result of shares being available for sale in the future.

If our shareholders sell substantial amounts of our ordinary shares, including shares issued upon the exercise of outstanding options or purchased pursuant to our Employee Stock Purchase Plan, the market price of our ordinary shares may fall. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and place that we deem appropriate.

Our principal shareholders, executive officers and directors have substantial control over most matters submitted to a vote of the shareholders, thereby limiting the power of other shareholders to influence corporate action.

As of December 31, 2003, our officers, directors and principal shareholders beneficially owned 44.3% of our ordinary shares. As a result, these shareholders may have the power to control the outcome of most matters submitted to a vote of shareholders, including the election of members of our board and the approval of significant corporate transactions. This concentration of ownership may also have the effect of making it more difficult to obtain approval for a change in control of us.

As a result of the staggered terms of our directors and an agreement among our principal shareholders, it may be difficult for minority shareholders to influence the choice of our board of directors.

Our articles of association provide that our board will be divided into three classes. Members of each class hold their office for three-year staggered terms. In 1999, the four "groups" that then comprised our principal shareholders entered into a shareholders' agreement. The shareholders' agreement provides that as long a group owns at least 7.5% of our outstanding shares, it shall be entitled to nominate candidate directors and shall be required to vote in favor of the nominees of the other principal shareholder groups who own at least 7.5% of our outstanding shares. As of March 1, 2004, to our knowledge, only two of the four groups (Shabtai Adlersberg and Leon Bialik, who, are each a "group" for purposes of the shareholders' agreement), still own over 7.5% each of our outstanding shares. The provisions of this shareholders' agreement, when coupled with the provision of our articles of association authorizing the board to fill vacant directorships or to increase the size of the board, may limit the ability of public investors to influence the selection of directors, remove incumbent directors or gain control of the board.

U.S. shareholders may be subject to adverse United States federal income tax consequences as a result of our possible status as a passive foreign investment company.

We may be treated as having been a passive foreign investment company ("PFIC") for United States federal income tax purposes for the 2001, 2002 and/or 2003 taxable years. If we were a PFIC for all or any of those years, U.S. shareholders who owned our shares during such years may be subject to reporting requirements for those years and succeeding years, even if in subsequent years we are no longer a PFIC. Unless specific shareholder elections are made, U.S. shareholders may be subject to increased United States federal income tax liabilities if we are classified as a PFIC, even if in subsequent years we are no longer a PFIC. We urge U.S. shareholders to review Item 10E. - "Taxation --Passive Foreign Investment Company Status" in this Annual Report and to consult their own United States tax advisors with respect to the United States federal income tax consequences of an investment in ordinary shares.

Risks Relating to Operations in Israel

Conditions in Israel affect our operations and may limit our ability to produce and sell our products.

We are incorporated under the laws of the State of Israel, and our principal offices are located in the State of Israel. Political, economic and military conditions in Israel directly affect our operations. Terrorist attacks against Israel have greatly intensified since September 2000, which have led to ongoing hostilities. We cannot predict the effect on us of the increase in the degree of violence by Palestinians against Israel. Some of our officers and employees in Israel are obligated to perform up to 36 days of military reserve duty annually and are subject to being called for additional active duty under emergency circumstances. We cannot predict the full impact of these conditions on us in the future, particularly if emergency circumstances occur. If many of our employees are called for active duty, our operations in Israel and our business may be adversely affected. &nb sp; Additionally, a number of countries continue to restrict or ban business with Israel or Israeli companies, which may limit our ability to make sales in those countries.

The Israeli rate of inflation may negatively impact our costs if it exceeds the rate of devaluation of the New Israeli Shekel against the U.S. dollar.

A portion of the cost of our Israeli operations, mainly personnel and facility-related, is incurred in New Israeli Shekels. In 2003, approximately 34% of our costs were incurred in New Israeli Shekels. As a result, we bear the risk that the rate of inflation in Israel will exceed the rate of devaluation of the New Israeli Shekel in relation to the dollar or that the timing of such devaluations were to lag considerably behind inflation, which will increase our costs as expressed in dollars.

To protect against the changes in value of forecasted foreign currency cash flows resulting from payments in New Israeli Shekels, we have instituted 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.

The Israeli government programs and tax benefits that we currently participate in, or receive, require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs.

We benefit from certain government programs and tax benefits, particularly as a result of exemptions and reductions resulting from the "approved enterprise" status of our existing production facilities and programs in Israel. To be eligible for these programs and tax benefits, we must continue to meet conditions, including making specified investments in fixed assets and financing a percentage of investments with share capital. If we fail to meet such conditions in the future, the tax benefits would be canceled and we could be required to refund the tax benefits already received, together with an adjustment based on the Israeli consumer price index and an interest factor. The law and regulations prescribing the benefits provide an expiration date for the grant of new benefits. The expiration date has been extended several times in the past. The expiration date c urrently in effect is June 30, 2004 (which may be extended by ministerial decision), and no new benefits will be granted after that date unless the expiration date is extended again. There can be no assurance that new benefits will be available after June 30, 2004, or that existing benefits will be continued in the future at their current levels or at any level.

In 2003, we received a grant of $435,000 from the Government of Israel, through the Office of the Chief Scientist, or the OCS, for the financing of a portion of our research and development expenditures in Israel. In 2004, we applied for additional grants and we may apply for additional grants in the future. The OCS budget has been subject to reductions, which may affect the availability of funds for these prospective grants and other grants in the future. As a result, we cannot be certain that we will continue to receive grants at the same rate, or at all. In addition, the terms of any future OCS grants may be less favorable than our past grant.

In connection with research and development grant received from the OCS, we must pay royalties to the OCS on the revenue derived from the sale of products, technologies and services developed with the grant from the OCS. The terms of the OCS grants and the law pursuant to which grants are made restrict our ability to manufacture products or transfer technologies developed using OCS grants outside of Israel. This restriction may limit our ability to enter into agreements for those products or technologies, without OCS approval. We cannot be certain that any approval of the OCS will be obtained on terms that are acceptable to us, or at all. In connection with our grant applications, we have made certain representations, including information provided in periodical performance reports, and we have committed to certain performance-based covenants. The funding from the OCS is subject to t he accuracy of these representations and covenants and to our compliance with the conditions and restrictions imposed by the OCS. If we fail to comply with any of these conditions or restrictions, we could be required to repay any grants previously received, together with an adjustment based on the Israeli consumer price index and an interest factor in addition to certain other penalties. In addition, if we fail to comply with any of these conditions or restrictions, we would likely be ineligible to receive OCS grants in the future. The inability to receive these grants would result in an increase in our research and development expenses.

It may be difficult to enforce a U.S. judgment against us, our officers and directors and our Israeli auditors or to assert U.S. securities law claims in Israel.

We are incorporated in Israel. Substantially all of our executive officers and directors and our Israeli auditors are nonresidents of the United States, and a substantial portion 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.

Additionally, there is doubt as to the enforceability of civil liabilities under the Securities Act and the Securities Exchange Act in original actions instituted in Israel. However, subject to specified time limitations, an Israeli court may declare a foreign civil judgment enforceable if it finds that:

- the judgment was rendered by a court which was, according to the laws of the state of the court, competent to render the judgment;
- the judgment is no longer appealable;
- the obligation imposed by the judgment is enforceable according to the rules relating to the enforceability of judgments in Israel and the substance of the judgment is not contrary to public policy; and
- the judgment is executory in the state in which it was given.

Even if the above conditions are satisfied, an Israeli court will not enforce a foreign judgment if it was given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or if its enforcement is likely to prejudice the sovereignty or security of the State of Israel. An Israeli court also will not declare a foreign judgment enforceable if:

- the judgment was obtained by fraud;
- there was no due process;
- the judgment was rendered by a court not competent to render it according to the laws of private international law in Israel;
- the judgment is at variance with another judgment that was given in the same matter between the same parties and which is still valid; or
- at the time the action was brought in the foreign court a suit in the same matter and between the same parties was pending before a court or tribunal in Israel.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in New Israeli Shekels, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action to recover an amount in non-Israeli currency is for the Israeli court to render judgment for the equivalent amount in New Israeli Shekels at the rate of exchange on the date of payment, but the judgment debtor also may make payment in non-Israeli currency. Pending collection, the amount of the judgment of an Israeli court stated in New Israeli Shekels ordinarily will be linked to the Israel consumer price index plus interest at the annual rate (set by Israeli law) prevailing at that time. Judgment creditors bear the risk of unfavorable exchange rates.

The effects of anti-takeover provisions could inhibit the acquisition of us by others and therefore depress the price of our shares.

Some of the provisions of our articles of association and Israeli law could, together or separately:

- discourage potential acquisition proposals;
- delay or prevent a change in control; and
- limit the price that investors might be willing to pay in the future for our ordinary shares.

Israeli corporate law regulates mergers and acquisitions of shares through tender offers, requires approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israel tax law treats stock-for-stock acquisitions between an Israeli company and a foreign company less favorably than does U.S. tax law. For example, 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. In addition, our articles of association limit 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. These provisions may adversely affect the price of our shares.

Under the Israeli Companies Law, a merger is generally required to be approved by the shareholders and the board of directors of each of the merging companies. Shares held by a party to the merger are not counted towards the required approval. If the share capital of the company that will not be the surviving company is divided into different classes of shares, the approval of each class is required. A merger may not be approved if the surviving company will not be able to satisfy its obligations. At the request of a creditor, a court may prohibit a merger on these grounds. In addition, a merger can be completed only after all approvals have been submitted to the Israeli Registrar of Companies and 70 days have passed from the time that a proposal for approval of the merger was filed with the Registrar.

The Israeli 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 become a 25% shareholder of the company. Similarly, the Israeli 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 become a 45% shareholder of the company, unless someone else already holds a majority of the voting power of the company. Regulations promulgated under the Israeli Companies Law provide that these tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, according to the law in the country in which the shares are traded, including the rules and regulations of the stock exchange on which the shares are traded either:

- there is a limitation on acquisition of any level of control of the company; or
- the acquisition of any level of control requires the purchaser to do so by means of a tender offer to the public.

The Israeli Companies Law provides specific rules and procedures for the acquisition of shares held by minority shareholders, if the majority shareholder holds 90% or more of the outstanding shares.

In addition, our articles limit 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.

Israeli tax law treats certain acquisitions, particularly stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than United States tax law.

ITEM 1. 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. Our principal executive offices are located at 1 Hayarden Street, Airport City, Lod, 70151 Israel. Our telephone number is 972-3-976-4000.

Major Developments since January 1, 2003

Acquisition of UAS

On April 7, 2003, we purchased from Nortel Networks Limited selected assets of its Universal Audio Server business, or UAS. As part of the transaction, Nortel Networks granted to us a license to use its UAS technology. We have undertaken to act as an exclusive supplier to Nortel Networks for its UAS products over a period of three years. In addition, the parties have entered into a development agreement in relation to future platforms.

The UAS product provides enhanced conferencing, multi-language announcement functionality, and other regulatory media server applications for voice over packet networks. We are seeking to leverage the UAS product and technology in order to further enhance our media server products and increase related sales.

The consideration for the transaction amounted to $5.5 million, of which: $2.0 million was paid at the closing and $2.0 million was paid six months after the closing and $1.5 million was paid in April 2004. Under the terms of the acquisition agreement, we also paid $1.0 million upon Nortel Networks completing products integration under the development agreement.

This acquisition was accounted for under the purchase method of accounting and, accordingly, the purchase price has been allocated to the assets acquired based on their related fair values based on an independent valuation. We allocated $ 380,000 of the purchase price to property and equipment, $ 1.2 million to technology and $ 4.3 million to goodwill. The results of the UAS operations have been included in our consolidated financial statements since the acquisition date.

Additionally, contingent cash payments of up to $ 12.5 million could be due to Nortel in 2004, based on net orders for UAS products placed by Nortel over the 18 month period following the closing date. As of May 1, 2004 we had already paid $ 3.0 million of this amount to Nortel Networks.

The contingent payments are not considered part of the acquisition cost and are offset against related revenues earned by us from orders by Nortel for each respective period.

Acquisition of Ai-Logix

On May 12, 2004, we acquired all of the outstanding shares of capital stock of Ai-Logix, Inc., a leading provider of advanced voice recording hardware technology. Ai-Logix had revenues of approximately $13 million in 2003. Its offices are located in Somerset, New Jersey.

We paid $10 million in cash at the closing. An additional payment is required to be made in April 2005 based on the achievement of revenue milestones and additional terms by the Ai-Logix business during 2004. We currently estimate that the additional payment required to be made by us will be up to $10 million. This payment may be made, at our option, in cash or by issuance of our ordinary shares. In the event that we elect to make this payment by issuing our ordinary shares, we will be required to register such shares for sale under the Securities Act.

This acquisition was accounted for under the purchase method of accounting and, accordingly, the purchase price will be allocated to the assets and liabilities acquired based on their related fair values after completion of a valuation of these assets.

Ai-Logix is a strategic provider of voice and data hardware integration cards for the call recording and voice/data logging industry. Ai-Logix provides a wide variety of voice processing cards to its customers, which include contact centers, public safety agencies, financial institutions, air traffic control and other government agencies. Its products include proprietary public exchange integration products as well the SmartWORKS™ family of products that are designed for all segments of the call recording industry. Ai-Logix offers voice processing cards that support all three product segments in the call recording industry, including passive analog trunk interface cards, passive digital trunk interface cards and passive digital PBX telephone set integration cards.

Recent trends evidence a growing momentum in the use of VoP technology in new network deployments and an expected shift of communications budgets in the enterprise market towards IP-based architectures. The call recording industry is experiencing similar trends. According to Datamonitor, the contact center market and the call logging and recording industries are rapidly adopting IP-based networking solutions. A significant portion of future voice recording and call logging revenues are expected to be generated from deployments of VoIP architectures. We believe that our acquisition of Ai-Logix will enhance our board line business and provide an entry into the call recording market and computer telephony integration (CTI) market by leveraging our VoP expertise with Ai-Logix's technology, strategic partnerships and customer base.

B. BUSINESS OVERVIEW

Introduction

We design, develop and market enabling technologies and system products for the transmission of voice, data and fax over packet networks, which we refer to as the new voice infrastructure. Our products enable our customers to build high-quality packet networking equipment and provide the building blocks to connect traditional telephone networks with the new voice infrastructure. Our products are sold to leading original equipment manufacturers, or OEMs, system integrators and network equipment providers in the telecommunications and networking industries.

Packet networks are data communications networks that transport information compressed into “packets” over circuits shared simultaneously by several users. Equipment based on advanced voice communications standards enable packet networks to carry voice and data more efficiently and at lower cost than the traditional telephone networks, which were designed principally to transmit high quality voice calls.

Our voice compression technology permits the high quality transmission of voice over packet networks using substantially less network capacity than used in traditional telephone networks. Our products enable our customers to build highly-efficient, high capacity gateways and access equipment that are used to connect traditional telephone networks with packet networks. In addition, our gateway product offering provides our customers with a substantial building block for Voice over Packet carrier based solutions, as an alternative to our customers developing or building their own gateways.

Our products, which enable the transmission of high quality voice, data and fax over packet networks, include:

- signal processor chips, which process voice and fax signals and compress the information into packets so that they can be sent between the traditional telephone networks and the packet networks;
- communications boards and modules for access and enterprise applications, which enable voice, data and fax communications through gateway equipment employing Internet and other protocols, as well as the possibility of addition of third party equipment to provide enhanced services;
- communication boards for computer telephony integration, or CTI, applications for enterprise applications, which provide call logging and recording enabling technologies utilizing either industry standard or proprietary protocols;
- system products for access, trunking and enterprise applications, such as low density analog media gateways and low, mid and high density digital media gateways, which enable voice, data and fax communications employing Internet protocol networks and other protocols (typically such equipment is sold by our customers in conjunction with their own or third party solutions such as call management applications), as well as the possibility of addition of third party equipment to provide enhanced services;
- communications software used to process and format compressed voice and fax information into packets;
- media and audio servers that provide enhanced conferencing, multi-language announcement functionality, and other media server applications for voice over packet networks; and
- element management system, or EMS, software to manage our system products.

Our products are based upon voice compression and fax detection technologies, which transform voice and fax transmissions into small digital “packets.” We have co-authored the voice coding standard that was adopted for use in packet networks by the Voice over IP Forum, an industry group founded to ensure the interoperability and high quality of telephone service over packet networks. We have also developed advanced technologies for processing compressed voice transmissions and have significant voice communication system design expertise.

We sell our products to leading original equipment manufacturers and system integrators in the telecommunications and networking industries for use in markets providing:

- telephony over packet networks based on Internet protocols or networks based on asynchronous transfer mode standards, known as ATM standards;
- telephony over the wireless or cable television infrastructure; and
- telephone service over new generation high speed modems operating over wireless links or data modems, known as digital subscriber line, or DSL, modems.

Customers for our products include Nortel Networks, Siemens, 3Com, Alcatel S.A., Oki Electric Industry Co., Ltd., Brooktrout Inc., Verint Systems, Inc., Wuhan Research Institute (WRI), Astral, and Interactive Intelligence. In addition, our proprietary voice compression technology is licensed to a broad group of companies that manufacture equipment for a variety of markets. As one of the original developers of the standards for voice compression technology used in packet networks, we are positioned to take advantage of the rapidly growing demand for advanced communications components enabling high quality converged voice and data services.

Industry Background

Market Trends

The networking and telecommunications industries have experienced dynamic change over the last few years. The primary factors driving this change include the following:

- *Growth in data communications traffic*. The growth of the Internet has led to a surge in data communications traffic. This growth has been fueled by the increasing number of users of the Internet, as well as by the increased use of electronic mail, multimedia content and the increased volume of information retrieved from the World Wide Web. In addition, organizations are increasingly turning to the use of intranets and private networks to increase productivity and create competitive advantages. This proliferation of intranets and private networks has further contributed to the surge in data traffic.
- *Emergence of packet networks and advances in networking technologies*. Traditional voice communications networks were not designed to handle the dramatic increase in data traffic, the need for high-speed data communication and the need to serve a much larger number of users. As data traffic becomes the dominant factor in communications and as service providers begin to build and maintain converged networks for integrated voice and data services, a new generation of data-centric networks is being developed. This development has been enabled by a new generation of packet networking technologies. The capabilities to effectively carry voice and fax and preserve the quality of communications over these new networks have been made possible by the recent rapid advances in voice compression technologies, the advent of digital signal processing chips and new packet voice, fax and data networking technologies and protocols. The surge in data traffic has led to the need for new packet-based infrastructures. As a result, providers are seeking to exploit the advances in high speed and packet voice networking technologies to build networks that are more cost effective than the traditional circuit-switched telephone networks.
- *Competition in the telecommunications industry*. Competitive local exchange carriers and alternative carriers are trying to penetrate the local telephone market with varying degrees of success by bypassing the incumbent local telephone company network through the use of emerging packet technologies in new functions like telephony transmission over cable networks and digital subscriber line networks. In addition, there is a growth of toll bypass service providers, who seek to use public or private networks in order to bypass incumbent networks. Although these new and traditional service providers are not our direct customers, they are creating market demand for equipment manufactured by our customers. The surge in data traffic and the growth in overall volume and capacity of infrastructures has also caused a need for new infra structure equipment that is capable of more efficient utilization of the available networks.
- *New technologies*. The expected extension of Voice over Packet technologies into wireless networks alongside the introduction of new wireless standards (referred to often as Second and Third Generations) and cable networks suggest a business opportunity for the deployment of such technologies and products in these market segments. It is possible that the introduction of Voice over Packet technologies into wireless and cable networks will then place pressure on the traditional circuit switch service providers to modernize their equipment so as to be able to compete with the new offerings, including price reductions of these alternative networks.

Circuit-Switched versus Packet Networks

Traditionally, voice and data communications have been transmitted and managed on separate networks, each with its own distinct industry standards and protocols. Voice, data and fax have been transmitted primarily over the traditional telephone network that is based on circuit-switched technology. When a call is placed on a circuit-switched network, a dedicated circuit is established between the two callers and is maintained for the duration of the call. This dedicated channel, which requires bandwidth of 64 kilobits per second, is unavailable for use by other callers on the network until the call is terminated.

Packet networks differ fundamentally from circuit-switched networks in that the packet network’s resources and infrastructure can be shared simultaneously by several users and bandwidth can be flexibly allocated. Packet-based communications systems format the information to be transmitted, such as-mail, voice, fax and data, into a series of smaller digital packages of information called “packets.” Each of these packets is then transmitted over the network and is reassembled as a complete communication at the receiving end. The various packet networks employ different network protocols for different applications, priority schemes and addressing formats to ensure reliable communication.

Packet networks offer a number of advantages over circuit-switched networks. Rather than requiring a dedicated circuit for each individual call, packet networks commingle packets of voice, fax and data from several communications sources on a single physical link. This provides superior utilization of network resources, especially in dealing with information sources with bursts of information followed by periods of silence. This superior utilization means that the same amount of traffic can be carried using fewer network resources. Additionally, the integration of voice and data communications makes possible an enrichment of services and an entire range of new, value-added applications, such as unified messaging and voice enabled web sites. In addition, voice traffic over packet networks is usually compressed to provide a further reduction in the use of or demand for bandwidth. For e xample, the rate at which information is transmitted over packet networks is generally between 6.3 and 8 kilobits per second as compared to 64 kilobits per second over circuit-switched telephone networks.

Convergence of Voice and Data

The proliferation of data-centric networks since the mid-1990s has made the transmission of voice and fax over these networks a cost-effective alternative to existing circuit-switched telephone networks. Most of the recent growth in packet networks has taken place over networks based on Internet protocols, and, to a lesser extent, on packet networks based on other protocols. “Voice over IP”, or VoIP, is the industry terminology used to describe the transmission of voice over Internet protocol-based networks.

The need to re-route voice and fax traffic from the traditional circuit-switched networks onto the new packet networks has led to the development of interface equipment between the two networks, generally referred to as gateways or access equipment, depending on the type of network. The processing of the voice and fax signals in gateway and access equipment is done according to industry-wide standards. These standards are needed to ensure that all traditional telephony traffic is seamlessly switched and routed over the packet network and vice versa.

Gateway equipment for Internet protocol-based packet networks has continued to experience significant development and growth. The gateway equipment can be generally divided into two key categories: open telecommunications architecture systems, built around industry-standard PC and workstation platforms for which components are available from a number of suppliers, and proprietary architecture-based gateways which are built around a custom design of a telecommunications equipment manufacturer. Voice over IP gateway equipment can be generally segmented into three classes: carrier class gateways for use in central office facilities; enterprise gateways for use by corporations and in small offices; and residential gateways for use at homes.

The Challenges

Despite the inherent advantages and the economic attractiveness of packet voice networking, the transmission of packet voice and fax poses a variety of technological challenges. These challenges relate to quality of service, reliability of equipment, functionality and features, and ability to provide a good return on investment.

The Quality of Service Problem. The most critical issues leading to poor quality of service in the transmission of voice and fax over packet networks are packet loss, packet delay and packet delay jitter. For real time signals like voice, the slightest delay in the arrival of a packet may render that packet unusable and, in a voice transmission, the delayed packet is considered a lost packet. Delay is usually caused by traffic hitting congestion or a bottleneck in the network. The ability to deal with delay is compounded by the varying arrival times of packets, called packet-jitter, which results from the different routes taken by different packets. This "jitter" can be eliminated by holding the faster arriving packets until the slower arriving packets can catch up, but this introduces further delay. These idiosyncrasies of packet networks do not noticeably de tract from the quality of data transmission since data delivery is relatively insensitive to time delay. However, even the slightest delay or packet loss in voice and fax transmission can have severe ramifications such as voice quality degradation or, in the case of a fax transmission, call interruption. Therefore, the need to compensate for lost or delayed packets without degradation of voice and fax quality is a critical issue.

The Gateway Reliability Problem. In order for a packet network to be efficient for voice or fax transmission, the gateway equipment must be able to deliver an equivalent level of performance to that of existing central offices switching equipment. The telephony providers' central offices contain circuit-switching equipment that typically handles tens of thousands of lines and is built to meet severe performance criteria relating to reliability, capacity, size, power consumption and cost. To date, the gateways available for use in packet networks have not been able to cost-effectively achieve these same levels of reliability in handling similar numbers of voice and fax calls. As a result, new generation gateway equipment that meets the same performance level as current circuit-switch technologies needs to be developed.

Functionality. In order to compete effectively with incumbent circuit-switching equipment, packet network equipment must be able to deliver equivalent and improved functionality and features for the service providers and network users.

Return on Investment. With the reduction in profitability of service providers there is an even greater need for them to achieve better returns on investment from capital expenditures on new equipment. Given the evolving nature of packet technologies and capabilities, there is greater pressure to provide cost effective technological solutions.

In order to maximize the benefits of using packet networks for the transmission of voice data and fax, products must be able to address and solve these inherent problems and challenges. These products must also be standards-based to support the interoperability among different equipment manufacturers and to allow operation over various networks.

The AudioCodes Solution: Products

Using our proprietary voice compression algorithms and industry standards, advanced digital signal processing techniques and voice communications system design expertise, we design and develop new packet networking solutions that alleviate many of the quality of service and gateway efficiency problems associated with the transmission of voice, fax and data over packet networks. Our product lines include signal processor chips, modules, communications boards, low density analog media gateways, mid and high density digital media gateways for access , trunking and enterprise applications, media servers, CTI boards and communications software packages implementing evolving industry standards and protocols.

Our products have successfully addressed the quality of service problems posed by packet delay, packet delay jitter and packet loss. As a result, we enable our customers to build packet networking equipment that provides communication quality comparable to the traditional telephone networks. In addition, our communications boards and modules improve gateway efficiency and provide the building blocks for high performance, large capacity, open telecommunications platform-based gateways. We work closely with our customers, tailor our products to meet their specific needs, assist them in integrating our products within their systems and help them bring their systems to market on a timely basis. We also work with our customers in deploying their systems in various network environments.

We have been able to develop our products and provide services to our customers based on the following strengths:

Our strengths:

- *Leadership in voice compression technology*. We are a leader in voice compression technology. Voice compression exploits redundancies within a voice signal to reduce the bit rate of data required to digitally represent the voice signal while still maintaining acceptable voice quality. Our key development personnel have been developing voice compression technology for almost two decades. We co-authored the ITU G.723.1 voice coding standard that was adopted by the Voice over IP Forum and the International Telecommunications Union as the recommended standard for use in voice over IP gateways. We implement industry voice compression standards and work directly with our customers to design state-of-the-art proprietary voice compression algorithms that satisfy specific network requirements. Our significant knowledge of the basic te chnology permits us to optimize its key elements and positions us to address further technological advances in the industry. We believe that our technological expertise has placed us among the few suppliers in our industry that is sought out by leading equipment manufacturers to work with them in designing their systems and provision of solutions to their customers.

- *Digital signal processing design expertise*. Our extensive experience and expertise in designing advanced digital signal processing algorithms enables us to efficiently implement them in real time systems. Digital signal algorithms are computerized methods used to extract information out of signals. In designing our signal processors, we use minimal digital signal processing memory and processing power resources. This allows us to develop higher density solutions than our competitors. Our expertise is comprehensive and extends to all of the functions required to perform voice compression, fax and modem transmission over packet networks and telephone signaling processing.

- *Compressed voice communications systems design expertise*. We have the expertise to design and develop the various building blocks and the complete gateways and media servers required for complete voice over packet systems. In building these systems, we develop hardware architectures, voice packetization software and signaling software and integrate them with our signal processors to develop a complete, high performance compressed voice communications system. We assist our customers in integrating our signal processors into their hardware and software systems to ensure high voice quality, high completion rate of fax and data transmissions and telephone signaling processing accuracy. Further, we are able to customize our off-the-shelf products to meet our customers' specific needs, thereby providing them with a complete, integrated solution and enabling them to market their products with a reduced time to market.

Our product strengths:

- *Voice Over Packet signal processors*. Our multi-channel signal processors enable our customers and us to create products that meet the reliability, capacity, size, power consumption and cost requirements needed for building high capacity gateways.

- *Multiple and Comprehensive product lines*. Unlike most of our competitors who focus on either the standards-based open telecommunications architecture market or the proprietary system market, we are able to address both segments. We can do this because we enable our customers to offer multiple applications and address different market segments. For example, our voice over IP communications boards target the open telecommunications architecture market, while our signal processors, modules and voice packetization software target the proprietary system market, our analog and digital media gateways target access, trunking and enterprise applications and our digital media gateways are intended to target wireless, wireline and cable networks.

- *Extensive feature set*. Our products incorporate an extensive set of signal processing functions and features (such as protocols, coders), functionalities (such as H.323, Media Gateway Control Protocol (MGCP), Media Gateway Control (Megaco) and Session Initiated Protocol (SIP)) and implement a complete system. We offer the ability to manage multiple channels of communications working independently of each other, with each channel capable of performing all of the functions required for voice compression, fax and modem transmission, telephone signaling processing and other functions. These functions include voice, fax or data detection, echo cancellation, telephone tone signal detection and generation and other telephony signaling processing.

- *Open architecture*. Our voice over packet communications boards target the open architecture gateway market segment, which enables our customers to use hardware and software products widely available for standards-based open telecommunications platforms. This provides our customers with an improved time to market and the benefits of scalability, upgradeability and enhanced functionality without the need to completely redesign their systems for evolving applications.

- *Various entry level products*. Our wide product range (chips to media gateways and media servers) provides our customers with a range of entry level products. These building blocks enable our customers to significantly shorten their time to market by adding their value added solution.

- *VoIPerfect™ architecture*. Our VoIPerfect architecture serves as the underlying technology platform common to all of our products since 1998. VoIPerfect™ is continuously updated and upgraded with advanced features and functionalities required to comply with constantly evolving standards and protocols. VoIPerfect™ architecture comprises feature-rich VoP digital signal processing, or DSP, software and highly optimized media streaming embedded software, integrated public telephone switched network, or PTSN, signaling protocols and VoIP standard control protocols, provisioning and management engines. Additional features enabling carrier-grade quality and high availability. VoIPerfect™ architecture components are available in AudioCodes' products at various levels of integration – from the chip level, through periphera l component interconnect Mezzanine Card, or PMC, modules and PCI/compact PCI (cPCI) blades, to high-availability and non-high-availability analog and digital media gateway platforms.

Business Strategy

Our goal is to be the leading provider of enabling technologies and products for the transmission of voice, data and fax over packet networks. The following are key elements in our strategy:

- *Maintain and Extend Technological Leadership*. We capitalize on our competitive edge in voice compression technology and proficiency in designing voice communications systems. In 1995, we co-authored the ITU G.723.1 voice coding standard that was adopted by the Voice Over IP Forum as the recommended standard for use in voice over IP gateways. In 1998, we

introduced NetCoder®, a new voice coder that was designed specifically for IP networks. In 2001, we introduced TrunkPack® 1610, a cPCI Telephony board supporting PSTN, signaling, MGCP and MEGACO call controls. In 2002, we introduced the Mediant™ 2000 Media Gateway as part of our initiative to provide best-of-breed complete media gateways to our network equipment provider partners. Also in 2002, we launched our media server product family to support IP-based local access and enhanced services for wireless, cable, voice VPN and IP centrex markets. 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 packet networks and to be at the forefront of technological evolution in our industry.

- *Strengthen and Expand Strategic Relationships with Key Customers*. Our strategy has been to sell our products to leading equipment manufacturers in the telecommunications and networking industries and to establish and maintain long-term working relationships with them. We work closely with our customers to engineer products and subsystems that meet each customer's particular needs. The long development cycles usually required to build equipment incorporating our products frequently results in close working relationships with our customers. Based on experience gained in supporting many projects with our customers, we can assist them in taking the product from design to deployment. By focusing on leading equipment manufacturers with large volume potential, we believe that we reach a substantial segment of our potential customer base while minimizing the cost and complexity of our marketing efforts.

- *Expand and Enhance the Development of Highly-Integrated Products*. We plan to continue designing, developing and introducing new product lines and product features that address the increasingly sophisticated needs of our customers, evolving as network solutions become more complex. We believe that our knowledge of core technologies and system design expertise enables us to offer better solutions that are more complete and contain more features than competitive alternatives. We believe that the greatest opportunities for our growth and profitability will come from the development of even more highly-integrated product lines and product features such as our recently announced digital media gateways.

- *Build Upon Existing Technologies to Penetrate New Markets*. The technology we developed in connection with the IP telephony market can be used to serve similar product requirements in emerging markets utilizing similar packet networking technologies. These markets include those providing telephony over digital subscriber lines, wireless networks and the cable television infrastructure. Each of these new market segments presents us with a large potential for future product offerings or applications.

- *Develop a Network of Strategic Partners*. Part of our strategy has been to sell our products through a variety of strategic partners that can offer our products as part of a full-service solution to their customers. We expect to further develop our strategic partner relationships with system integrators and other service providers in order to increase our customer base.

- *Acquire Complementary Businesses and Technologies*. We expect to 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. As part of this strategy, we acquired the UAS business from Nortel in April 2003 and Ai-Logix in May 2004.

Products

Our products serve to facilitate the transmission of voice, data and fax over packet networks. To date, we have incorporated our algorithms, technologies and systems design expertise in nine product lines:

- Voice over Packet processors;
- Media gateway modules;
- VoIP and VoATM communication boards;
- Enhanced voice services and contact center solutions;
- Analog media gateways for toll bypass access and enterprise applications;
- Digital media gateways with various capacities for wireless (Stretto™), wireline (Mediant™) and cable (Mediant™ Cable);
- IPmedia™ boards and media gateways for enhanced services and functionalities such as conferencing and messaging (IPmedia™ Platforms);
- IPmedia™ media servers, which provide various network enhanced services and functionalities such as announcements, conferencing and legal intercept; and
- SmartWORKS™ voice and data hardware integration boards for the call recording and voice voice/data logging industry.

In addition we continue to offer customers our professional services, which usually involve customization and development projects for customers.

Our products are designed to build on our core technology and competence extending them both vertically (chips inserted into boards, boards inserted into digital media gateways) and horizontally into different applications for different market segments, such as enterprise, wireline, cable and wireless.

Voice Over Packet Processors

Our signal processor chips compress and decompress voice, data and fax communications. This enables these communications to be sent from circuit-switched telephone networks to packet networks. Our chips are digital signal processors on which we have embedded our algorithms. These signal processor chips are the basic building blocks used by our customers and us to enable their products to transmit voice, fax and data over packet networks. These chips may be incorporated into our communications boards, Media Gateway Modules and Analog Media Gateways for access and enterprise applications or they may be purchased separately and incorporated into other boards or customer products.

Our signal processor chips implement a complete signal processing system, supporting voice compression, echo cancellation, fax and modem processing and telephony signaling processing. The signal processor chips also enhance gateway efficiency by supporting multiple independently processed channels of communication.

AudioCodes provides a range of voice over packet processors of voice communications over different types of packet networks, such as IP and ATM. Our processors are used by original equipment manufacturers, known as OEMs, in their products enabling simple development and a significant reduction in time-to-market. Each processor constitutes a full voice band subsystem that includes standards-based low bit rate voice compression, echo cancellation, in-band signaling detection and generation fax transmission and other singaling tones handling.

Media Gateway Modules

Our media gateway modules are medium to high density, multi-protocol modules that allow OEM gateway designers to take full advantage of the complete media gateway functionality inherent in our award winning TrunkPack® architecture, which is installed in millions of lines worldwide. These modules connect as daughter cards onto proprietary OEM carrier boards. The modules convert content into low bit rate packetized voice over IP voice trunking. Their comprehensive feature set and standard interfaces make them an integral building block for high performance, carrier class media gateways by providing fast time to market and a cost effective solution.

The modules follow on the success of our TrunkPack® boards and compact peripheral component interconnect, or PCI, solutions for open standards-based platforms. These modules bridge the gap between AudioCodes' voice over packet processors, which offer developers maximum design flexibility, and the communication boards that fit into standard PCI or CompactPCI platforms.

The module product family performs a variety of media gateway functions such as packetization, compression, streaming and protocol processing. The module line also provides superior echo cancellation.

VoIP and VoATM Communication Boards

Our communications boards are designed to operate in gateways connecting the circuit-switched telephone network to packet networks based on Internet protocols. Our boards comply with voice over IP and voice over ATM (AAL2) industry standards and allow for interoperability with other gateways. The boards also enable high capacity operations while fitting into a single PC interface slot (PCI) or CompactPCI platforms. Just as our signal processor chips can handle multiple channels on a single processor, our communications boards can support multiple telephony trunk processing and differing modes of operations to provide manufacturers with greater system flexibility.

Our boards support standards-based open telecommunications architecture systems and combine our signal processor chips with communications software, signaling software and proprietary hardware architecture to provide a cost efficient interoperable solution for high capacity gateways. Using open architecture permits our customers to bring their systems to market quickly and to integrate our products more easily within their systems.

Our boards represent a combined functionality of both media streaming processing (voice fax and modem) and on-board telephony interfaces, along with their associated signaling protocols.

Enhanced Voice Services and Contact Center Solutions

Our Ardito™ media gateway boards offer developers of enhanced voice services and contact center solutions the capability to support PSTN infrastructure today and VoIP foundations in the future.

Analog Media Gateways for toll bypass access and enterprise applications

MediaPack™, our analog media gateways for toll bypass access and enterprise applications, empower the next-generation network by providing cost-effective, cutting-edge technology solutions that deliver voice and fax services to the corporate market, small businesses and home offices. Our analog media gateways for access and enterprise applications provide media streaming functionality while being either controlled by a centralized call agent or use on-box VoIP control protocols (H.323, MGCP and SIP). Convergence of data, voice and fax is achieved by a combination

of the media gateway with any IP access technology, eliminating the cost of multiple access circuits. This product family utilizes AudioCodes' experience and superior digital signal processing, or DSP, technology for echo cancellation, voice compression, silence suppression and comfort noise generation.

The MediaPack™ family represents a feature rich product for streaming voice quality with a powerful analog interface supporting all major control protocols such as H323, SIP, MGCP and MEGACO.

Digital Media Gateways with various capacities for wireline (Mediant™,) cable (Mediant™ Cable) and wireless (Stretto™.) Mediant™ is our family of media gateways for wireline backbone and enterprise networks. The Mediant™ product family offers scalability and functionality. providing a full suite of voice coders standard compliant control protocols and public switched telephone network, or PSTN, signaling interfaces for a variety of wireline media gateway applications in most softswitch control environments. The Mediant™ family provides carriers with a comprehensive line of different sized gateways. Small or medium-sized gateways enable cost-effective solutions for enterprise or small points of presence, as well as entry into fast growing new and emerging markets. The large gateway scales to central office capacities and is designed to meet carriers' operational requirements. The entire Mediant™ gateway family shares the same AudioCodes award-winning VoIP media gateway boards, assuring mature, field proven solutions.

The Mediant™ cable access gateway family is our line of packet telephony standards-compliant cable access gateways designed for either hybrid or all IP cable network architecture. The Mediant cable access gateway enables deployment of advanced packet-based cable telephony at multiple service operators own pace, without costly hardware changes. The Mediant™ cable access gateway can be initially deployed as a V5.2 IP access terminal and then easily migrated by software upgrade to a cable telephony media gateway with external call management provided by a softswitch and an SS7 interface to the PSTN.Our Stretto™ product line is our family of media gateways for the second and third generations of wireless networks. Stretto™ is intended to enable packetization of legacy wireless networks, as well as serving as a voice media gateway in third generation pa cket enabled architecture. The Stretto™ product family is compatible with popular wireless voice coders and protocols for wireless networks such as code-division multiple access (CDMA), global system for mobile communications (GSM), CDMA2000 and universal mobile telecommunications service (UMTS), and builds on our award winning TrunkPack® architecture, which is installed in millions of lines worldwide.

IPmedia™ Boards and Servers for enhanced services and functionalities such as conferencing and messaging (IPmedia™ Platforms)

The IPmedia™ product family is designed to allow OEMs to provide sophisticated content and services that create revenue streams and customer loyalty through the ability to provide additional services. The IPmedia™ platforms interface both packet (IP or ATM) and switched-circuit telephony modules, while saving space. The IPmedia™ platform provides voice and fax processing capabilities to enable, together with AudioCodes' partners, an architecture for development and deployment of enhanced services.

IPmedia™ platforms are designed to answer the growing market demand for enhanced voice services over packet networks, particularly network-based applications like unified communications, call recording, and conferencing by carriers and application service providers. IPmedia™ enables our customers to develop and market applications such as: unified communications, interactive voice response, call-centers, conferencing and voice-activated personal assistant. IPmedia™ products are currently offered on our PCI and cCPI boards and on the 2000 series 1U media gateway box (IPmedia™ 2000) and will soon also be available in the recently announced 3000 series 2U gateway platform, featuring IP and ATM interfaces and capabilities.

Universal Audio Server (IPmedia™ Media Server)

The universal audio server is a product that we acquired from Nortel Networks in April 2003. This product has been redesigned, upgraded and integrated into our IPmedia boards and servers. The universal audio server provides enhanced conferencing, multi-language announcement functionality, lawful intercept capabilities and other media server applications for voice over packet networks.

Element Management System (EMS)

Our Element Management System (EMS), is an advanced solution for centralized, standard-based management of our VoP gateways, covering all areas vital to the efficient operations, administration, management and provisioning of our Mediant™, Stretto™ and MediaPack™ VoP gateways.

Our EMS offers network equipment providers and system integrators fast setup of medium and large VoP networks with the advantage of a single centralized management system that configures, provisions and monitors all of AudioCodes gateways deployed, either as Customer Premises Equipment, access or core network platforms.

Voice and Data Logging Hardware Integration Board Products

SmartWORKS™ The SmartWORKS™ family of products is our voice and data logging hardware integration board product line. SmartWORKS™ boards for the call recording and voice voice/data logging industry are compatible with a multitude of Private Branch Exchange, or PBX, telephone system integrations.

Technology Development and Licensing

Occasionally, we provide our customers with customized engineering and design services. We also license our technology to third parties principally through DSP Group, Inc.

Core Technologies

We believe that one of our key competitive advantages is our broad base of core technologies ranging from advanced voice compression algorithms to complex architecture system design. We have developed and continue to build on the following key technology areas:

- proprietary low bit rate voice compression algorithms which result in a high degree of voice compression;
- advanced digital signal processing algorithms for echo cancellation, fax and data modem processing and telephony signaling processing;
- voice communications software;
- media processing;
- digital cellular communications technology;
- VoIP for telephony over cable networks;
- advanced architectures that provide efficient processing of multiple telephony trunks for transmission over packet networks; and
- carrier grade system expertise and know-how, enabling us to develop state of the art digital media gateways with a very high channel density.

Low Bit Rate Voice Compression Algorithms

Voice compression techniques are essential for the transmission of voice over packet networks. Voice compression exploits redundancies within a voice signal to reduce the bit rate required to digitally represent the voice signal, from 64 kilobits per second, or kbps, down to low bit rates ranging from 5.3 kbps to 8 kbps, while still maintaining acceptable voice quality. A bit is a unit of data. Different voice compression algorithms, or coders, make certain tradeoffs between voice quality, bit rate, delay and complexity to satisfy various network requirements. Use of voice activity detection techniques and silence removal techniques further reduce the transmission rate by detecting the silence periods embedded in the voice flow and discarding the information packets which do not contribute to voice intelligibility.

We are one of the innovators in developing low bit rate voice compression technologies. Our patented MP-MLQ™ coder was adopted in 1995 by the ITU as the basis for the G.723.1 voice coding standard for audio/visual applications over the circuit-switched telephone networks. The G.723.1 standard was also recommended as the default standard and an essential component of the Voice over IP Forum's Implementation Agreement. By adhering to this standard, system manufacturers guarantee the interoperability of their equipment with the equipment of other vendors.

Advanced Digital Signal Processing Algorithms

To provide a complete voice over packet communications solution, we have developed a library of digital signal processing functions designed to complement voice compression coders with additional functionality, including: echo cancellation; voice activity detection; facsimile and data modem processing; and telephony signaling processing. Our extensive experience and expertise in designing advanced digital signal processing solutions allows us to implement algorithms using minimal processing memory and power resources. Our algorithms include:

- *Echo Cancellation*. Low bit rate voice compression techniques introduce considerable delay, necessitating the use of echo cancellation algorithms. The key performance criterion of an echo canceller is its ability to deal with large echo reflections, long echo delays, fast changing echo characteristics, diverse telecommunications equipment and network effects. Our technology achieves low residual echo and fast response time to render echo effects unnoticeable.
- *Fax Transmission*. There are two widely used techniques for real time transmission of fax over networks based on Internet protocols: fax relay and fax spoofing. Fax relay takes place when a fax is sent from a fax machine through a gateway over networks based on Internet protocols in real time to a fax machine at the other end of the network. At the gateway, the analog fax signals are demodulated back into digital data, converted into packets, routed over the packet network and reassembled at the receiving end. Fax relay is used when the round trip network delay is small (typically below one second). When the round trip network delay increases, one of the fax machines may time out while waiting for a response from the other fax machine to arrive.
- *Data Modem Technology*. We have developed data modem technologies that facilitate data relay over packet networks. Our data modem relay software algorithms support all existing data modem standards up to a bit rate of 14.4 kbps.

- *Telephony Signaling Processing*. Various telephony signaling standards and protocols are employed to route calls over the traditional telephone network, some of which use "in-band" methods, which means that the signaling tones are sent over the telephone line just like the voice signal. As a result, in-band signaling tones may have to undergo the compression process just like the voice signal. Most low bit-rate voice coders, however, are optimized for speech signals and exhibit poor tone transfer performance. To overcome this, our processors are equipped with tone detection and tone generation algorithms. To provide seamless transparency between the traditional telephone network and packet networks for signaling, we employ various digital signal processing techniques for efficient tone processing.

Voice Communications Software

To transmit the compressed voice and fax over packet networks, voice packetization processes are required to construct and deconstruct each packet of data for transmission. The processing involves breaking up information into packets and adding address and control fields information according to the specifications of the appropriate packet network protocol. In addition, our software provides the interface with the signal processors and addresses packet delay and packet loss issues.

Media Processing

Our media processing products provide the enabling technology and platforms for developing enhanced service applications for legacy and next generation networks. We have developed media processing technologies such as message recording/playback, announcements, voice coding and mixing and call progress tone detection that enable our customers to develop and offer advanced revenue generating services such as conferencing, network announcements, voice mail and interactive voice response. Our media processing technology and products offer PSTN and packet interfaces to enable flexible deployment options.

Digital Cellular communications technology

Convergence of wireline and wireless networks is becoming a key driver for deployment of voice over packet networks, enabling operators to use common equipment for both networks, thus lowering capital expenditures and operating expenses, while offering enriched services.

Our cellular voice over packet products provide a cost effective solution for these convergence needs, complying with 2G and 3G cellular standards, for GSM/UMTS and CDMA/CDMA2000 networks. These include support for cellular vocoders (concurrently with wireline vocoders), interfaces and protocols. These interfaces and protocols are being defined by special standardization groups (e.g., 3GPP and 3GPP2) and include capabilities such as handling IP, ATM and TDM concurrently, mediation (mobile to mobile calls with no transcoding), support for handoff and lawful intercept and various other cellular-specific capabilities.

VoIP for Telephony over Cable Networks

Telephony over cable networks is characterized by technical challenges due to the intrinsic nature of the cable system which broadcasts across the subscriber network. The cable telephony market is divided into two main standards: softswitch solutions and IP access termina, or IPAT, V5.2 solutions utilizing Class 5 switches. We have developed media gateway technology that is capable of supporting both standards while migration from IPAT solutions to softswitch solutions may be done by a software only upgrade, thus protecting the end customer's investment. Our technology complies with PacketCable standards including security/encryption technology, support for quality of service, call control and signaling.

Hardware Architectures for High Density Multi-Trunk Voice over Packet Systems

Our voice over packet product offerings include high density, multi-trunk voice over packet systems for standards-based open telecommunications platforms in access equipment. Multi-trunk processing is centered around a design encompassing two key processing elements, signal processors performing voice, fax and data processing and a communications processor. Overall system performance, reliability, capacity, size, cost and power consumption are optimized, based on our hardware architecture, which supports high throughput rates for multi-trunk processing. On-board efficient network and system interfaces relieve the system controller from extensive real time data transfer and processing of data streams.

Carrier Grade System Expertise

To provide state of the art carrier grade media gateways, we have developed a wide expertise in a number of fields essential to such a product line. We have developed or integrated the various components required to implement a full digital media gateway solution that behaves as a unified entity to the external world. This required a major investment in adapting standard cPCI platforms to our needs. Such adaptation included optimizing power supply and cooling requirements, adding centralized shelf controllers, fabric switches and alarm cards to the chassis. Another aspect of the expertise developed to undertake this task is related to High Availability software and hardware design. High Availability is a required feature in any carrier grade media gateway platform. We have also developed a sophisticated EMS (Element Management System) to complete our offering. This EMS enables the us er to provision and monitor a number of media gateways from a centralized location.

Sales and Marketing

Our sales and marketing strategy is to achieve design wins with industry leaders in our targeted markets. We specifically target OEMs, network equipment providers, system integrators and distributors. Prospective customers generally must make a significant commitment of resources to test and evaluate our products and to integrate them into larger systems. 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 also provide our customers with reference platform designs, which enable them to achieve easier and faster transitions from the initial prototype designs we use in the test trials through final production releases. We believe this significantly enhances our customers' confidence that our products will meet their market requirements and product introduction schedules.

We market our products in the United States, Europe, Asia, Latin America and Israel primarily through a direct sales force. Marketing managers are dedicated to principal customers to promote close cooperation and communication. Additionally, we market our products in these areas through independent sales representatives and system integrators. We select these independent entities based on their ability to provide effective field sales, marketing communications and technical support to our customers. We have generally entered into a combination of exclusive and non-exclusive sales representation agreements with these representatives in each of the major countries in which we do business. These agreements are typically for renewable 12-month terms, are terminable at will by us upon 90 days notice, and do not commit the sales representative to any minimum sales of our products to third parties. Some of our representatives have the ability to return some of the products they have previously purchased and purchase more up to date models.

Our primary customer base consists of established and emerging communications companies. These include, among others, Nortel Networks, 3Com, Alcatel S.A., Siemens and Verint Systems, Inc.

Historically, we have relied on sales to a few large customers. In 2003, sales to Nortel Networks accounted for 14.3% of our revenues. No other customer accounted for more than 8.0% of our revenues in 2003.

Manufacturing

Texas Instruments Incorporated and DSP Group, Inc. supply all of the signal processor chips used for our signal processors. The communications processor currently used on our communications boards is manufactured by Motorola. Similar communications processors are available from other suppliers. Other components are generic in nature and can be obtained from multiple suppliers. Our manufacturing activities consist primarily of the production of prototypes, test engineering, materials purchasing and inspection, final product configuration and quality control and assurance.

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 signal processors from Texas Instruments Incorporated, 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.

We utilize contract manufacturing for substantially all of our manufacturing processes. Until the third quarter of 2002, all of our boards, modules and analog media gateways were assembled by third-party subcontractors in Israel. Since the third quarter of 2002, we have extended our manufacturing capabilities through third party subcontractors in the United States and in China. Our subsidiary, Ai-Logix, utilizes third-party subcontractors in the United States to manufacture its products.

Competition

Competition

Competition in our industry is intense, and we expect competition to increase. Merger and acquisition activity and strategic alliances in our industry have further increased competition. Examples of such recent merger and acquisition activity include the following: Conexant Systems, Inc. has spun off Mindspeed Technologies, Inc. to focus on chips for Voice over Packet among other businesses, Performance Technologies, Inc. has acquired MapleTree Networks, ECI Telecom Ltd.'s NGTS division has merged with NextVerse Networks, Inc. to form Veraz Networks Inc., Tekelec has acquired Santera Systems, Inc., UTStarcom Inc. has acquired the Commworks division of 3Com Corp., among others, Silicon Spice, Inc. was acquired by Broadcom Corporation, Intel Corporation acquired VxTel, Inc., DSP Group acquired VoicePump and NMS Communications Corporation (formerly known as Natural MicroSystems Cor poration) acquired InnoMediaLogic, Inc.

(IML), Mobilee, Inc., and Lucent Technologies' voice enhancement and echo cancellation business. Increased competition could result in lower prices for our products, reduced demand for our products and a corresponding reduction in our ability to recover development, engineering and manufacturing costs.

Competitors currently sell products that provide similar benefits to those that we sell.

Our principal competitors in the sale of signal processing chips for Voice over packet include Telogy Networks, a division of Texas Instruments, Broadcom, Infineon, Centillium, Mindspeed, Netergy and VoicePump, a subsidiary of DSP Group. We expect that large manufacturers of generic signal processors, like Motorola, and Agere Systems (formerly the microelectronics division of Lucent Technologies) and Intel (Vxtel) to market competing processors.

Competition for our module level products includes manufacturers of high density Voice over Packet processors that compete with our high density Voice over Packet TrunkPack® Module products and chips. These include semiconductor manufacturers such as Texas Instruments, Mindspeed, and Centillium. Other vendors of module products that compete with our high density module products include Mapletree Networks that was recently acquired by Performance Technologies Inc., and Spectrum Signal Processing Inc.

Our principal competitors in the communications board market include NMS Communications, Dialogic Corporation (an Intel company), Blue Wave Systems (a Motorola Computer Group company), Brooktrout, Inc., Acculab and PIKA Technologies, Inc.

Our principal competitors in the area of analog media gateways (2 to 24 ports) for access and enterprise applications include Cisco Systems Inc., Mediatrix Telecom, Inc., VegaStream Limited, Samsung, Innovaphone AG, Quintum Technologies, Tainet Communication System Corp., Welltech, Ascii Corp, D-Link Systems, Inc., Multitec Inc., Innomedia, OKI, and LG.

Our principal competitors in the area of low density mid and high density digital media gateways include Cisco Systems, Veraz Networks, Sonus Networks, Nuera, Tekelec, General Bandwidth, Telica and Commatch. In addition we face competition in mid and high density gateways from internal development at companies such as Nortel, Lucent, Alcatel, Siemens, Huawei, UTstarcom, ZTE and others.

We also face significant competition in the VoIP product market. Our competitors in this market include telecommunications companies, data communication companies and companies specializing in voice over IP products. Some of our current and potential competitors have greater name recognition, larger installed customer bases and significantly greater financial, technical and marketing resources than we do. As a result of the ongoing consolidation in our industry, several of our competitors have greater financial, personnel and other resources, offer a broader range of products and services than we do and may be able to respond more quickly to new or emerging technologies or changes in customer requirements, benefit from greater purchasing economies, offer more aggressive pricing or devote greater resources to the promotion of their products. In addition, there can be no as surance that one or more of our competitors will not develop superior products or that such products will not achieve greater market acceptance than our products.

We believe that our success will depend primarily on our ability to provide technologically advanced and cost-effective voice and fax over packet product solutions. Additionally, we must provide our customers with a fast time to market and responsive customer support. However, we cannot be sure that the products and services we offer will compete effectively with those of our competitors. Furthermore, should competition intensify, we may have to reduce the prices of our products. If we are unable to compete successfully against our competitors, our business, financial condition and results of operations would be materially adversely affected.

Intellectual Property and Proprietary Rights

Our success is largely dependent 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 it and our products.

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

There are a number of companies besides us who hold patents for various aspects of the technology incorporated in the ITU's standards or other industry standards (either other industry bodies or proprietary standards that are accepted by the industry) 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 could be able to do so at an acceptable price.

Under a pooling agreement dated March 3, 1995, as amended, between AudioCodes and DSP Group, Inc., on the one hand, and France Télécom, Université de Sherbrooke and their agent, Sipro Lab Telecom, on the other hand, AudioCodes and DSP Group, Inc. granted to France Télécom and Université de Sherbrooke the right to use certain specified AudioCodes patents, and any other AudioCodes and DSP Group, Inc. intellectual property rights incorporated in the ITU G.723.1 standard. Likewise France Télécom and Université de Sherbrooke granted AudioCodes and DSP Group, Inc. the right to use certain of their patents and any other intellectual property rights incorporated in the G.723.1 standard. In each case, the rights granted are to design, make and use products developed or manufactured for joint contribution to the G.723.1 standard without any payment by any party to the other parties.

In addition, each of the parties to the agreement granted to the other parties the right to license to third parties the patents of any party included in the intellectual property required to meet the G.723.1 standard, in accordance with each licensing party's standard patent licensing agreement. The agreement provides for the fee structure for licensing to third parties. The agreement provides that certain technical information be shared among the parties, and each of the groups agreed not to assert any patent rights against the other with respect of the authorized use of voice compression products based upon the technical information transferred. Licensing by any of the parties of the parties' intellectual property incorporated in the G.723.1 standard to third parties is subject to royalties that are specified under the agreement.

Each of the parties is free to develop and sell products embodying the intellectual property incorporated into the G.723.1 standard without payment of royalties to other parties, so long as the G.723.1 standard is implemented as is, without modification. The agreement expires upon the later of March 3, 2005 or the last expiration date of any of the AudioCodes, DSP Group, Inc., France Télécom or Université de Sherbrooke patents incorporated in the G.723.1 standard. The parties to the agreement are not the only claimants to technology underlying the G.723.1 standard.

We are aware of parties who may be infringing our technology that is part of the G.723.1 standard. We evaluate these matters on a case by case basis, directly or through our licensing partner. Although we have not yet determined whether to pursue legal action, we may do so in the future. There can be no assurance that these measures will be successful.

Third parties have, and from time to time may, claim that our current or future products infringe their intellectual property rights. Intellectual property litigation is complex and there can be no assurance of the 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. 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 February 2001, we entered into a patent license agreement with a third party. Under the agreement, we agreed to pay the third party quarterly royalty fees until 2008, based on 0.9% to 0.75% of our revenues.

Legal Proceedings

We are not a party to any material legal proceedings.

B. ORGANIZATIONAL STRUCTURE

List of Significant Subsidiaries

AudioCodes Inc., our wholly-owned subsidiary, is a Delaware corporation.

AudioCodes National Inc., a wholly-owned subsidiary of AudioCodes Inc., is a Delaware corporation.

Ai-Logix Inc., a wholly owned subsidiary of AudioCodes Inc., is a Delaware corporation

AudioCodes Europe Limited, our wholly-owned subsidiary, is incorporated in England.

C. PROPERTY, PLANTS AND EQUIPMENT

We lease our main facilities, located in Airport City, Lod, Israel, which currently occupy approximately 111,000 square feet. We moved into these facilities in February 2004 which enabled us to consolidate all of our operations in Israel into one location.]

Our direct U.S. subsidiary leases a 8,945 square foot facility in San Jose, California. Our subsidiary has additional offices in Raleigh, Chicago, Boston and Dallas. We also have a leased representative office in Beijing, China and in Tokyo, Japan.

Our indirect U.S. subsidiary, Ai-Logix, Inc., leases a 29,000 square foot facility in Somerset. New Jersey.

We believe that these properties are adequate to meet our current needs. 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.

Rent expense was $1,652,000 in 2001, $1,713,000 in 2002 and $1,829,000 in 2003. We project that our rent expense for 2004 will be approximately $2,700,000.

ITEM 2. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Statements in this Annual Report concerning our business outlook or future economic performance; anticipated revenues, expenses or other financial items; 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 the United States 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. Factors that could cause or contribute to such differences include, but are not limited to, those set forth under “Risk Factors” in this Annual Report as well as those discussed elsewhere in this Annual Report and in our other filings with the Se curities and Exchange Commission.

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States, or 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.

On an on-going basis, management evaluates its estimates and judgments, including those related to revenue recognition and arrangements with product returns, allowance for doubtful accounts, inventories, structured notes, investments in affiliates and goodwill. 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.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require management’s judgment in its application. There are also areas in which management’s judgment in selecting among available alternatives would not produce a materially different result. Our management has reviewed these critical accounting policies and related disclosures with our Audit Committee. See Note 2 to the Consolidated Financial Statements, which contain additional information regarding our accounting policies and other disclosures required by GAAP.

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 doubtful accounts;
- Inventories;
- Investments in an affiliated company; and
- Goodwill

Revenue Recognition and Allowance for Sales Returns

We generate our revenues from the sale of products, technology development contracts and licensing. We sell our products through a direct sales force and sales representatives. Our products are generally a bundled hardware and software solution that is delivered together to original equipment manufacturers (OEMs) of a variety of telecommunications and networking products who are considered end users.

Revenues from products are recognized in accordance with Staff Accounting Bulletin No. 104 “Revenue Recognition in Financial Statements”, or SAB No. 104, when the following criteria are met: (i) persuasive evidence of an arrangement exists, (ii) delivery of the product has occurred, (iii) the fee is fixed or determinable and (iv) collectability is probable. Determinations related to clauses (iii) and (iv) are based on management’s judgments regarding the fixed nature of the fee charged for products and the collectability of those fees. We have no obligation to customers after the date on which products are delivered, other than pursuant to warranty obligations and any applicable right of return.

We maintain a provision for product returns in accordance with Statement of Financial Accounting Standards No. 48 “Revenue Recognition When Right of Return Exists”, or SFAS No. 48. This provision is based on historical sales and historical product returns. This provision is deducted from revenues, and amounted to $272,000 in 2002 and $294,000 in 2003.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts. Management exercises its judgment as to our ability to collect outstanding receivables. Provisions are made based upon a specific review of all significant outstanding invoices. For those invoices not specifically reviewed, provisions are made based upon the age of the receivable. In determining the provision, we analyze our historical collection experience and current economic trends. If the historical data used to calculate the allowance provided for doubtful accounts does not reflect the future ability to collect outstanding receivables, additional provisions for doubtful accounts may be needed and the future results of operations could be materially affected.

We also record a provision for estimated sales returns in the same period as the related revenues are recorded. This estimate is based on historical sales returns, analysis of credit memo data and other known factors.

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined using the “moving average cost” method for raw materials, and on the basis of direct manufacturing costs for 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 and write-down provisions are provided to cover risks arising from slow moving or obsolete items. We wrote-off and wrote-down excess inventory that was expected to be sold at a price lower than the carrying value in the amount of $ 6.2 million in 2001, $ 1.7 million in 2002 and $ 835,000 in 2003.

Investment in an Affiliated Company

During 2000, 2001, 2002 and 2003, we invested an aggregate of $2.0 million in a privately-held company engaged in speech recognition. We currently own approximately 40% of the equity in this company. This investment is accounted for by the equity method and is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with Accounting Principle Board Opinion No. 18 “The Equity Method of Accounting for Investments in Common Stock” (“APB No. 18”). As of December 31, 2003, based on management’s most recent analyses, no impairment losses have been identified in connection with this investment.

Goodwill

SFAS No.142 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written down when impaired, rather than being amortized as previous accounting standards required. Goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. We recognized $4.3 million of goodwill in 2003 in connection with our acquisition of selected assets of UAS. We expect to recognize additional goodwill in 2004 after a valuation is completed with respect to the assets acquired as a result of our acquisition of Ai-Logix. Goodwill in connection with the UAS and Ai-Logix acquisitions will be reviewed for impairment each year.

B. OPERATING RESULTS

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

Overview

We design, develop and market enabling technologies and products for the transmission of high quality voice, data and fax over packet networks. Newly developed equipment based on advanced voice communications standards enables packet networks to carry voice and data more efficiently and at a lower cost than traditional telephone networks by using substantially less network capacity. Our line of products is designed to enable our customers to build packet voice networking equipment that provides comparable communication quality to that of traditional telephone networks. Our communication boards are the building blocks for connecting traditional telephone networks with packet voice networks and provide high performance and large capacity on open telecommunications platform-based gateways. We have continued to broaden our offerings as we have expanded in the last few years from se lling chips to boards, subsystems and, most recently, media gateway systems.

In addition, we license our technology to a broad group of companies that manufacture equipment making use of voice compression technology in a variety of markets. Our headquarters are in Airport City, Lod, Israel and we have 8 additional offices worldwide: in San Jose, Boston, Chicago, Dallas, Raleigh, North Carolina, Somerset, New Jersey, Tokyo and Beijing.

In 2001, one customer accounted for 31.7% of our total revenues and our top five customers accounted for 49.0% of our total revenues. In 2002, one customer accounted for 8.9% of our total revenues and our top five customers accounted for 30.2% of our total revenues. In 2003, a different customer accounted for 14.3% of our total revenues and our top five customers accounted for

34.2% of our total revenues. Based on our experience, we expect that our largest customers may change from period to period. If we lose a large customer and fail to add new customers to replace lost revenue 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:

	2001	2002	2003
United States	55.5%	40.0%	56.9%
Israel	16.4	11.9	6.8
Europe	9.9	10.7	12.6
Far East	17.9	37.4	23.7
Others	0.3	0.0	0.0
Total	100.0%	100.0%	100.0%

Part of our strategy involves the acquisition of complementary businesses and technologies. Our first strategic acquisition involved the purchase of the UAS product group from Nortel Networks in April 2003. This acquisition added new media server technology and products that we could offer to our customers and provided us with research and development capability in the United States. As a result of our supply agreement with Nortel entered into in connection with this transaction, we significantly increased our sales to Nortel, with sales to Nortel accounting for 14.3% of our revenues in 2003 compared to 1.4% of our revenues in 2002. We expect that sales to Nortel will account for a higher percentage of our revenues in 2004.

We completed a second acquisition in May 2004, acquiring Ai-Logix, a leading provider of advanced voice recording hardware technology. We believe that this acquisition will enhance our board line business and provide an entry into the call recording market and the CTI market by leveraging our VoP expertise with the technology, strategic partnerships and customer base of Ai-Logix.

We believe that prospective customers generally are required to make a significant commitment of resources to test and evaluate our products and to integrate them into their larger systems. 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. 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 U.S. 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 remeasurement 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 most significant trend that has impacted our business has been the unfavorable economic conditions affecting the communications sector during the past few years. This trend resulted in a decrease in our revenues from 2000 to 2001 and from 2001 to 2002. It also resulted in our net losses in 2001, 2002 and 2003. Sales of products, particularly for applications in converged networks, to OEMs for use by large service providers declined significantly during these periods. In response to our revenue decreases, we implemented expense control programs to reduce operating expenses, while at the same time we continued to invest in developing products that we believe our customers will need as the economy improves. We are seeing signs that the economic conditions in our industry may be improving. Our revenues in 2003 exceeded revenues in 2002, and we expect our revenues in 2004 to exceed our revenues in 2003.

Over the past year, 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 addition, underdeveloped markets without basic wireline service in countries such as China and India are beginning to use VoP technology to deliver voice and data services that were previously unavailable. These trends are helping to overcome the downturn in the telecommunications industry that affected us during the previous three years.

Results of Operations

The following table sets forth the percentage relationships of certain items from our consolidated statements of operations, as a percentage of total revenues for the periods indicated:

	Year Ended December 31,		
	2001	2002	2003
Statement of Operations Data:			
Revenues	100.0	100.0	100.0
Cost of revenues	61.4	47.8	45.3
Gross profit	38.6	52.2	54.7
Operating expenses:			
Research and development, net	38.6	47.9	35.0
Selling and marketing	38.8	52.6	32.9
General and administrative	14.1	12.3	9.2
Total operating expenses	91.5	112.8	77.1
Operating (loss)	(52.9)	(60.6)	(22.4)
Equity in losses of affiliated company	2.1	1.1	1.0
Financial income, net	17.9	9.6	4.3
(Loss) before income taxes	(37.1)	(52.1)	(19.1)
Income taxes	-	-	-
Net (loss)	(37.1)%	(52.1)%	(19.1)%

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Total revenues increased 62.7% to $44.2 million in 2003 from $27.2 million in 2002. This increase was primarily due to a growing momentum in the shift from traditional circuit-switched networks to next generation packet-switched networks, as well as an increase of $6.3 million in sales to Nortel Networks, primarily as a result of our acquisition of the UAS product group from Nortel.

Gross Profit. Cost of revenues includes the manufacturing cost of hardware, quality assurance, overhead related to manufacturing activity and technology licensing fees payable to third parties. Gross profit increased 70.6% to $24.2 million in 2003 from $14.2 million in 2002. Gross profit percentage increased to 54.7% in 2003 from 52.2% in 2002. The increase in gross profit percentage resulted primarily from a reduction in inventory write-offs and write-downs which are included in the cost of revenues. These write-offs and write-downs were $835,000 in 2003 compared to $1.7 million in 2002. In addition, gross profit percentage benefited from manufacturing overhead being spread over a larger sales base.

Research and Development Expenses. Research and development expenses consist primarily of compensation and related costs of employees engaged in ongoing research and development activities, development-related raw materials and the cost of subcontractors. Research and development expenses increased 18.8% to $15.5 million in 2003, from $13.0 million in 2002 and decreased as a percentage of total revenues to 35.0% in 2003 from 47.9% in 2002. The increase in research and development expenses in 2003 was primarily due to additions to our research and development personnel resulting from the acquisition of the UAS product group from Nortel Networks. We expect that research and development expenses will continue to increase in absolute dollar terms as a result of our continued development of new products.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of compensation for sales and marketing personnel, as well as exhibition, travel and related expenses. Sales and marketing expenses increased 1.7% in 2003 to $14.5 million from $14.3 million in 2002. As a percentage of total revenues, sales and marketing expenses decreased to 32.9% in 2003 from 52.6% in 2002. The increase in sales and marketing expenses was primarily due to an increase in sales and marketing personnel and associated expenses. We expect that sales and marketing expenses will continue to increase in absolute dollar terms, as a result of an expected increase in our sales force and marketing activities.

General and Administrative Expenses. General and administrative expenses consist primarily of compensation for finance, human resources, general management, rent, network and information systems and bad debt reserve, as well as insurance and professional services expenses. General and administrative expenses increased 21.3% to $4.1 million in 2003 from $3.4 million in 2002. As a percentage of total revenues, general and administrative expenses decreased to 9.2% in 2003 from 12.3% in 2002. The increase in general and administrative expenses was primarily due to expenses related to our moving into our new premises in Israel. We expect that general and administrative expenses will increase in absolute dollar terms to support our expected growth.

Equity in losses of Affiliated Company. Equity in losses of an affiliated company were $429,000 in 2003 compared to $300,000 in 2002. During 2003, we increased our ownership in this company to 40% and adopted the equity method of accounting. Prior year results have been adjusted to reflect this investment at equity.

Financial Income, Net. Financial income consists primarily of interest derived on cash and cash equivalents and short-term investments, net of bank charges. Financial income in 2003 was $1.9 million compared with financial income of $2.6 million in 2002. The $740,000 decrease in financial income was primarily due to lower interest rates on cash, cash equivalents, and short-term investments and, to a lesser extent, a reduction in cash reserves.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Total revenues decreased 23.9% to $27.2 million in 2002 from $35.7 million in 2001. This decrease was attributable to the continued slowdown in the global economy, and reduction in demand experienced by manufacturers and vendors of telecommunications products due to the reduction in spending for telecommunications products and technology.

Gross Profit. Cost of revenues includes the manufacturing cost of the hardware, quality assurance, any overhead related to manufacturing activity and technology licensing fees payable to third parties. Gross profit increased 2.8% to $14.2 million in 2002 from $13.8 million in 2001. Gross margin increased to 52.2% in 2002 from 38.6% in 2001. This increase was primarily due to the inventory write-offs and write-down of approximately $6.2 million that are included in the cost of revenues for 2001 compared to $1.7 million in 2002.

Research and Development Expenses. Research and development expenses consist primarily of compensation and related costs of employees engaged in ongoing research and development activities, development-related raw materials and the cost of subcontractors. Research and development expenses decreased 5.7% to $13.0 million in 2002, from $13.8 million in 2001 and increased as a percentage of total revenues to 47.9% in 2002 from 38.6% in 2001. The $785,000 decrease in research and development expenses in 2002 was primarily due to the implementation of a wage reduction that we implemented for all employees. We expect to continue investing significant resources in research and development programs for new products and enhancements of existing products.

Sales and Marketing Expenses. Sales and marketing expenses consist primarily of compensation for sales and marketing personnel, as well as exhibition, travel and related expenses. Sales and marketing expenses increased 3.1% in 2002 to $14.3 million from $13.9 million in 2001. As a percentage of total revenues, sales and marketing expenses increased to 52.6% in 2002 from 38.8% in 2001. The $436,000 increase in sales and marketing expenses was primarily due to the increase in sales and marketing personnel and associated expenses.

General and Administrative Expenses. General and administrative expenses consist primarily of compensation for finance, human resources, general management, rent, networks and information systems and bad debt reserve, as well as insurance and professional services expenses. General and administrative expenses decreased 33.5% to $3.4 million in 2002 from $5.0 million in 2001. As a percentage of total revenues, general and administrative expenses decreased to 12.3% in 2002 from 14.1% in 2001. The $1.6 million decrease in general and administrative expenses was primarily due to a decrease of $899,000 in bad debt expenses in 2002 and the implementation by us of a wage reduction for all employees.

Equity in Losses of Affiliated Company. Equity in losses of an affiliated company were $300,000 in 2002. During 2003 we increased our ownership in this unrelated company to 40% and adopted the equity method of accounting. All prior year results have been adjusted to reflect the investment at equity. In 2001, we took a write-down of $750,000 due to lower market valuation of this company.

Financial Income, Net. Financial income consists primarily of interest derived on cash and cash equivalents and short-term investments, net of bank charges. Financial income in 2002 was $2.6 million compared with financial income of $6.4 million in 2001. The $3.8 million decrease in financial income was primarily due to lower interest rates on cash, cash equivalents, and short-term investments and, to a lesser extent, a reduction in cash reserves.

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

Since the majority of our revenues are paid in or linked to the dollar, we believe that inflation and fluctuations in the New Israeli Shekel/dollar exchange rate have no material effect on our revenues. However, a portion of the cost of our Israeli operations, mainly personnel and facility-related, is incurred in New Israeli Shekel. Inflation in Israel and dollar exchange rate fluctuations, however, has some influence on our expenses and, as a result, on our net income. Our New Israeli Shekel 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 of the New Israeli Shekel in relation to the dollar.

In 2003, the rate of inflation (–1.9%) exceeded the rate of devaluation of the New Israeli Shekel against the dollar (–7.6%) by 5.7%. In 2002 and in 2001, the rate of devaluation of the New Israeli Shekel against the dollar exceeded the rate of inflation by 0.8% and 7.9% respectively.

Effective Corporate Tax Rate

Our production facilities have been granted approved enterprise status under the Law for Encouragement of Capital Investments, 1959, and consequently are eligible for certain tax benefits for the first several years in which they generate taxable income. The income derived from our facilities, which were granted approved enterprise status is exempt from income tax in Israel for two or four years commencing in the year in which the specific approved enterprise first generates taxable income. Following such two or four year period, the approved enterprises are subject to corporate tax at a reduced rate of 10% to 25% for the following six or eight years.

In the event that we operate under more than one approval or that our capital investments are only partly approved, our effective tax rate will be a weighted combination of the various applicable tax rates. See note 10 of the consolidated financial statements.

On January 1, 2003, a comprehensive tax reform took effect in Israel. Pursuant to the reform, resident companies are subject to Israeli tax on income accrued or derived in Israel or abroad. In addition, the concept of “controlled foreign corporation” was introduced, according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiaries if the subsidiaries’ primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains). The tax reform also substantially changed the system of taxation of capital gains.

C. LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations for the last three years from the proceeds remaining from prior sales of equity securities. As of December 31, 2003, we had $48.9 million in cash and cash equivalents and $50.3 million in long-term bank deposits and structured notes. We used $10.0 million of our cash in connection with the acquisition of Ai-Logix in May 2004. We are required to make an additional payment in 2005 based on the revenues of the Ai-Logix business in 2004. We currently estimate that this additional payment will be approximately $10 million. This payment may be made, at our option, in cash or by issuance of our ordinary shares. In addition, we may be required to make contingent cash payments of up to $12.5 million to Nortel in 2004 based on the amount of orders for UAS products by Nortel. These contingent payments will be offset against related revenues earned by us from these orders.

Our operating activities used cash in the amount of $6.5 million in 2003, primarily due to our net loss and an increase in trade receivables, which were partially offset by depreciation expenses and an increase in other accounts payable and accrued expenses. Our operating activities used cash in the amount of $11.7 million in 2002, primarily due to our net loss and a decrease in other accounts payables, which were partially offset by depreciation expenses and a decrease in inventories. In 2001, our operating activities used cash in the amount of $5.2 million, primarily due to our net loss and a decrease in trade and other payables, which were partially offset by a decrease in trade receivables and inventories.

In 2003, our investing activities provided cash in the amount of $6.1 million primarily due to proceeds from short-term deposits, which were partially offset by investment in long-term deposits and payments of $4.4 million in connection with the acquisition of the UAS product group. In 2002, our investing activities provided cash in the amount of $13.3 million primarily due to proceeds from short-term deposits. In 2001, our investing activities provided cash in the amount of $51.3 million primarily due to proceeds from short-term bank deposits. Our capital expenditures were $2.0 million in 2003, $2.1 million in 2002, and $3.2 million in 2001. The majority of our capital investment has been for testing equipment, an enterprise resources planning system, computers, peripheral equipment, software, office furniture and leasehold improvements. We used working capital to finance these expe nditures.

In 2003, financing activities provided $1.4 million due to proceeds of the sale of stock under our Employee Stock Purchase Plan and the exercise of options to repurchase our ordinary shares, partially offset by $215,000 used to repurchase our ordinary shares. In 2002, financing activities used $3.9 million to repurchase our ordinary shares, partially offset by $757,000 from the proceeds of the sale of stock under our Employee Stock Purchase Plan and the exercise of options. In 2001, financing activities used $6.4 million to repurchase our ordinary shares, partially offset by $846,000 from the proceeds of stock options exercised.

We anticipate that our operating expenses will be a material use of our cash resources for the foreseeable future. We may also need to use cash to satisfy obligations in connection with the UAS and Ai-Logix acquisitions. We believe that our current working capital is sufficient to meet our present cash requirements. 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 one or more 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.

Repurchase of Shares

In January 2001, our board of directors authorized us to repurchase up to 2,000,000 of our ordinary shares, and in April 2002, our board authorized the repurchase of an additional 2,000,000 of our ordinary shares, all subject to the discretion of our management. In 2001, we purchased 1,774,800 of our ordinary shares for an aggregate purchase price of approximately $6,401,000. In 2002, we purchased 2,079,139 of our ordinary shares for an aggregate purchase price of approximately $4,703,486. In 2003, we purchased 88,200 of our ordinary shares for an aggregate purchase price of approximately $ 215,321.

In December 2002, our board of directors authorized us to repurchase additional ordinary shares up to an aggregate purchase price of $10,000,000. Under Israeli law, because we no longer have retained earnings to cover such additional repurchases, the approval of the District Court in Tel Aviv was required for additional repurchases of our shares. In March 2003, the District Court in Tel Aviv granted us such approval. This approval is merely permissive. Repurchases under such approval will occur only if our board of directors adopts a specific repurchase program as and when it deems appropriate. We expect that repurchases, if any, would be funded from working capital.

D. 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 are developing more advanced communications boards and analog and digital media gateways for carrier and enterprise applications. Our platforms will feature increased trunk capacity, new functionalities, enhanced signaling software and compliance with new control protocols. As of December 31, 2003, 145 of our employees were engaged primarily in research and development on a full-time basis. We also employed 22 persons on a part-time basis.

Our research and development expenses were $15.5 million in 2003 compared to $13.0 million in 2002 and $13.8 million in 2001. From time to time we have received royalty-bearing grants from the Office of the Chief Scientist of the Israeli Ministry of Industry, Trade and Labor, or the OCS, and the Israel-U.S. Binational Research and Development Foundation. As a recipient of grants from the OCS, we are obligated to perform all manufacturing activities for projects subject to the grants in Israel unless we receive an exemption. Know-how from the research and development which is used to produce products may not be transferred to third parties without the approval of the OCS. This approval is not required for the export of any products resulting from such research or development. Through December 31, 2003, we had obtained grants from the OCS aggregating $ 435,000 for certain of our resear ch and development projects. We are obligated to pay royalties to the OCS, amounting to 3%-3.5% of the sales of the products and other related revenues generated from such projects, up to 100% of the grants received, linked to the U.S. dollars 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.

Law for the Encouragement of Industrial Research and Development, 5744-1984

Under the Law for the Encouragement of Industrial Research and Development, 5744-1984 (the "Research Law") and the Instructions of the Director General of the Ministry of Industry, Trade and Labor, research and development programs and the plans for the intermediate stage between research and development, and manufacturing and sales approved by a governmental committee of the Office of Chief Scientist, or OCS (the "Research Committee") are eligible for grants of up to 50% of the project's expenditure if they meet certain criteria. These grants are issued in return for the payment of royalties from the revenues derived from the sale of the product developed in accordance with the program, as follows: 3% of revenues during the first three years, 4% of revenues during the following three years, and 5% of revenues in the seventh year and thereaf ter, with the total royalties not to exceed 100% of the dollar value of the OCS grant (or in some cases up to 300%). Following the full payment of such royalties, there is no further liability for payment.

The Israeli government further generally requires that products developed with government grants be manufactured in Israel. However, in the event that any portion of the manufacturing is not conducted in Israel, if approval is received from the OCS, we would be required to pay royalties that are adjusted in proportion to the manufacturing conducted outside of Israel as follows: when the manufacturing is performed outside of Israel by us or an affiliate company, the royalties are to be paid as described above with the addition of 1%, and when the manufacturing outside of Israel is not performed by us or an affiliate, the royalties paid shall be equal to the ratio of the amount of grant received from the OCS divided by the amount of grant received from the OCS and the investments made by us in the project. The payback will also be adjusted to 120%, 150% or 300% of the grant , if the portion of manufacturing that is performed outside of Israel is up to 50%, between 50% and 90%, or more than 90%, respectively.

The technology developed pursuant to the terms of these grants may not be transferred to third parties without the prior approval of the Research Committee. This approval is not required for the export of any products resulting from sponsored research or development. Approval of the transfer of technology may be granted only if the recipient abides by all the provisions of the Research Law and regulations promulgated thereunder, including the restrictions on the transfer of know-how and the obligation to pay royalties in an amount that may be increased. We are subject to various provisions of the Research Law and the regulations promulgated thereunder.

In order to meet specified conditions in connection with the grants and programs of the OCS, we have made representations to the Israel government about our future plans for our Israeli operations. From time to time the extent of our Israeli operations have differed and may in the future differ, from our representations. If, after receiving grants, we fail to meet the conditions to those grants, including, the maintenance of a material presence in Israel, or if there is any material deviation from the representations made by us to the Israeli government, we could be required to refund the grants previously received (together with an adjustment based on the Israeli consumer price index and an interest factor) and would likely be ineligible to receive OCS grants in the future.

Each application to the OCS is reviewed separately, and grants are based on the program approved by the Research Committee. Expenditures supported under other incentive programs of the State of Israel are not eligible for OCS grants. As a result, we cannot be sure that applications to the OCS will be approved or, if approved, that we will receive the amounts that we apply for.

Recent Accounting Pronouncements

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. The Interpretation provides that a development stage entity is not a variable interest entity if it can be demonstrated that the equity invested in the entity is sufficient to permit it to finance the activities it is currently engaged in and provisions in the entity's governing documents and contractual arrangements allow additional equity investments. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period end after December 15, 2003. As of December 31, 2003, we do not expect the adoption of FIN 46 to have a material impact on our consolidated financial statements.

E. TREND INFORMATION

The most significant trend that has impacted our business has been the unfavorable economic conditions that affected the communications sector during the past few years. This trend resulted in a decrease in our revenues from 2000 to 2001 and from 2001 to 2002. It also resulted in our net losses in 2001, 2002 and 2003. Sales of products, particularly for applications in converged networks, to OEMs for use by large service providers declined significantly during these periods. In response to our revenue decreases, we implemented expense control programs to reduce operating expenses, while at the same time we continued to invest in developing products that we believe our customers will need as the economy improves. We are seeing signs that the economic conditions in our industry may be improving. Our revenues in 2003 exceeded our revenues in 2002, and we ex pect our revenues in 2004 to exceed our revenues in 2003.

Over the past year, 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 addition, underdeveloped markets without basic wireline service in countries such as China and India are beginning to use VoP technology to deliver voice and data services that were previously unavailable. These trends are helping to overcome the downturn in the telecommunications industry that affected us during the previous three years.

In 2003, we continued to experience pressure to shorten our lead times in supplying products to customers. Some of our customers are implementing "demand pull" programs by which they only purchase our product very close to the time if not simultaneously with the time they plan to sell their product. We are increasing our sales efforts in new markets, such as Latin America and Eastern Europe. We have introduced system level products, and new applications in our product lines. We are still experiencing low visibility into customer demand for our products and our ability to predict our level of sales.

F. OFF-BALANCE SHEET ARRANGEMENTS

We do not have any "off-balance sheet arrangements" as this term is defined in Item 5E of Form 20-F.

G. TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

As of December 31, 2003, our contractual obligations were as follows (in thousands):

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
Rental and lease commitments	20,289	2,618	5,204	4,124	8,343
Total cash obligations	20,289	2,618	5,204	4,124	8,343

Our obligation for accrued severance pay under Israel's Severance Pay Law as of December 31,2003 was $ 3.99 million, of which $ 3.62 million was funded through deposits into severance pay funds, leaving a net obligation of approximately $370,000.

ITEM 2. 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 May 31, 2004:

Name	Age	Position
Shabtai Adlersberg	51	Chairman of the Board, President and Chief Executive Officer
Nachum Falek	33	Vice President, and Chief Financial Officer
Eyal Frishberg	45	Vice President, Operations
Dr. Yoram Stettiner	46	Vice President, Advanced Technologies and Technology Group
Eli Nir	37	Vice President, Research and Development
Lior Aldema	38	Vice President, Marketing and Product Management
David Sullivan	47	Vice President, U.S. Sales
Ben Rabinowitz	37	Vice President, Systems Group

Yehuda Hershkowitz	37	Vice President, Systems
Tal Dor	35	Vice President, Human Resources
David Furstenberg	56	Vice President, Global Sales
Moshe Tal	50	President and Chief Executive Officer, Ai-Logix Inc.
Joseph Tenne	48	Director
Dana Gross	37	Director
Dr. Eyal Kishon	44	Director
Doron Nevo	48	Director

Shabtai Adlersberg co-founded AudioCodes in 1993, and has served as our Chairman of the Board and Chief Executive Officer since inception. Mr. Adlersberg co-founded DSP Group, Inc., 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. degree in Electronics and Computer Engineering from Tel Aviv University and a B.Sc. degree in Electrical Engineering from the Technion-Israel Institute of Technology, or the Technion.

Nachum Falek joined AudioCodes in April 2000 and became our Vice President, and Chief Financial Officer in November 2003. From 2000 to 2003 he served as Director of Finance. Prior to joining AudioCodes, Mr. Falek served as Controller at ScanVec-Amiable Ltd. From 199_ to 1999, he was a Manager at Ernst & Young in Israel. Mr. Falek holds a B.A. degree in Accounting and Economics from University of Haifa, M.B.A from Tel Aviv University, and is a licensed CPA in Israel.

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, 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 company, part of IAI (Israeli Aviation 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.

Dr. Yoram Stettiner has served as our Vice President, Advanced Technologies since 2000. From 1997 to 2000, Dr. Stettiner served as Vice President, Business Development. From 1996 to 1997, Dr. Stettiner served as Director of Advanced Technologies. From 1995 to 1996, Dr. Stettiner led a Research and Development team at Libit Signal Processing Ltd., a communications company (now the Cable division of Texas Instruments), as Director of Wireless Communications. From 1992 to 1995, Dr. Stettiner founded and headed the Signal Processing and Algorithms department at Nexus Telocation Systems Ltd., a communications company. From 1987 to 1990, Dr. Stettiner developed various speech processing algorithms at DSP Group, Inc. Dr. Stettiner holds a D.Sc. degree from the Technion, an M.Sc. from Tel Aviv University (both in the area of speech processing), and a B.Sc. from the Technion.

Eli Nir has served as our Vice President, Research and Development since April 2001. He has been employed by us since 1996, when he founded and headed our System Software Group in our research and development department. Prior to 1996, Mr. Nir 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 mostly related to digital processing. Mr. Nir holds an M.B.A. (Finance) and an M.Sc. from Tel Aviv University in the area of Digital Speech Processing and a B.Sc. from the Technion.

Lior Aldema has served as our Vice President, Product Management since January 2002. Mr. Aldema has also served as our Vice President Marketing since February 2003. 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 and headed one of the largest projects conducted in the IDF and executed by the Israeli Defense industry corporations. Mr. Aldema holds an M.B.A. (Finance and Marketing) with distinction from Tel Aviv University and a B.Sc. with distinction from the Technion (Dean's list).

David Sullivan joined us in April 1998 and became our Vice President of Sales and Support for North America in April 2001. From 1995 to 1998, Mr. Sullivan held a variety of sales, marketing and management positions at BBN Planet Corporation (Verizon) and WorldCom. From 1990 to 1995, he served as Director of Sales for Sync Research, a communications company. From 1982 to 1990, Mr. Sullivan was a branch manager for AT&T Computer systems. Mr. Sullivan earned a B.A. in Business Administration from Eastern Washington University.

Ben Rabinowitz joined us in December, 1999 and became our Vice President of the Systems Group in March 2002. From 1998 to 1999, Mr. Rabinowitz served as Director for Product Marketing at Westell Inc., a broadband access company. From 1997 to 1998, Mr. Rabinowitz served as Senior Director within the strategy practice of TSC, a technology consulting firm. Mr. Rabinowitz also served as a Senior Consultant at Ernst & Young from 1994 to 1997 and provided consulting services to telecommunications companies. Mr. Rabinowitz holds an M.B.A. from Georgetown University.

Yehuda Hershkovits has served as our Vice President, Systems Group since 2003. From 2001 to 2003, Mr. Hershkovits served as our Vice President, Advanced Products. From 2000 to 2001, Mr. Hershkovits served as our Director of Advanced Technologies. From 1994 to 1998 and during 1999, Mr. Hershkovits held a variety of research and development positions at ART, Ltd., a voice and handwriting recognition company, heading ART's research and development from 1999 to 2000 as Vice President, Research and Development. From 1998 to 1999, Mr. Hershkovits developed various wireless communication algorithms at Comsys, a telecommunications company. Mr. Hershkovits holds an M.Sc. and a B.Sc. (summa cum laude), from the Technion both in the area of telecommunications.

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

Moshe Tal joined us in May 2004 in connection with the acquisition of Ai-Logix, Inc. and serves as the President and CEO of our Ai-Logix subsidiary. Mr. Tal co-founded Ai-Logix, Inc. in 1991, and has served as its President and CEO since 1998. Mr. Tal has more than twenty-five years of product design and engineering experience, principally associated with analog and digital signal processing technologies. Mr. Tal holds a B.Sc. in Electronic Engineering from Tel Aviv University. He also served in the Israeli Navy as a Submarine Communication System Technician.

David Furstenberg joined AudioCodes in February 2004 as our Vice President, Global Sales. From 1999 to 2003, Mr. Furstenberg served in a variety of senior management, sales, business development and crisis management positions at Comverse Technology Inc., a voice mail and telecommunication value added service provider. From 1996 to 1998, Mr. Furstenberg served as the CEO and President of VISTA Computer Vision Ltd., an Israel Aircraft Industries (IAI) subsidiary company selling automated visual surface inspection systems.

Joseph Tenne has served as one of our directors since June 2003. Mr. Tenne is currently the Chief Financial Officer of Treofan Germany GmbH & Co. KG a German company engaged in the development, production and marketing of oriented polypropylene films, which are mainly used in the food packaging industry. Treofan is a subsidiary of Dor Chemical Ltd., an Israeli company whose shares are traded on The Tel-Aviv Stock Exchange. From 1978 to July 2003 Mr. Tenne has been affiliated in various capacities with Kesselman & Kesselman, Certified Public Accountants in Israel and a member of PricewaterhouseCoopers International Limited. From January 1997 to July 2003, he was a partner in Kesselman & Kesselman. Mr. Tenne received 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 Isr ael.

Dana Gross has served as one of our directors since June 2000. Ms. Gross has served as Chief Marketing Officer of M-Systems Flash Disk Ltd. since April 2000, and as a director of M-Systems since September 2000. Prior to that, Ms. Gross served as Executive Vice President of the DiskOnChip business unit of M-Systems from 2000 and as Vice President of Worldwide Sales of M-Systems from 1998 until April 2000. Ms. Gross joined M-Systems in July 1992 as Vice President of Operations and became Chief Financial Officer in 1994, President of M-Systems Inc. in 1995 and Executive Vice President of Business Development in 1997. Ms. Gross received a B.Sc. in Industrial Management Engineering (with honors) from Tel Aviv University in 1992 and an M.B.A. degree from San Jose State University in 1997.

Dr. Eyal Kishon has served as one of our directors since 1997. 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. In his capacity as Managing Partner of Genesis, Dr. Kishon serves as a director of VCON Telecommunications Ltd., a video conferencing technology company. 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 received a B.A. in Computer Science from the Technion and an M.Sc. and a Ph.D. in Computer Science from New York University.

Doron Nevo has served as one of our directors since 2000. 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 fax service provider in Israel. Mr. Nevo is President and CEO of KiloLambda Technologies, Ltd. an optical subsystems company. He also serves on the board of a number of companies such as: Utility Wireless Corp. (a manufacturer of radio frequency sub-systems), Elcom Technologies (manufacturer of Satcom and Digital Radio synthesizers), Notox, Ltd. (a biotech company) and Cellaris, Ltd. (a new materials company). Mr. Nevo received a B.Sc. in Electrical En gineering from the Technion and an M.Sc. in Telecommunications Management from Brooklyn Polytechnic.

In 1999, the four "groups" that then comprised our principal shareholders entered into a shareholders' agreement. The shareholders' agreement provides that as long as a group owns at least 7.5% of our outstanding shares, it shall be entitled to nominate candidate directors and shall be required to vote in favor of the nominees of the other principal shareholder groups who own at least 7.5% of our outstanding shares. As of March 1, 2004, to our knowledge, only two of the four groups (Shabtai Adlersberg and Leon Bialik, who are each a "group" for purposes of the shareholders' agreement), still own over 7.5% each of our outstanding shares. During 2003, none of our directors were elected as a result of the provisions of the shareholders' agreement.

B. COMPENSATION

The aggregate direct remuneration paid to all 16 persons who served in the capacity of director or senior executive officer during the year ended December 31, 2003 was approximately $1,108,105, including $64,772 which was set aside for pension and retirement benefits. This does 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.

Stock options to purchase our ordinary shares granted to persons who served in the capacity of director or executive officer under our 1997 and 1999 Stock Option Plans are generally exercisable at the fair market value at the date of grant, and expire ten years (under the 1997 Plan) and seven years (under the 1999 Plan), respectively, from the date of grant. The options are generally exercisable in four or five equal annual payments, commencing one year from the date of grant.

A summary of our stock option activity and related information for the years ended December 31, 2001, 2002 and 2003 for all 16 persons who served in the capacity of director or senior executive officer during the year ended December 31, 2003 is as follows:

	2001		2002		2003	
	Number Of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Outstanding at the beginning of the year	835,900	$7.66	1,078,634	$8.13	1,235,686	$7.58
Granted	631,334	$4.30	230,052	$2.85	325,500	$6.64
Cancelled	-	-	-	-	-	-
Exercised	(388,600)	$0.90	(73,000)	$0.86	(34,484)	$3.09
Outstanding at the end of the year	1,078,634	$8.13	1,235,686	$7.58	1,526,702	$7.48

As of December 31, 2003, options to purchase 699,843 ordinary shares were exercisable at an average exercise price of $9.08 per share.

C. BOARD PRACTICES

Independent Directors; Internal Auditor

Under the Israeli Companies Law, Israeli companies that have offered securities to the public in or outside of Israel are required to appoint at least two "outside" directors. Doron Nevo and Dr. Eyal Kishon are our outside directors. Under the requirements for listing on the Nasdaq National Market, we will be required by July 31, 2005 to have a majority of our directors be independent as defined by Nasdaq rules. Doron Nevo, Dr. Eyal Kishon, Dana Gross and Joeseph Tenne are independent directors for purposes of the Nasdaq rules.

To qualify as an outside director under Israeli law, an individual or his affiliates may not have, and may not have had at any time during the previous two years, any affiliation with the company or its affiliates, as such terms are defined in the Companies Law. 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. For a period of two years from termination from office, a former outside director may not serve as a director or employee of the company or provide professional services to the company for consideration.

The outside directors must be elected by the shareholders, including at least one-third of the shares of non-controlling shareholders voted on the matter. However, the outside directors can be elected by shareholders without this one-third approval if the total shares of non-controlling shareholders voted against the election do not represent more than one percent of the voting rights in the company. The term of an outside director is three years and may be extended for one additional three-year term. An outside director can be removed from office only under very limited circumstances. Each committee of a company's board of directors is required to include at least one outside director. If, at the time outside directors are elected, all current members of the board of directors are of the same gender, then at least one outside director must be of the other gender.

Under the Companies Law and the requirements for listing on the Nasdaq National Market, our board of directors is required to appoint an audit committee. The audit committee must be comprised of at least three directors, including all of the outside directors. The audit committee consists of three members: Dr. Eyal Kishon, Doron Nevo and Joseph Tenne. The audit committee may not include the chairman of the board, a controlling shareholder and the members of his immediate family or any director who is employed by the company or provides services to the company on a regular basis. Under Israeli law, the role of the audit committee is to examine flaws in our business management, in consultation with the internal auditor and the independent accountants, and to propose remedial measures to the board. The audit committee also reviews for approval transactions between the company and office holders or interested parties, as described below.

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. We have appointed Eitan Hashachar CPA as our internal auditor with effect from January 2001.

Our board of directors appointed Dr. Eyal Kishon and Dana Gross to serve on the compensation committee of the board of directors.

Pursuant to our articles of association, our directors were classified into three classes (classes I, II and III). The members of each class of directors and the expiration of the term of office is as follows:

Dana Gross	Class I	2004
Joseph Tenne	Class II	2005
Shabtai Adlersberg	Class III	2006

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.

D. EMPLOYEES

As of December 31, 2003, we employed a total of 328 persons worldwide, including 145 in research and development, 119 in sales and marketing, technical service and support, 19 in management and administration and 45 in operations. 50 of our employees are based in the United States, primarily in Raleigh, North Carolina, one in Japan, one in the United Kingdom, one in France and 10 in Beijing, China. In addition, as of December 31, 2003, we employed an additional 24 part-time employees. The growth in the number of employees during 2003 was attributable mainly to growth in our research and development team, and sales personnel.

As of December 31, 2002, we employed a total of 278 persons worldwide, including 137 in research and development, 84 in sales and marketing, technical service and support, 18 in management and administration and 39 in operations. 32 of our employees are based in the United States, primarily in San Jose, California, one in Japan and 8 in Beijing, China. In addition, as of December 31, 2002, we employed an additional 22 part-time employees. The growth in the number of employees during 2002 was attributable mainly to growth in our research and development teams, sales and sales support personnel.

As of December 31, 2001, we employed a total of 251 persons worldwide, including 119 in research and development, 76 in sales and marketing, technical service and support, 20 in management and administration and 36 in operations. 31 of our employees are based in the United States, primarily in San Jose, California, one in Japan and 8 in Beijing, China. In addition, as of December 31, 2001, we employed an additional 30 part-time employees. The growth in the number of employees during 2001 was attributable mainly to growth in our research and development teams, sales and sales support personnel together with related increases in management and administration personnel.

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. Since January 1, 1995, such amounts also include payments for national health insurance. The payments to the National Insurance Institute are approximately 14.5% of wages, of which the employee contributes approximately 66% and the employer contributes approximately 34%.

Although not legally required, 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 13.3% of an employee's salary on account of severance pay and provident payment or pension, with the employee contributing 5.0% 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.

Furthermore, our employees 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 Ministry of Labor and Welfare. 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.

E. SHARE OWNERSHIP

The following table sets forth the share ownership and outstanding number of options of our directors and officers as of March 1, 2004:

Name	Total Shares Beneficially Owned	Percentage of Ordinary Shares	Number of Options

Shabtai Adlersberg	4,940,683	13.0	358,718
Nachum Falek	*		*
Eyal Frishberg	*		*
Dr. Yoram Stettiner	*		*
Eli Nir	*		*
Ben Rabinowitz	*		*
David Sullivan	*		*
Lior Aldema	*		*
Yehuda Hershowitz	*		*
Tal Dor	*		*
David Furstenberg	*		*
Moshe Tal	*		*
Joseph Tenne	*		*
Dana Gross	*		*
Dr. Eyal Kishon	*		*
Doron Nevo	*		*

*Less than one percent.

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

The following table sets forth information with respect to the options to purchase our ordinary shares held by Mr. Adlersberg as of March 1, 2004:

Shabtai Adlersberg

Number of Options	Grant Date	Exercise Price	Exercised	Cancelled	Vesting	Expiration Date
96,000	July 1, 1996	$0.61	(96,000)	-	4 years	July 1, 2006
96,000	July 1, 1998	$1.10	(72,000)	-	4 years	July 1, 2005
100,000	May 23, 2000	$29.16	-	-	4 years	May 23, 2007
225,000	December 19, 2001	$4.18	-	-	4 years	December 19, 2008
9,718	August 9, 2002	$2.04	-	-	2 years	August 9, 2012

Employee Share Plans

We have an Employee Share Purchase Plan and Employee Share Option Plans for the granting of options to our employees, officers, directors and consultants and adopted the 2001 U.S. Employee Stock Purchase Plans during 2001. Most of these plans are pursuant to the Israeli Income Tax Ordinance, entitling the beneficiaries who are our employees to tax benefits under Israeli law. To satisfy the requirements imposed by the tax authorities for such plans, a beneficiary cannot sell shares received pursuant to grant under the plans for at least two years from the date of grant. In addition, the options and shares are issued in the name of a trustee, who holds them for at least two years and votes any shares held in trust in accordance with the provisions of the Employee Share Purchase Plan and Employee Share Option Plans. There are similar plans for our U.S. employees, which are designed to c omply with the corresponding provisions of the Internal Revenue Code of 1986, as amended.

Employee Share Purchase Plan

Our board adopted the Employee Share Purchase Plan in 1994 and issued 1,920,000 ordinary shares to a trustee. Of these shares, none remain subject to restrictions. An additional 153,600 shares were originally authorized and issued under the plan to employees, officers, directors and consultants. These shares were converted to unrestricted ordinary shares and were sold by the employees. All of the shares issued under this plan were issued at a nominal value of New Israeli Shekels 0.01 per share. Shares purchased pursuant to this plan are subject to incremental vesting over 18 months.

We have implemented two new Employee Share Purchase Plans effective May 2001. One plan is for our U.S. employees and the other for all our Israeli and other employees. The U.S. plan received shareholder approval at our 2001 annual general meeting of shareholders.

Employee Share Option Plans

In 1999, our board restated three 1997 Employee Share Option Plans for our Israeli employees, officers, directors and consultants and two 1997 Share Option Plans for our U.S. employees, officers, directors and consultants. Additionally, in 1999 our board adopted an Employee Share Option Plan for our Israeli employees, officers, directors and consultants, and an Employee Share Option Plan for our U.S. employees, officers, directors and consultants. The terms of the 1999 Plans are substantially the same as those of the 1997 Plans, but have reduced the exercise period from 10 to 7 years. The board has the ability to grant options with longer or shorter terms. The terms of the 1999 Plans have been modified slightly since they were adopted and in 2003, the Israeli Plan was changed to conform to amendments to the Israeli income tax law.

As of December 31, 2003, options to purchase a total of 6,833,829 shares are outstanding under the 1997 and 1999 Israeli Plans and options to purchase a total of 1,636,118 shares are outstanding under the 1997 U.S. Plan. In addition, a reserve of 752,448 shares has been made available for grant under the 1999 Israeli Plan and a reserve of 591,100 shares has been made available for grant under the 1999 U.S. Plan. However, subject to our board deciding otherwise, each year on July 1, starting with July 1999, the number of shares that will be made available for grant under both of the 1999 Plans, will be automatically increased to that number of shares that is equal to 5% of our outstanding share capital on such a date.

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 board considers many factors in establishing such prices, including our financial condition and operating results, investors' valuations and the market for the securities of comparable industry group companies.

ITEM 3. 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 December 31, 2003, the number of our ordinary shares, which constitute our only 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
Shabtai Adlersberg(1)	5,154,798	13.6%
Leon Bialik(2)	4,593,722	12.1%
DSP Group, Inc.(3)	4,450,672	11.8%
FMR Corp.(4)	2,763,830	7.3%
All directors and senior executive officers as a group (16 persons)(5)	5,889,946	15.3%

(1) Includes options to purchase 216,359 shares, which may be purchased pursuant to options exercisable within sixty days following December 31, 2003.

(2) Includes options to purchase 244,000 shares, which may be purchased pursuant to options exercisable within sixty days following December 31, 2003.

(3) Information is derived from a Schedule 13G, dated January 9, 2004, of DSP Group, Inc. filed with the Securities and Exchange Commission. In an amendment filed on February 10, 2004, DSP Group, Inc. indicated that it beneficially owned 2,450, 672 shares. The address of DSP Group, Inc. is 3120 Scott Boulevard, Santa Clara, California 95054.

(4) Information is derived from the joint statement on Schedule 13G, dated February 17, 2004, of FMR Corp., Edward C. Johnson 3d, Abigail P. Johnson, and Fidelity Management & Research Company. with the Securities and Exchange Commission. In a Schedule 13G filed on May 10, 2004, these persons indicated that as of April 30, 2004, they beneficially owned 2,231,290 shares. The address of FMR Corp. is 82 Devonshire Street, Boston, Massachusetts 02109.

(5) Includes 700,177 ordinary shares, which may be purchased pursuant to options exercisable within sixty days following December 31, 2003.

During 2003, Mr. Adlersberg acquired 285,130 of our ordinary shares and Mr. Bialik sold 208,000 of our ordinary shares. During 2002, Mr. Adlersberg acquired 10,265 of our ordinary shares and Mr. Bialik did not sell or acquire any of our ordinary shares. During 2001, Mr. Adlersberg acquired 169,431 of our ordinary shares and Mr. Bialik did not sell or acquire any of our ordinary shares.

FMR Corp. held 7.3% of our ordinary shares as of December 31, 2003, as compared to 10.2% of our ordinary shares as of December 31, 2002 and less than 5% of our ordinary shares as of December 31, 2001. DSP Group, Inc. held 11.8% of our ordinary shares as of December 31, 2003, as compared to 11.9% of our ordinary shares as of December 31, 2002 and 11.4% of our ordinary shares as of December 31, 2001.

As of March 1, 2004, there were approximately 25 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

DSP Group, Inc. held 11.8% of our ordinary shares as of December 31, 2003. In 2003, we received approximately $261,000 in royalties from DSP Group , and paid $ 23,000 in royalties to DSP Group. At December 31, 2003, we had no accounts receivable from DSP Group.

Supply Arrangements with DSP Group, Inc.

DSP Group, Inc. supplied us with DSP chips that we use for some of our signal processor products. In 2003, we spent approximately $ 15,000 purchasing chips from DSP Group. We believe that these transactions have been conducted on an arms length basis and that we purchase the chips at their fair market value.

Development Agreement with DSP Group Ltd.

In October 1999, we entered into a development agreement with DSP Group Ltd., a company affiliated with DSP Group Inc., one of our principal shareholders, and a third party. The agreement provides that DSP Group Ltd. will pay royalties for every chip actually sold by DSP Group Ltd. to third parties. As of December 31, 2003, we had not received any royalties.

We will own the very low delay voice compression code, and we have agreed to grant the two companies a non-exclusive license to the very low delay voice compression coder for use in their products in exchange for royalties. Since 2000, we have not received any royalties from these two companies.

Pooling Agreement with DSP Group, Inc.

We and DSP Group, Inc. entered into a pooling agreement with France Télécom, Université de Sherbrooke and their agent, Sipro Lab Telecom, dated March 3, 1995, as amended. Under the pooling agreement we and DSP Group, Inc. granted to France Télécom and Université de Sherbrooke the right to use certain specified AudioCodes patents, and any other AudioCodes and DSP Group, Inc. intellectual property rights incorporated in the ITU G.723.1 standard. Likewise France Télécom and Université de Sherbrooke granted us and DSP Group, Inc. the right to use certain of their patents and any other intellectual property rights incorporated in the G.723.1 standard. In addition, each of the parties to the agreement granted to the other parties the right to license to third parties the patents of any party included in the intellectual property required to meet the G.723.1 standard, in accordance with each licensing party's standard patent licensing agreement. The agreement provides for the fee structure for licensing to third parties (see "Item 4. Information on the Company—B. Business Overview—Intellectual Property and Proprietary Rights").

Registration Rights

We entered into agreements with our principal shareholders entitling them to registration rights. These shareholders each have "piggyback" registration rights to have their shares included in some of the registration statements that we may file.

C. INTERESTS OF EXPERTS AND COUNSEL

Not applicable.

ITEM 4. FINANCIAL INFORMATION

See Item 18.

ITEM 5. THE OFFER AND LISTING

A. OFFER AND LISTING DETAILS

Our ordinary shares are listed on the Nasdaq National Market and The Tel Aviv Stock Exchange under the symbol "AUDC."

In accordance with Rule 4350(a)(1) of the Rules of Corporate Governance of The Nasdaq Stock Market, Inc., we have received an exemption from the requirement to distribute an annual report to our shareholders prior to our annual meeting of shareholders. The basis for the exemption is that the generally accepted business practice in Israel, where we are incorporated, is not to distribute an annual report to shareholders. We post our Annual Report on Form 20-F on our web site (www.audiocodes.com) as soon as practical following the filing of the Annual Report on Form 20-F with the Securities and Exchange Commission.

The following table sets forth, for the periods indicated, the high and low sales prices of our ordinary shares as reported by the Nasdaq National Market. Our shares commenced trading on the Nasdaq National Market on May 28, 1999. All per share prices for periods prior to or including October 6, 2000 have been retroactively adjusted to reflect the two-for-one stock split effected on that date.

Calendar Year	Price Per Share	
	High	Low
2003	$11.74	$2.10
2002	$5.91	$1.61
2001	$25.75	$1.60
2000	$76.00	$9.25
1999 (commencing May 28, 1999)	$48.06	$7.44

Calendar Period	Price Per Share	
	High	Low
2004		
First quarter	$16.10	$10.35
2003		
Fourth quarter	$11.74	$7.59
Third quarter	$8.85	$4.40
Second quarter	$5.80	$2.65
First quarter	$2.71	$2.10
2002		
Fourth quarter	$2.580	$1.68
Third quarter	$2.70	$1.61
Second quarter	$3.88	$2.30
First quarter	$5.91	$3.27

Calendar Month	Price Per Share

	High	Low
2004		
May	$10.27	$8.48
April	$12.98	$9.34
March	$13.91	$10.35
February	$15.85	$11.61
January	$15.16.10	$10.40
2003		
December	$11.65	$8.81

The following table sets forth, for the periods indicated, the high and low sales prices of our ordinary shares as reported by The Tel Aviv Stock Exchange. Our shares commenced trading on The Tel Aviv Stock Exchange on October 21, 2001. All share prices shown in the following table are in New Israeli Shekels (NIS). As of December 31, 2003, the exchange rate was equal to approximately 4.379 NIS per U.S. $1.00.

-#-

Calendar Year	Price Per Share	
	High	Low
2003	NIS 51.70	NIS 10.42
2002	NIS 26.56	NIS 8.11
2001 (commencing October 21, 2001)	NIS 26.90	NIS 10.25

Calendar Period	Price Per Share	
	High	Low
2004		
First quarter	NIS 70.30	NIS 46.89
2003		
Fourth quarter	NIS 51.70	NIS 34.29
Third quarter	NIS 38.27	NIS 20.16
Second quarter	NIS 23.94	NIS 12.55
First quarter	NIS 12.40	NIS 10.42
2002		
Fourth quarter	NIS 11.60	NIS 8.11
Third quarter	NIS 11.60	NIS 8.23
Second quarter	NIS 18.24	NIS 12.11
First quarter	NIS 26.56	NIS 16.00

Calendar Month	Price Per Share	
	High	Low
2004		
May	NIS 46.12	NIS 40.34
April	NIS 57.00	NIS 45.92
March	NIS 60.90	NIS 48.66
February	NIS 66.00	NIS 55.20
January	NIS 70.30	NIS 46.89
2003		
December	NIS 51.70	NIS 40.89

B. PLAN OF DISTRIBUTION

Not applicable.

C. MARKETS

Our ordinary shares are listed for trading on the Nasdaq National 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, Hamburg Stock Exchange, Berlin Stock Exchange, Munich Stock Exchange and XETRA

D. SELLING SHAREHOLDERS

Not applicable.

E. DILUTION

Not applicable.

F. EXPENSES OF THE ISSUE

Not applicable.

ITEM 6. ADDITIONAL INFORMATION

A. SHARE CAPITAL

Not applicable.

B. MEMORANDUM AND ARTICLES OF ASSOCIATION

Objects and Purposes

Our registration number with the Israeli Registrar of Companies is 520044132. Our objects and purposes, set forth in Section 2 of our memorandum of association, are:

- to plan, develop and market voice signal systems;
- to purchase, import, market and wholesale and retail distribute, in Israel and abroad, consumption goods and accompanying products;
- to serve as representatives of bodies, entrepreneurs and companies from Israel and abroad with respect to their activities in Israel and abroad; and
- to carry out any activity as determined by the lawful management.

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

Shareholders may amend our articles of association by a resolution adopted at a shareholders meeting by the holders of 50% of voting power represented at the meeting in person or by proxy and voting thereon.

Dividends

We may pay dividends only out of our profits. The amount of any dividend to be distributed among shareholders is based on the nominal value of their shares. Our Board of Directors has determined that any tax-exempt income attributable to the approved enterprise will not be distributed as dividends.

Voting Rights and Powers

Unless any shares have special rights as to voting, every shareholder has one vote for each share held of record. A shareholder is not entitled to vote at any shareholders meeting unless all calls then payable by him in respect of his shares have been paid (this does not apply to separate meetings of the holders of a particular class of shares with respect to the modification or abrogation of its rights).

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

We may issue and redeem redeemable shares.

Modification of Rights

Subject to the provisions of our memorandum of association, and without prejudice to any special rights previously conferred upon the holders of our existing shares, we may, from time to time, by a resolution approved by the holders of 50% voting power represented at the meeting in person or by proxy and voting thereon, provide for shares with such preferred or deferred rights or rights of redemption, or other special rights and/or such restrictions, whether in regard to dividends, voting repayment of share capital or otherwise, 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 50% voting power represented at the meeting in person or by proxy and voting thereon, subject to the consent in writing of the holders of 75% of the issued shares of that class.

The provisions of our articles of association relating to general meetings also apply to any separate general meeting of the holders of the shares of a particular class, except that two or more members holding not less than 75% of the issued shares of that class must be present in person or by proxy at that separate general meeting for a quorum to exist.

Unless otherwise provided by our articles of association, the increase of an authorized class of shares, or the issuance of additional shares thereof out of the authorized and unissued share capital, shall not be deemed to modify or abrogate the rights attached to previously issued shares of that class or of any other class.

Shareholders 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 must convene a special shareholders meeting at the request of:

- at least two directors;
- at least one-quarter of the directors in office; or
- shareholders who hold at least 5% of the outstanding equity and at least 1% of the voting rights, or 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 in advance of the meeting. Notice of a meeting of shareholders must also be published in two Israeli newspapers prior to the record date for the meeting.

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.

Approval of Transactions Under Israeli Law

The Companies Law imposes fiduciary duties that “office holders,” including directors and executive officers, owe to their company. An office holder’s fiduciary duties consist of a duty of care and a duty of loyalty. The duty of care generally requires an office holder to act with the level of care which a reasonable office holder in the same position would have acted under the same circumstances. The duty of loyalty generally requires an office holder to act in good faith and for the good of the company. Specifically, an office holder must avoid any conflict of interest between the office holder’s position in the company and his or her other positions or personal affairs. In addition, an office holder must avoid competing against the company or exploiting any business opportunity of the company for his or her own benefit or the benefit of others. An office holder must also disclose 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 in the company. The term “office holder” includes any person who, either formally or in substance, serves as a director, general manager or chief executive officer, or who reports directly to the general manager or chief executive officer. Each person listed in the table under “Item 6. Directors, Senior Management and Employees—A. Directors and Senior Management” above is an “office holder” of AudioCodes.

Under the Companies Law, all arrangements as to compensation of office holders who are not directors require approval of the board of directors and, in certain cases, the prior approval of the audit committee. Arrangements as to compensation of directors also require audit committee and shareholder approval.

The Companies Law requires that an office holder promptly disclose any personal interest that he or she may have, and all related material information known to him or her, in connection with any existing or proposed transaction by the company. A personal interest of an office holder includes a personal interest of the office holder’s relative or a corporation in which the office holder or the office holder’s relative is a 5% or greater shareholder, director or general manager or has the right to appoint at least one director or the general manager. The office holder’s duty to disclose shall not apply in the event that the personal interest only results from a personal interest of the office holder’s relative in a transaction that is not an extraordinary transaction. An extraordinary transaction is a transaction not in the ordinary course of business, not on market terms, or likely to have a material impact on the company’s profitability, assets or liabilities.

For a transaction that is not an extraordinary transaction, under the Companies Law, once the office holder complies with the above disclosure requirement, the board of directors is authorized to approve the transaction, unless the articles of association provide otherwise. A transaction that is adverse to the company’s interest may not be approved. If the transaction is an extraordinary transaction, then it also must be approved by the company’s audit committee and board of directors, and, under certain circumstances, by the shareholders of the company. Generally, when an extraordinary transaction is considered by the audit committee and board of directors, the interested directors may not be present or vote.

Duties of Shareholders

Under the Companies Law, the disclosure requirements that apply to an office holder also apply to a controlling shareholder of a public company. A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder that owns 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights, but excluding a shareholder whose power derives solely from his or her position on the board of directors or any other position with the company. Extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, and the engagement of a controlling shareholder as an office holder or employee, generally require the approval of the audit committee, the board of directors and the shareholders. The shareholder approval must include at least one-third of the share s of non-interested shareholders voted on the matter. However, the transaction can be approved by shareholders without this one-third approval if the total shares of non-interested shareholders voted against the transaction do not represent more than one percent of the voting rights in the company.

In addition, under the Companies Law, each shareholder has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his or her power in the company, such as in shareholder votes. In addition, specified shareholders have a duty of fairness toward the company. These shareholders include any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of the articles of association, has the power to appoint an office holder or any other power with respect to the company. However, the Companies Law does not define the substance of this duty of fairness.

Israeli law permits a company to insure an office holder in respect of liabilities incurred by the office holder as a result of:

- the breach of his or her duty of care to the company or to another person, or
- as a result of the breach of his or her fiduciary duty to the company,

to the extent that the office holder acted in good faith and had reasonable cause to believe that the act would not prejudice the company. A company can also insure an office holder against monetary liabilities as a result of an act or omission that the office holder committed in connection with his or her serving as an office holder. Moreover, a company can indemnify an office holder for (a) monetary liability imposed upon the office holder in favor of other persons pursuant to a court judgment, including a compromise judgment or an arbitrator's decision approved by a court, and (b) reasonable litigation expenses, including attorneys' fees, actually incurred by the office holder or imposed upon the office holder by a court, in an action, suit or proceeding brought against the office holder by or on behalf of the company or other persons, in a criminal action in which an office holder was fo und innocent, or in a criminal action which does not require criminal intent in which he or she was convicted, in each case in connection with his or her activities as an office holder. A company may 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.

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.

We have entered into an undertaking to indemnify our office holders in specified limited categories of events and in specified amounts, subject to certain limitations. This undertaking has 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.

A. MATERIAL CONTRACTS

On April 7, 2004, we purchased selected assets of Nortel Networks Universal Audio Server business. See Item 4A for a summary of material terms of our Asset Purchase Agreement with Nortel Networks.

In connection with our acquisition of Nortel Networks Universal Audio Server business, we also entered into an OEM Purchase and Sale Agreement with Nortel Networks on April 28, 2003, under which we agreed to supply Nortel Networks with certain Universal Audio Server products at specified prices for a duration of at least three years. Our OEM Purchase and Sale Agreement with Nortel Networks is filed herewith as Exhibit 10.26. We have requested confidential treatment of certain economic and other negotiated terms of the agreement from the SEC.

On May 12, 2004, we acquired the outstanding shares of capital stock of Ai-Logix, Inc. See Item 4 for a summary of material terms of the Stock Purchase Agreement between us, AudioCodes Inc., Ai-Logix and AI Technologies N.V. In connection with our acquisition of Ai-Logix, we entered into a registration rights agreement with AI Technologies N.V., pursuant to which we have agreed to register under the Securities Act any shares issued by us as payment to AI Technologies N.V. under the Stock Purchase Agreement.

B. EXCHANGE CONTROLS

Since January 1, 2003, all exchange control restrictions imposed by the State of Israel have been removed, although there are still reporting requirements for foreign currency transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time. Nonresidents of Israel who purchase our ordinary shares are able to receive any dividends thereon (and any amounts payable upon the dissolution, liquidation and winding up of our affairs) freely repatriable in non-Israeli currency, provided that Israeli income tax has been paid or withheld on such amounts (see "Item 10. Additional Information—E. Taxation—Taxation of Non-Resident Shareholders").

Non-residents of Israel may freely hold and trade our ordinary shares, and the proceeds of sale thereof are not subject to Israeli currency control restrictions. Our memorandum of association and articles of association do not restrict in any way the ownership of ordinary shares by non-residents of Israel and neither our memorandum of association and articles of association nor Israeli law restricts the voting rights of non-residents, except with respect to citizens of countries that are in a state of war with Israel.

C. TAXATION

The following is a summary of the material Israeli and United States 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.

Tax Reform in Israel

On January 1, 2003 a comprehensive tax reform took effect in Israel. Pursuant to the reform, resident companies are subject to Israeli tax on income accrued or derived in Israel or abroad. In addition, the concept of "controlled foreign corporation'' was introduced according to which an Israeli company may become subject to Israeli taxes on certain income of a non-Israeli subsidiary if the subsidiary's primary source of income is passive income (such as interest, dividends, royalties, rental income or capital gains). The tax reform also substantially changed the system of taxation of capital gains.

General Corporate Tax Structure

Israeli companies are generally subject to corporate tax at the rate of 36% of their taxable income. However in our case, the rate is currently effectively reduced, as described below.

Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959

Our facilities have been granted approved enterprise status pursuant to the Law for the Encouragement of Capital Investments, 5719-1959 (the "Investment Law"), which provides certain tax and financial benefits to investment programs that have been granted such status.

The Investment Law provides that a proposed capital investment in eligible facilities may, upon application to the Investment Center of the Ministry of Industry, Trade and Labor of the State of Israel, be designated as an "approved enterprise." Each certificate of approval for an approved enterprise relates to a specific investment program delineated both by its financial scope, including its capital sources, and by its physical characteristics, such asthe equipment to be purchased and utilized pursuant to the program. The tax benefits under the Investment Law are not available for income derived from products manufactured outside of Israel.

A company owning an approved enterprise may elect to receive either governmental grants or an alternative package of tax benefits. Under the alternative package, a company's undistributed income derived from an approved enterprise will be exempt from corporate tax for a period of two to ten years (depending on the geographic location of the approved enterprise within Israel). The exemption commences in the first year of taxable income, and the company is taxed at a reduced corporate rate of 10% to 25% for the following five to eight years, depending on the extent of foreign shareholders' ownership of the company's ordinary shares. The benefits period is limited to twelve years from completion of the investment under the approved plan or fourteen years from the date of approval, whichever is earlier. A Foreign Investors Company ("FIC"), defined in the Investment Law as a company of which more than 25% of its shareholders are non-Israeli residents, may enjoy benefits for a period of up to ten years, or twelve years if it complies with certain export criteria stipulated in the Investment Law (the actual length of the benefits period is graduated based on the percentage of foreign ownership).

The tax benefits derived from any certificate of approval relate only to taxable income attributable to the specific approved enterprise. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates.

Our production facilities have been granted the status of approved enterprise. Income arising from our approved enterprise facilities is tax-free under the alternative package of benefits described above and entitled to reduced tax rates based on the level of foreign ownership for specified periods. We have derived, and expect to continue to derive, a substantial portion of our operating income from our approved enterprise facilities. The tax benefits attributable to our current approved enterprises are scheduled to expire gradually from 2007 to 2015.

Distribution of earnings derived from approved enterprise which were previously taxed at reduced tax rates, would not result in additional tax consequences to us. However, if retained tax-exempt income is distributed in a manner other than upon the complete liquidation of AudioCodes, we would be taxed at the reduced corporate tax rate applicable to such profits (between 10%-25%). We are not obliged to distribute exempt retained profits under the alternative package of benefits, and may generally decide from which source of income to declare dividends. We currently intend to reinvest the amount of our tax-exempt income and not to distribute such income as a dividend. Dividends from approved enterprises are generally taxed at a rate of 15% (which is withheld and paid by the company paying the dividend) if such dividend is distributed during the benefits period or with in twelve years thereafter. The twelve-year limitation does not apply to an FIC.

The Investment Center bases its decision as to whether to approve or reject an application for designation as an approved enterprise, on the criteria set forth in the Investment Law and related regulations, the then prevailing policy of the Investment Center, and the specific objectives and financial criteria of the applicant. Accordingly, there can be no assurance that any such application will be approved. In addition, the benefits available to an approved enterprise are conditional upon the fulfillment of conditions stipulated in the Investment Law and related regulations and the criteria set forth in the specific certificate of approval. In the event that a company does not meet these conditions, it would be required to refund the portion of the benefits already received, together with an adjustment based on the Israeli consumer price index and an interest factor. As of December 31, 2003, management believes that we meet all of the aforementioned conditions.

Tax Benefits Under the Law for the Encouragement of Industry (Taxation), 5729-1969

According to the Law for the Encouragement of Industry (Taxation), 5729-1969, (the "Industry Encouragement Law"), an "industrial company" is a company resident in Israel, that at least 90% of its income, in any tax year (determined in Israeli currency, exclusive of income from certain 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. We currently believe that we qualify as an industrial company within the definition of the Industry Encouragement Law. Under the Industry Encouragement Law, Industrial Companies are entitled to the following preferred corporate tax benefits:

- deduction of purchases of know-how and patents over an eight-year period for tax purposes;
- the right to elect, under specified conditions, to file a consolidated tax return with related Israeli industrial companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. The Israeli tax authorities may determine that we do not qualify as an industrial company, which would entail our loss of the benefits that relate to this status. In addition, no assurance can be given that we will continue to qualify as an industrial company, in which case the benefits described above will not be available in the future.

Special Provisions Relating to Measurement of Taxable Income

Until December 31, 2002, we measured our taxable income in accordance with the Income Tax Law (Inflationary Adjustments), 5745-1985 (the "Inflationary Adjustments Law") which represents an attempt to overcome the problems presented to a traditional tax system by an economy undergoing rapid inflation. The Inflationary Adjustments Law is highly complex. Since January 1, 2003, we elected to measure our taxable income based on the changes in the exchange rate of the U.S. dollar rather than on the basis of inflation, based on our status as an FIC.

Capital Gains Tax Applicable to Resident and Non-Resident Shareholders

Israeli law generally imposes a capital gains tax on the sale of capital assets located in Israel, including shares in Israeli resident companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a treaty between Israel and the country of the non-resident provides otherwise. Regulations promulgated under the Israeli Income Tax Ordinance provided for an exemption from Israeli capital gains tax for gains accrued before January 1, 2003 and derived from the sale of shares of an industrial company, as defined by the Industry Encouragement Law, that are traded on specified non-Israeli markets, including The Nasdaq National Market, provided that the sellers purchased their shares either in the company's initial public offering or in public market transactions thereafter. This exemption does not apply to shareholders who are in the busine ss of trading securities, or to shareholders that are Israeli resident companies subject to the Inflationary Adjustments Law. We believe that we are currently an industrial company, as defined by the Industry Encouragement Law. The status of a company as an industrial company may be reviewed by the tax authorities from time to time. There can be no assurance that the Israeli tax authorities will not deny our status as an industrial company, possibly with retroactive effect.

On January 1, 2003, the Law for Amendment of the Income Tax Ordinance (Amendment No.132), 2002, known as the tax reform, came into effect thus imposing capital gains tax at a rate of 15% on gains derived on or after January 1, 2003 from the sale of shares in Israeli companies (i) publicly traded on The Tel Aviv Stock Exchange ("TASE"); (ii) publicly traded on Nasdaq or a recognized stock exchange or regulated market in a country that has a treaty for the prevention of double taxation with Israel, or (iii) companies dually traded on both the TASE and on Nasdaq or a recognized stock exchange or a regulated market outside of Israel. This tax rate does not apply to the sale of shares: (1) to a relative (as defined in the tax reform); (2) by dealers in securities; (3) by shareholders that report in accordance with the Inflationary Adjustments Law; or (4) by shareholders wh o acquired their shares prior to an initial public offering (that are subject to a different tax arrangement). This tax rate is contingent upon the shareholder not claiming a deduction for financing expenses in connection with such shares.

The tax basis of shares acquired prior to January 1, 2003 will be determined in accordance with the average closing share price in the three trading days preceding January 1, 2003. However, a request may be made to the tax authorities to consider the actual adjusted cost of the shares as the tax basis if it is higher than such average price. Non-Israeli residents shall be exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on a stock exchange recognized by the Israeli Ministry of Finance, provided such shareholders did not acquire their shares prior to an initial public offering. In any event, the provisions of the tax reform shall not affect the exemption from capital gains tax for gains accrued before January 1, 2003, as described in the previous paragraph.

In December 2003 regulations promulgated pursuant to the tax reform were amended so that, in certain circumstances, capital gains derived from the sale and subsequent (same day) repurchase of shares traded on the TASE or from shares of Israeli companies publicly traded on a recognized stock exchange or regulated market in a country that has a treaty for the prevention of double taxation with Israel, may be taxed at a rate equal to the withholding tax rate applicable to revenues derived from such sale. In accordance with an announcement published by the Israeli Income Tax Commission, the withholding tax rate applicable to the sale of such shares until the end of 2003 tax year, which was equal at such time to 1% of the revenues generated in their sale, was determined as the final tax rate applicable to such sale. The amended regulations also determine that the day of such sale and repu rchase shall be considered the new date of purchase of such shares. The foregoing was not applicable to: (i) dealers in securities; (ii) shareholders that report in accordance with the Inflationary Adjustments Law; (iii) shareholders who acquired their shares prior to an initial public offering; (iv) in some cases, shareholders that received their shares within the framework of an employer-employee relationship; or (v) shareholders claiming a deduction for financing expenses in connection with such shares. The regulations further provide that with respect to shares of Israeli companies traded on a stock exchange outside of Israel, the market price determined at the close of the trading day preceding the day of the sale and repurchase of such shares, shall constitute the new tax basis for any future sale of such shares.

Non-Israeli residents are exempt from Israeli capital gains tax on any gains derived from the sale of shares publicly traded on the TASE, provided such gains do not derive from a permanent establishment of such shareholders in Israel, and are exempt from Israeli capital gains tax on any gains derived from the sale of shares of Israeli companies publicly traded on a recognized stock exchange or regulated market outside of Israel, provided that such capital gains are not derived from a permanent establishment in Israel and that such shareholders did not acquire their shares prior to the issuer's initial public offering. However, non-Israeli corporations will not be entitled to the exemption with respect to gains derived from the sale of shares of Israeli companies publicly traded on the TASE, if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

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

United States-Israel Tax Treaty

Pursuant to the Convention Between the Government of the United States of American and the Government of Israel with respect to Taxes on Income, as amended (the "United States-Israel Tax Treaty"), the sale, exchange or disposition of ordinary shares by a person who holds the ordinary shares as a capital asset and who qualifies as a resident of the United States within the meaning of the United States- Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the United States-Israel Tax Treaty (a "Treaty United States Resident") generally will not be subject to the Israeli capital gains tax unless such Treaty United States Resident holds, directly or indirectly, shares representing 10% or more of the voting power of our company during any part of the twelve-month period preceding such sale, exchange or disposition, subject to ce rtain conditions. A sale, exchange or disposition of shares by a Treaty United States Resident who holds, directly or indirectly, shares representing 10% or more of the voting power of our company at any time during such preceding twelve-month period would be subject to such Israeli tax, to the extent applicable; however, under the United States-Israel Tax Treaty, such Treaty United States Resident would be permitted to claim a credit for such taxes against the United States federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in United States laws applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to state or local taxes.

Tax on dividends

Non-residents of Israel are subject to Israeli income tax on income accrued or derived from sources in Israel or received in Israel. These sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distributions of dividends, other than bonus shares and stock dividends, income tax at the rate of 25% is withheld at the source, unless a different rate is provided in a treaty between Israel and the shareholder's country of residence. If the dividends are distributed out of approved enterprise earnings, the applicable tax rate would be 15%. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a Treaty United States Resident will be 25%, however that tax rate is reduced to 12.5% for dividends not generated by an approved en terprise to a corporation which holds 10% or more of the voting power of our company during a certain period preceding distribution of the dividend. Dividends derived from an approved enterprise will still be subject to 15% tax witholding.

Foreign Exchange Regulations

Dividends, if any, paid to the holders of the ordinary shares, and any amounts payable upon dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of the ordinary shares to an Israeli resident, may be paid in non-Israeli currency or, if paid in Israeli currency, may be converted into freely repatriable dollars at the rate of exchange prevailing at the time of

conversion, provided that Israeli income tax has been paid or withheld on such amounts.

United States Federal Income Taxes

The following summary sets forth the material United States federal income tax consequences applicable to the following persons who purchase, hold or dispose of ordinary shares ("U.S. Shareholders"): (i) citizens or residents (as defined for United States federal income tax purposes) of the United States; (ii) corporations or other entities taxable as corporations created or organized in or under the laws of the United States or any state thereof; (iii) estates, the income of which is subject to United States federal income taxation regardless of its source; and (iv) trusts, if (a) a United States court is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all its substantial decisions or (b) the trust has made a valid election to be treated as a United States person. This summary is based o n the provisions of the Internal Revenue Code of 1986, as amended (the "Code"), United States Treasury Regulations promulgated thereunder and administrative and judicial interpretations thereof, all as in effect as of the date of this Annual Report on Form 20-F and all of which are subject to change, possibly with retroactive effect. This summary generally applies only to U.S. Shareholders that will hold the ordinary shares as capital assets and does not consider (a) all aspects of U.S. federal income taxation that may be relevant to particular U.S. Shareholders by reason of their particular circumstances (including potential application of the alternative minimum tax), (b) special treatment under the United States federal income tax laws applicable to such persons as financial institutions, insurance companies, broker-dealers, tax-exempt organizations, partnerships and foreign individuals or entities, (c) the special rules applicable to U.S. Shareholders owning, directly or by attribution, 10% or more of our outstanding voting shares, (d) the special rules applicable to U.S. Shareholders who hold the ordinary shares as part of a hedging, straddle or conversion transaction, (e) the special rules applicable to U.S. Shareholders who acquire ordinary shares in a compensatory transaction, (f) the special rules applicable to U.S. Shareholders whose functional currency is not the dollar, and (g) any aspect of state, local or non-United States tax law. Accordingly, investors should consult their own tax advisors as to the particular tax consequences to them of an investment in ordinary shares, including the effects of applicable state, local or foreign tax laws and possible changes in the tax laws.

Dividends Paid on Ordinary Shares

Other than distributions in liquidation and distributions in redemption of stock that are treated as exchanges, a U.S. Shareholder generally will be required to include in gross income as ordinary dividend income the amount of any distributions in respect of ordinary shares (including the amount of any Israeli taxes withheld therefrom) to the extent that such distributions are paid out of our current or accumulated earnings and profits, as determined for United States federal income tax purposes. Distributions in excess of such earnings and profits generally will be treated first as a non-taxable return of capital reducing the U.S. Shareholder's tax basis in his, her or its ordinary shares to the extent of the distributions, and then as capital gain from a deemed sale or exchange of such ordinary shares. Such dividends generally will not qualify for the dividends received deduct ion available to corporations. The amount of any cash distribution in respect of ordinary shares paid in NIS will equal the United States dollar value of the distribution, calculated by reference to the "spot" exchange rate in effect on the date of receipt or deemed receipt of the distribution.

The maximum United States federal income tax rate on certain dividends paid to individuals through 2008 was reduced during 2003 to 15%. This reduced rate generally will not apply, however, to dividends paid by us if we are treated as a passive foreign investment company in the year the dividends are paid or in the prior year. See the discussion below under the heading "Passive Foreign Investment Company Status." U.S. Shareholders are urged to consult their own tax advisors regarding the U.S. Federal income tax rate that will be applicable to their receipt of any dividends paid with respect to ordinary shares.

Subject to certain conditions and limitations, any Israeli tax withheld or paid with respect to dividends on the ordinary shares will be eligible for credit against a U.S. Shareholder's United States federal income tax liability at such U.S. Shareholder's election. The Code provides limitations on the amount of foreign tax credits that a U.S. Shareholder may claim, including extensive separate computation rules, under which foreign tax credits allowable with respect to specific categories of income cannot exceed the United States federal income taxes otherwise payable with respect to each such category of income. U.S. Shareholders that do not elect to claim a foreign tax credit may instead claim a deduction for Israeli income tax withheld or paid, but only for a year in which these U.S. Shareholders elect to do so for all foreign income taxes. Dividends with respect to the ordinary shares generally will be classified as foreign-source "passive income" for the purpose of computing a U.S. Shareholder's foreign tax credit limitations for United States foreign tax credit purposes. The calculation of foreign tax credits and, in the case of a U.S. Shareholder that elects to deduct foreign income taxes, the availability of deductions is complex and involves the application of rules that depend on a U.S. Shareholder's particular circumstances. U.S. Shareholders 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.

Disposition of Ordinary Shares

The sale or exchange of ordinary shares generally will result in the recognition of capital gain or loss in an amount equal to the difference between the United States dollar value of the amount realized on the sale or exchange and the U.S. Shareholder's tax basis in the ordinary shares. Subject to the application of the passive foreign investment company rules discussed below, such gain or loss generally will be capital gain or loss and will be long-term capital gain or loss if the U.S. Shareholder's holding period of the ordinary shares exceeds one year at the time of the disposition. The deductibility of capital losses is subject to limitations. Gain or loss recognized by a U.S. Shareholder on a sale or exchange of ordinary shares generally will be treated as United States-source income or loss for United States foreign tax credit purposes. Under the United S tates–Israel Tax Treaty, gain derived from the sale, exchange or other disposition of ordinary shares by a holder who is a Treaty United States Resident and who sells the ordinary shares within Israel may be treated as foreign-source income for United States foreign tax credit purposes.

For information with respect to the applicability of Israeli capital gains taxes on the sale of ordinary shares by United States residents, see "—Capital Gains Tax Applicable to Resident and Non-Resident Shareholders."

Passive Foreign Investment Company Status

Generally, a foreign corporation is treated as a passive foreign investment company ("PFIC") for United States 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 (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 (the "Asset Test").

Because less than 75% of our gross income in 2003 and in prior years constituted passive income, as defined for purposes of the Income Test, we do not believe that application of the Income Test would have resulted in our classification as a PFIC for any of such years. In addition, we do not believe that application of the Asset Test would have resulted in our classification as a PFIC for any tax year prior to 2001. In 2001, 2002 and 2003, however, it is possible that we would have been classified as a PFIC under the Asset Test principally because a significant portion of our assets continued to consist of the cash raised in connection with the two public offerings of our ordinary shares in 1999, and the public market value of our ordinary shares declined significantly during 2001, 2002 and the first half of 2003, although there is no definitive method prescribed in the Code, United States Treasury Regulations or administrative or judicial interpretations thereof for determining the value of a foreign corporation's assets for purposes of the Asset Test. While the legislative history of the United States Taxpayer Relief Act of 1997 indicates that "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," there remains substantial uncertainty regarding the valuation of a publicly-traded foreign corporation's assets for purposes of the Asset Test, and it is arguable that under alternative valuation methodologies, the value of our total assets as of the relevant valuation dates in 2001, 2002 and 2003 would not have resulted in our classification as a PFIC during any of such years.

In view of the uncertainty regarding the valuation of our assets for purposes of the Asset Test and the complexity of the issues regarding our treatment as a PFIC for 2002 and, quite possibly, subsequent years, U.S. Shareholders are urged to consult their own tax advisors for guidance as to our status as a PFIC. For those U.S. Shareholders who determine that we were a PFIC for 2001, 2002 and/or any subsequent years and notify us in writing of their request for the information required in order to effectuate the QEF Election described below, we will promptly make such information available to them.

If we are treated as a PFIC for United States federal income tax purposes for any year during a U.S. Shareholder's holding period of ordinary shares and the U.S. Shareholder does not make a QEF Election or a "mark-to-market" election (both as described below), any gain recognized by the U.S. Shareholder upon the sale of ordinary shares (or the receipt of certain distributions) would be treated as ordinary income. This income would be allocated over the U.S. Shareholder's holding period with respect to his ordinary shares and an interest charge would be imposed on the amount of deferred tax on the income allocated to prior taxable years.

Although we generally will be treated as a PFIC as to any U.S. Shareholder if we are a PFIC for any year during the U.S. Shareholder's holding period, if we cease to satisfy the requirements for PFIC classification, the U.S. Shareholder may avoid the consequences of PFIC classification for subsequent years by electing to recognize gain based on the unrealized appreciation in the ordinary shares through the close of the tax year in which we cease to be a PFIC. Additionally, if we are treated as a PFIC, a U.S. Shareholder who acquires ordinary shares from a decedent would be denied the normally available step-up in tax basis for these ordinary shares to fair market value at the date of death and instead would have a tax basis equal to the decedent's tax basis in these ordinary shares.

A U.S. Shareholder who beneficially owns shares of a PFIC must file Form 8621 (Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund) with the United States Internal Revenue Service for each tax year in which the U.S. Shareholder holds shares in a PFIC. This form describes any distributions received with respect to these shares and any gain realized upon the disposition of these shares.

For any tax year in which we are treated as a PFIC, a U.S. Shareholder may elect to treat his, her or its ordinary shares as an interest in a qualified electing fund (a "QEF Election"), in which case, the U.S. Shareholder would be required to include in income currently his, her or 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 distributed to the U.S. Shareholder. Any gain subsequently recognized upon the sale by the U.S. Shareholder of his ordinary shares, however, generally would be taxed as capital gain and the denial of the basis step-up at death described above would not apply.

A U.S. Shareholder may make a QEF Election with respect to a PFIC for any taxable year of the U.S. Shareholder. A QEF Election is effective for the year in which the election is made and all subsequent taxable years of the U.S. Shareholder. Procedures exist for both retroactive elections and the filing of protective statements. An additional election is available to defer the payment of taxes that may result from a QEF Election, although interest must be paid on any deferred taxes. A U.S. Shareholder making the QEF Election must make the election on or before the due date, as extended, for the filing of the U.S. Shareholder's income tax return for the first taxable year to which the election will apply. A U.S. Shareholder must make a QEF Election by completing Form 8621 and attaching it to his United States federal income tax return, and must satisf y additional filing requirements each year the election remains in effect.

As an alternative to a QEF Election, a U.S. Shareholder generally may elect to mark his ordinary shares to market annually, recognizing ordinary income or loss (subject to certain limitations) equal to the difference, as of the close of the taxable year, between the fair market value of his, her or its ordinary shares and their adjusted tax basis. Losses would be allowed only to the extent of net

mark-to-market gain accrued under the election. If a mark-to-market election with respect to ordinary shares is in effect on the date of a U.S. Shareholder's death, the normally available step-up in tax basis to fair market value will not be available. Rather, the tax basis of the ordinary shares in the hands of a U.S. Shareholder who acquired them from a decedent will be the lesser of the decedent's tax basis or the fair market value of the ordinary shares. Once made, a mark - -to-market election generally continues unless revoked with the consent of the Internal Revenue Service.

The implementation of many aspects of the Code's PFIC rules requires the issuance of regulations which in many instances have yet to be promulgated and which may have retroactive effect. We cannot be sure that any of these regulations will be promulgated or, if so, what form they will take or what effect they will have on the foregoing discussion. Accordingly, and due to the complexity of the PFIC rules, U.S. Shareholders should consult their own tax advisors regarding our status as a PFIC for 2001, 2002, 2003 and any subsequent years 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 ordinary shares that are made in the United States or by a United States related financial intermediary may be subject to information reporting to the United States Internal Revenue Service and to United States backup withholding tax at rates equal to 28% through 2010 and 31% after 2010. Backup withholding will not apply, however, to a U.S. Shareholder that (i) is a corporation or comes within certain exempt categories, and demonstrates that fact when so required, or (ii) furnishes a correct taxpayer identification number and makes any other required certifications. Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Shareholder's United States tax liability, and a U.S. Shareholder may obtain a refund of any excess amounts withheld under the backup withholding rul es by filing the appropriate claim for refund with the United States Internal Revenue Service.

B. DIVIDENDS AND PAYING AGENTS

Not applicable.

C. STATEMENT BY EXPERTS

Not applicable.

D. DOCUMENTS ON DISPLAY

You may request a copy of our U.S. Securities and Exchange Commission filings, at no cost, by writing or calling us at AudioCodes Ltd., 1 Hayarden Street, Airport City, Lod, 701514, Israel, Attention: Itamar Rosen, General Counsel, telephone: 972-3-539-4000. A copy of each report submitted in accordance with applicable United States law is available for public review at our principal executive offices.

A copy of each document (or a translation thereof to the extent not in English) concerning AudioCodes that is referred to in this Annual Report on Form 20-F, is available for public view at our principal executive offices at AudioCodes Ltd., 1 Hayarden Street, Airport City, Lod, 701514, Israel.

E. SUBSIDIARY INFORMATION

Not applicable.

ITEM 2. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

At December 31, 2003, we did not own any market risk sensitive instruments. We have contracted several long-term structured note deals that are sensitive to changes in interest rates. Due to the nature of our long-term investment, we do not believe that there is any material market risk exposure. Therefore, no quantitative tabular disclosures are required. However, we may in the future undertake hedging or other similar transactions or invest in market risk sensitive instruments if management determines that it is necessary to offset these risks. See "Item 3. Key Information—D. Risk Factors—Risks Relating to Operations in Israel."

To protect against the changes in value of forecasted foreign currency cash flows resulting from salary payments, we have instituted a foreign currency cash flow hedging program. We hedge portions of our forecasted expenses denominated in foreign currencies with forward contracts.

During 2002, we entered into forward contracts to hedge a portion of the anticipated NIS payroll payments for periods of one to six months. These forward contracts are designated as cash flows hedges, as defined by SFAS No. 133, as amended, and are all highly effective as hedges of these expenses when the salary is recorded. The effective portion of the hedged instruments is included in payroll expenses in the statement of operations. During the year ended December 31, 2002, we recognized a net loss of $18,000 related to the forward contracts hedging salary payments. At December 31, 2002, we expected to reclassify $72,000 of net profit on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months.

During the year ended December 31, 2003, we recognized net income of $426,000 related to the forward contracts hedging salary payments. At December 31, 2003, we expected to reclassify $145,000 of net profit on derivative instruments from accumulated other comprehensive income to earnings during the next twelve months.

ITEM 3. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 4. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not applicable.

ITEM 5. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

We received net proceeds of $44.0 million in connection with our initial public offering that closed in June 1999. Through December 31, 2003, we had used the $44.0 million in net proceeds as follows:

- $11.3 million for capital expenditures;
- $11.3 million for repurchases of our ordinary shares; and
- $21.4 million for operating activities.

ITEM 1. CONTROLS AND PROCEDURES

As of the end of the period covered by this Annual Report, we performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934). The evaluation was performed with the participation of our key corporate senior management and under the supervision of our Chairman of the Board, President and Chief Executive Officer, Shabtai Adlersberg, and our Chief Financial Officer, Nachum Falek. Our management, including Messrs. Adlersberg and Falek, concluded that our disclosure controls and procedures were effective in alerting them to material information, on a timely basis, required to be included in our periodic filings with the U.S. Securities and Exchange Commission. No change in our internal control over financial reporting has occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 2. [RESERVED]

AUDIT COMMITTEE FINANCIAL EXPERT

Our Board of Directors has determined that Joseph Tenne is an "audit committee financial expert" as defined in Item 16A of Form 20-F.

CODE OF ETHICS

In 2004, we adopted a Code of Conduct and Business Ethics that applies to our chief executive officer, chief financial officer and other senior financial officers. This Code has been posted on our website, www.audiocodes.com.

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 ended in the three-year period ended December 31, 2003. The following table presents the aggregate fees for professional audit services and other services rendered by Kost Forer Gabbay & Kasierer in 2002 and 2003.

	Year ended December 31, (Amounts in thousands)	
	2002	2003
Audit Fees	50.0	52.5
Audit Related Fees	-	7.6
Tax Fees	38.4	82.3
Total	88.4	142.4

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 the provision of consents and the review of documents filed with the SEC.Audit Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the company's financial statements and include operational effectiveness of systems.

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 (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 establishes budgeted fee levels annually for each of the four categories of audit and non-audit services that are pre-approved under the Policy, namely, audit, audit-related, tax and other services. Requests or applications to provide services that require specific approval by the Audit Committee are submitted to the Audit Committee by both the external auditor and the chief financial officer. At each regular meeting of the Audit Committee, the external auditor provides a report in order for the Audit Committee to review the services that the external auditor is providing, as well as the status and cost of those services.

During 2003, 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.

EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable

PART III

ITEM 3. FINANCIAL STATEMENTS

Not applicable.

ITEM 4. FINANCIAL STATEMENTS

The following consolidated financial statements and related auditors' reports are filed as part of this Annual Report.

Schedule II
SCHEDULE OF VALUATION AND QUALIFYING ACCOUNTS AT DECEMBER 31, 2003
(in thousands)

Description	Balance at Beginning of Period	Provision for doubtful accounts	Write-off of previously provided accounts	Balance at end of period
Year ended December 31, 2001:				
Allowance for doubtful accounts	334	1,058	(159)	1,233
Year ended December 31, 2002:				
Allowance for doubtful accounts	1,233	71	(173)	1,131
Year ended December 31, 2003:				
Allowance for doubtful accounts	1,131	293	(975)	449

Other schedules are omitted because they are not required or the required information is shown in the financial statements or notes thereto.

ITEM 5. EXHIBITS

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

Exhibit No.	Exhibit
3.1	Memorandum of Association of Registrant.*†
3.2	Articles of Association of Registrant, as amended.**

10.1	AudioCodes Ltd. 1997 Key Employee Option Plan (C).*
10.2	AudioCodes Ltd. 1997 Key Employee Option Plan, Qualified Stock Option Plan—U.S. Employees (D).*
10.3	Founder's Agreement between Shabtai Adlersberg and Leon Bialik, dated January 1, 1993.*†
10.4	Share Purchase Agreement by and among AudioCodes Ltd., The Israel Private Equity Fund L.P., DS Polaris Ltd., Chase Capital Partners L.P. and Additional Investors, dated as of June 22, 1997.*
10.5	Investment Agreement between AudioCodes Ltd. and DSP Semiconductor, Inc., dated April 5, 1993.*
10.6	Investment Agreement between AudioCodes Ltd. and DSP Group, Inc., dated June 16, 1994.*
10.7	License Agreement between AudioCodes Ltd. and DSP Group, Inc., dated as of May 6, 1999.*†
10.8	Lease Agreement between AudioCodes Inc. and Spieker Properties, L.P., dated January 26, 2000.**
10.9	Lease Agreement between AudioCodes Ltd. And Africa Israel Investments Ltd. and Meshulam Levinstein Performance 86 Ltd., dated August 6, 1997.*†
10.10	Agreement between AudioCodes Ltd. and DSP Group, Inc. dated as of May 6, 1999.*
10.11	OEM Purchase Agreement between AudioCodes Ltd. and Clarent Corporation, dated as of December 1, 1998.*
10.12	Shareholders Agreement by and among DSP Group, Inc., Shabtai Adlersberg, Leon Bialik, Genesis Partners I, L.P., Genesis Partners I (Cayman) L.P., Polaris Fund II (Tax Exempt Investors) L.L.C., Polaris Fund II L.L.C., Polaris Fund II L.P., DS Polaris Trust Company (Foreign Residents) (1997) Ltd., DS Polaris Ltd., Dovrat, Shrem Trust Company (Foreign Funds) Ltd., Dovrat Shrem-Skies 92 Fund L.P. and Chase Equity Securities CEA, dated as of May 6, 1999.*
10.13	Agreement between AudioCodes Ltd. and DSP Group, Inc. and France Télécom and Université de Sherbrooke, dated March 3, 1995.*
10.14	AudioCodes Ltd. 1997 Key Employee Option Plan (D).*
10.15	AudioCodes Ltd. 1997 Key Employee Option Plan (E).*
10.16	AudioCodes Ltd. 1999 Key Employee Option Plan (F), as amended.***
10.17	AudioCodes Ltd. 1997 Key Employee Option Plan, Qualified Stock Option Plan—U.S. Employees (E).*
10.18	AudioCodes Ltd. 1999 Key Employee Option Plan, Qualified Stock Option Plan—U.S. Employees (F).***
10.19	AudioCodes Ltd. 2001 Employee Stock Purchase Plan—Global Non U.S.§
10.20	AudioCodes Ltd. 2001 U.S. Employee Stock Purchase Plan.§
10.21	Lease Agreement between AudioCodes Ltd. And Gev-Yam Maman Nechasim BeLod Ltd., effective as of December 1, 2000.**†
10.22	Lease Agreement between AudioCodes Ltd. and Nortel Networks (Marketing and Sales) Israel Ltd., effective as of December 31, 2002.**††
10.23	Sublease Agreement between Ai-Logix, Inc. and Continental Resources, Inc., dated December 30, 2003.
10.24	Stock Purchase Agreement by and among AudioCodes Ltd., AudioCodes Inc., Ai-Logix, Inc.and AI Technologies N.V, dated as of May 12, 2004.
10.25	Registration Rights Agreement between AudioCodes and AI Technologies N.V, dated as of May 12, 2004.
10.26	OEM Purchase and Sale Agreement No. 011449 between AudioCodes Ltd and Nortel Networks Ltd., dated as of April 28, 2003 ****
10.27	Amendment No. 1 to OEM Purchase and Sale No. 011449 between AudioCodes Ltd and Nortel Networks Ltd., dated as of May 1, 2003 ****
10.28	Purchase and Sale Agreement by and among Nortel Networks, Ltd., AudioCodes Inc. and AudioCodes Ltd., dated as of April 7, 2003.
12.1	Certification of Shabtai Adlersberg, Presodent and Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2	Certification of Nachum Falek, Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification by 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 Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global.

---

* Incorporated herein by reference to Registrant's Registration Statement on Form F-1 (File No. 333-10352) filed on May 13, 1999.
† Hebrew original and English summary of Hebrew original.
†† English summary of Hebrew original.

‡ Incorporated herein by reference to Registrant's Registration Statement on Form S-8 (File No. 333-13268) filed on March 8, 2001.
§ Incorporated herein by reference to Registrant's Registration Statement on Form S-8 (File No. 333-13378) filed on April 13, 2001.
** Incorporated herein by reference to Registrant's Form 20-F for the fiscal year ended December 31, 2000, filed on June 11, 2001.
*** Incorporated herein by reference to Registrant's Form 20-F for the fiscal year ended December 31, 2002, filed on April 2, 2003.
**** A request for confidentiality has been filed for certain portions of the indicated document. Confidential portions have been omitted and filed separately with the Securities and Exchange Commission as required by Rule 24b-2 promulgated under the Securities Exchange Act of 1934.

-#-

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 its behalf.

AUDIOCODES LTD.

By: /s/ NACHUM FALEK

Nachum Falek Vice President Finance and Chief Financial Officer

Date: June_____, 2004

EXHIBIT INDEX

Exhibit No.	Exhibit
10.23	Sublease Agreement between Ai-Logix, Inc. and Continental Resources, Inc., dated December 30, 2003.
10.24	Stock Purchase Agreement by and among AudioCodes Ltd., AudioCodes Inc., Ai-Logix, Inc.and AI Technologies N.V, dated as of May 12, 2004.
10.25	Registration Rights Agreement between AudioCodes and AI Technologies N.V, dated as of May 12, 2004.
10.26	OEM Purchase and Sale Agreement No. 011449 between AudioCodes Ltd and Nortel Networks Ltd., dated as of April 28, 2003.
10.27	Amendment No. 1 to OEM Purchase and Sale No. 011449 between AudioCodes Ltd and Nortel Networks Ltd., dated as of May 1, 2003 ****
10.28	Purchase and Sale Agreement by and among Nortel Networks, Ltd., AudioCodes Inc. and AudioCodes Ltd., dated as of April 7, 2003.
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 Nachum Falek, Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1	Certification by 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 Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
21.1	Subsidiaries of the Registrant.
23.1	Consent of Kost Forer and Gabbay & Kasierer, a member of Ernst & Young Global

AUDIOCODES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2003

IN U.S. DOLLARS

INDEX

- - - - - - - - - - -

ERNST & YOUNG

REPORT OF INDEPENDENT AUDITORS

To the Shareholders of

AUDIOCODES LTD.

We have audited the accompanying consolidated balance sheets of AudioCodes Ltd. ("the Company") and its subsidiaries as of December 31, 2002 and 2003, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in Index at Item 19. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

In our opinion, the consolidated financial statements referred to above, present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2002 and 2003, and the consolidated results of their operations and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States.

KOST FORER GABBAY &
KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel
January 25, 2004

AUDIOCODES LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

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

	December 31,	
	2002	**2003**
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 47,799	$ 48,898
Short-term bank deposits	63,074	-
Trade receivables (net of allowance for doubtful accounts of $ 1,131 and $ 449 at December 31, 2002 and 2003, respectively)	4,443	7,717
Other accounts receivable and prepaid expenses	1,959	2,972
Inventories (Note 3)	4,677	4,667
Total current assets	121,952	64,254
LONG-TERM INVESTMENTS:		
Long-term bank deposits and structured notes (Note 4)	-	50,270
Investment in an affiliated company (Note 5)	299	491
Severance pay fund	2,496	3,618
Total long-term investments	2,795	54,379
PROPERTY AND EQUIPMENT, NET (Note 6)	5,067	4,564
INTANGIBLE ASSETS, NET (Note 7)	-	1,013
GOODWILL (Note 1b)	-	4,320
Total assets	$ 129,814	$ 128,530
LIABILITIES AND SHAREHOLDERS' EQUITY		

CURRENT LIABILITIES:		
Trade payables	$ 2,402	$ 4,197
Other accounts payable and accrued expenses (Note 8)	11,180	13,825
Total current liabilities	13,582	18,022
ACCRUED SEVERANCE PAY	2,848	3,990
COMMITMENTS AND CONTINGENT LIABILITIES (Note 9)		
SHAREHOLDERS' EQUITY (Note 11):		
Share capital -		
Ordinary shares of NIS 0.01 par value: Authorized - 100,000,000 as of December 31, 2002 and 2003; Issued - 41,167,387 as of December 31, 2002 and 41,727,734 as of December 31, 2003; Outstanding – 37,313,448 as of December 31, 2002 and 37,785,595 as of December 31, 2003	120	121
Additional paid-in capital	114,635	116,518
Treasury shares	(11,105)	(11,320)
Deferred stock compensation	-	(174)
Accumulated other comprehensive income	72	145
Retained earnings	9,662	1,228
Total shareholders' equity	113,384	106,518
Total liabilities and shareholders' equity	$ 129,814	$ 128,530

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year ended December 31,		
	2001	**2002**	**2003**
Revenues (Note 13)	$ 35,734	$ 27,189	$ 44,228
Cost of revenues	21,942	13,006	20,037
Gross profit	13,792	14,183	24,191
Operating expenses:			
Research and development, net	13,807	13,022	15,476
Selling and marketing	13,852	14,288	14,537
General and administrative	5,044	3,353	4,066
Total operating expenses	32,703	30,663	34,079
Operating loss	(18,911)	(16,480)	(9,888)
Financial income, net (Note 12)	6,388	2,623	1,883
	(12,523)	(13,857)	(8,005)
Equity in losses of affiliated company (Note 5)	750	300	429
Net loss	$ (13,273)	$ (14,157)	$ (8,434)
Basic and diluted net loss per share	$ (0.34)	$ (0.37)	$ (0.22)
Weighted average number of Ordinary shares used in computing net loss per share (in thousands)	39,591	38,518	37,509

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

U.S. dollars in thousands

	Ordinary shares	**Additional paid-in capital**	**Treasury shares**	**Deferred stock compensation**	**Accumulated other comprehensive income**	**Retained earnings**	**Total comprehensive income (loss)**	**Total shareholders' equity**
Balance as of January 1, 2001	$ 118	$ 112,847	$ -	$ (337)	$ -	$ 37,092		$ 149,720
Purchase of treasury shares	-	-	(6,401)	-	-	-		(6,401)
Issuance of shares upon exercise of options, warrants and employee stock purchase plan	2	844	-	-	-	-		846
Deferred stock compensation	-	187	-	(187)	-	-		-
Amortization of deferred stock compensation	-	-	-	363	-	-		363
Comprehensive loss:								
Net loss	-	-	-	-	-	(13,273)	$ (13,273)	(13,273)
Total comprehensive loss							$ (13,273)	
Balance as of December31, 2001	120	113,878	(6,401)	(161)	-	23,819		131,255
Purchase of treasury shares	-	-	(4,704)	-	-	-		(4,704)
Issuance of shares upon exercise of options, warrants and employee stock purchase plan	*) -	757	-	-	-	-		757
Amortization of deferred stock compensation	-	-	-	161	-	-		161
Comprehensive loss, net:								
Unrealized gain on forward contracts, net	-	-	-	-	72	-	$ 72	72
Net loss	-	-	-	-	-	(14,157)	(14,157)	(14,157)
Total comprehensive loss, net							$ (14,085)	
Balance as of December 31, 2002	120	114,635	(11,105)	-	72	9,662		113,384
Purchase of treasury shares	-	-	(215)	-	-	-		(215)
Issuance of shares upon exercise of options, warrants and	1	1,659	-	-	-	-		1,660

employee stock purchase plan								
Deferred stock compensation	-	224	-	(224)				
Amortization of deferred stock compensation	-	-	-	50	-	-		50
Comprehensive loss, net:								
Unrealized gain on forward contracts, net	-	-	-	-	73	-	73	73
Net loss	-	-	-	-	-	(8,434)	(8,434)	(8,434)
Total comprehensive loss, net							$ (8,361)	
Balance as of December 31, 2003	$ 121	$ 116,518	$(11,320)	$ (174)	$ 145	$ 1,228		$ 106,518

*) Represents an amount lower than $ 1.

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,		
	2001	**2002**	**2003**
Cash flows from operating activities:			
Net loss	$ (13,273)	$ (14,157)	$ (8,434)
Adjustments required to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization	1,572	2,073	3,040
Equity in losses of an affiliated company	750	300	429
Increase (decrease) in accrued severance pay, net	113	(89)	20
Amortization of deferred stock compensation	363	161	50
Decrease (increase) in accrued interest on short-term, long-term bank deposits and structured notes	459	1,305	(270)
Decrease (increase) in trade receivables	8,145	(1,006)	(3,274)
Decrease (increase) in other accounts receivable and prepaid expenses	583	(740)	(940)
Decrease in inventories	4,178	1,859	10
Increase (decrease) in trade payables	(6,289)	768	1,795
Increase (decrease) in other accounts payable and accrued expenses	(1,843)	(2,134)	1,145
Net cash used in operating activities	(5,242)	(11,660)	(6,429)
Cash flows from investing activities:			
Investment in an affiliated company	(600)	(149)	(621)
Purchase of property and equipment	(3,247)	(2,136)	(1,997)
Proceeds from sales of short-term bank deposits	55,155	15,605	63,074
Payment for acquisition of UAS (1)	-	-	(4,373)
Investment in long-term bank deposits and structured notes	-	-	(50,000)
Net cash provided by investing activities	51,308	13,320	6,083
Cash flows from financing activities:			
Proceeds from issuance of shares upon exercise of options, warrants and employee stock purchase plan	846	757	1,660
Purchase of treasury shares	(6,401)	(4,704)	(215)
Net cash provided by (used in) financing activities	(5,555)	(3,947)	1,445
Increase (decrease) in cash and cash equivalents	40,511	(2,287)	(1,099)
Cash and cash equivalents at the beginning of the year	9,575	50,086	47,799
Cash and cash equivalents at the end of the year	$ 50,086	$ 47,799	$ 48,898
Supplemental disclosure of cash flow activities:			
Cash paid during the year for income taxes	$ 25	$ 207	$ 120

(1) Net fair value of assets acquired of UAS at the date of acquisition (see Note 1b) was as follows:	
Property and equipment	$ 380
Technology	1,173
Goodwill	4,320
	5,873
Less unpaid accrued liability	(1,500)
	$ 4,373

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

NOTE 1:- GENERAL

a. AudioCodes Ltd. ("the Company") and its wholly-owned subsidiaries AudioCodes Inc., AudioCodes U.K. Limited and AudioCodes National Inc. (together, "the Group") design, develop and market technologies and products for enabling the transmission of voice over packet media, gateway technologies and systems for converged networks. The Group's products are designed to enable new voice infrastructure to original equipment manufacturers ("OEMs"), network equipment providers, systems integrators and distributors.

b. On April 7, 2003, the Group purchased from Nortel Networks Limited ("Nortel") selected assets of its Universal Audio Server business ("UAS"). As part of the transaction, Nortel granted the Group a license to use its UAS technology and the Group has undertaken to act as an exclusive supplier to Nortel for its UAS products over a period of three years. In addition, the parties have entered into a development agreement in relation to future platforms.

The UAS product provides enhanced conferencing, multi-language announcement functionality, and other regulatory media server applications for voice over packet networks. The Group has undertaken to leverage the UAS product and technology in order to further enhance its media server products and increase related sales.

The consideration for the transaction amounted to $ 5,500 in cash, of which: $ 2,000 was paid at the closing date, $ 2,000 was paid six months after the closing date, and $ 1,500 is to be paid twelve months after the closing date. Under the terms of the acquisition agreement ("the agreement"), the Group is also required to pay $ 1,000 as a contingent payment, upon Nortel completing products integration under the development agreement.

The acquisition was accounted for under the purchase method of accounting and accordingly, the purchase price has been allocated to the assets acquired based on their related fair values. The results of the UAS operations have been included in the consolidated financial statements since the acquisition date.

Pro forma information in accordance with Statement of Financial Accounting Standards No. 141 "Business Combination" ("SFAS No. 141") has not been provided, since the revenues and net income of the UAS business, were not material in relation to total consolidated revenues and net loss.

Based on an independent valuation, the Company has allocated the total cost acquisition of the UAS's assets, as follows:

Property and equipment	$ 380
Technology (five years useful life)	1,173
Goodwill	4,320
Total assets acquired	$ 5,873

Additionally, contingent cash payments of up to $ 12,500 in 2004, would be due Nortel, based on net orders for UAS products placed by Nortel over the 18 months period following the closing date.

NOTE 1:- GENERAL (Cont.)

The contingent payments are not considered part of the acquisition cost and will be offset against related revenues earned by the Company from orders by Nortel for each respective period. The Company periodically assesses the expected earn out payment, based on net sales from orders placed by Nortel. The Company accrued earn-out payments in 2003, in the amount of $ 1,600, which are included in other payables in their net amount

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

d. As to major customers data, see Note 13b.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP").

a. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars:

A majority of the revenues of the Group is generated in U.S. dollars ("dollar"). In addition, a substantial portion of the Group's costs is incurred in dollars. The Group's management believes that the dollar is the primary currency of the economic environment in which the Group operates. Thus, the functional and reporting currency of the Group is the dollar.

Accordingly, monetary accounts maintained in currencies other than the dollar are remeasured into U.S. dollars in accordance with Statement of the Financial Accounting Standards No. 52 "Foreign Currency Translation" ("SFAS No. 52"). All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances have been eliminated upon consolidation.

d. Cash equivalents:

Cash equivalents are short-term highly liquid investments that are readily convertible to cash with maturities of three months or less at the date of acquisition.

e. Short-term, long-term bank deposits and structured notes:

Short-term bank deposits have maturities of more than three months and less than one year. Deposits are presented at their cost, including accrued interest. As of December 2003 the deposits are in U.S. dollars and bear interest at an average rate of 1.26%

Bank deposits with maturities of more than one year are included in long-term investments, and presented at their cost.

The Group accounts for investments in structured note in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). Management determines the appropriate classification of its investments in debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Group has the intent and ability to hold these securities to maturity and are stated at amortized cost. Investments in structured notes approximate their market value.

The structured notes are accounted in accordance with the provisions of FASB Emerging Issues Task Force Issue No. 96-12, "Recognition of Interest Income and Balance Sheet Classification of Structure Notes" (EITF No. 96-12").

f. Inventories:

Inventories are stated at the lower of cost or market value. Cost is determined as follows:

Raw materials - using the "moving average cost" method.
Finished products - on the basis of direct manufacturing costs.

The Group periodically evaluates the quantities on hand relative to current and historical selling prices and historical and projected sales volume and technological obsolence. Based on these evaluations, inventory write-offs and write-down provisions are provided to cover risks arising from slow moving items (see Note 3).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

g. Investment in an affiliated company:

Due to an increase of the Company's ownership in an affiliated company during 2003, the investment is accounted for under the equity method, and 2002 results have been adjusted to record equity losses totaling $ 300.

The Company's investment in this company is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with Accounting Principle Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock" ("APB No. 18"). As of December 31, 2003, based on management's most recent analyses, no impairment losses have been identified.

Investment in affiliated company represents investments in Ordinary shares, Preferred shares and convertible loans. The Company applies EITF 99-10, "Percentage Used to Determine the Amount of Equity Method Losses" (EITF No. 99-10"). Accordingly, losses of the affiliated company are recognized based on the ownership level of the particular investee security held by the investor (See Note 5).

h. 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 - 20
Motor vehicles	15

Leasehold improvements	Over the term of the lease

i. Intangible assets:

Intangible assets acquired in a business combination for which the date is after July 1, 2001 are amortized over their useful life using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up, in accordance with Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets", ("SFAS No. 142"). Acquired technology is amortized under the straight-line method over 5 years.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

j. Impairment of long-lived assets:

The Group's long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the undiscounted future cash flows expected to be generated by the assets. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. As of December 31, 2003, no impairment losses have been identified.

Under SFAS No. 144, a long-lived group of assets that is to be abandoned is considered disposed of when it ceases to be used. Thus, an entity that intends to abandon a group of long-lived assets in operations, should evaluate that group of assets as "held and used" and should determine whether it should revise its depreciation estimates to reflect a useful life that is shorter than initially expected and a salvage value consistent with the intention to abandon.

Effective October 1, 2003, as a result of the expected relocation of the Company's facilities, the Group changed the estimated useful life of certain leasehold improvements and other equipment to four months. The effect of the change in estimated useful life on the net loss and net loss per share for the year ended December 31, 2003 was $ (689) and $ (0.02) respectively. The annual expected effect of this change of estimated useful life for the following years is immaterial.

k. Goodwill:

Goodwill represents an excess of costs over the fair value of the net assets of the acquired business. Under SFAS No. 142, goodwill acquired in a business combination after July 1, 2001, is not amortized.

SFAS No.142 requires goodwill to be tested for impairment at least annually or between annual tests in certain circumstances, and written down when impaired, rather than being amortized as previous accounting standards required. Goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. Goodwill will be reviewed for impairment during 2004.

l. Revenue recognition:

The Group generates its revenues from the sale of products and royalties earned from technology licensing. The Group sells its products through a direct sales force and sales representatives. The Group's products are generally a bundled hardware and software solution that is delivered together to OEMs, network equipment providers and systems integrators of a variety of telecommunications and networking products and distributors who are considered end-users.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Revenues from products are recognized in accordance with Staff Accounting Bulleting No. 104, "Revenue Recognition in Financial Statements" ("SAB No. 104") when the following criteria are met: persuasive evidence of an arrangement exists, delivery of the product has occurred, the fee is fixed or determinable, collectibility is probable. The Group has no obligation to customers after the date in which products are delivered other than pursuant to warranty obligations and right of return.

The Group generally grants right of return to its customers. The Group maintains a provision for product returns in accordance with Statement of Financial Accounting Standards No. 48, "Revenue Recognition When Right of Return Exists" ("SFAS No. 48"). The provision was deducted from revenues, and amounted to $ 357, $ 272 and $ 294 for the years ended December 31, 2001, 2002 and 2003, respectively.

m. Warranty costs:

The Group generally provides a warranty 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 liabilities and adjusts the amounts as necessary. Changes in warranty provision during the year ended December 31, 2003 were immaterial.

n. Research and development costs:

Research and development costs, net of grants received, are charged to the statement of operations as incurred.

Royalty-bearing grants from the Government of Israel for funding approved research and development projects are recognized at the time the Company is entitled to such grants, on the basis of the costs incurred and included as a deduction of research and development costs.

o. Income taxes:

The Group accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS No. 109"). This Statement prescribes the use of the liability method whereby account balances of deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Group provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

p. Concentrations of credit risk:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term and long-term bank deposits and structured notes and trade receivables.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Cash and cash equivalents, short-term bank deposits, long-term bank deposits and structured notes are invested in U.S. dollar deposits with major banks in Israel and the United States. Such deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Management believes that the financial institutions that hold the Group's cash, cash equivalents and short-term and long-term bank deposits and structured notes are financially sound and, accordingly, minimal credit risk exists with respect to these financial instrument.

The trade receivables of the Group are derived from sales to customers located primarily in the United States, the Far East, Israel and Europe. The Group performs ongoing credit evaluations of its customers and to date has not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that the Group has determined to be doubtful of collection. The Group usually does not require collateral on trade receivables because most of its sales are to large and well-established companies.

q. Basic and diluted net loss per share:

Basic and diluted net earning (loss) per share is computed based on the weighted average number of Ordinary shares outstanding during each year, in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS No. 128").

All outstanding stock options and warrants have been excluded from the calculation of diluted net loss per Ordinary share because all such securities are anti-dilutive for all the periods presented.

The total weighted average number of shares related to the outstanding options and warrants excluded from the calculations of diluted net loss per share, since they would have an anti-dilutive effect, were 6,064,305, 6,869,166 and 7,836,696 for the years ended December 31, 2001, 2002 and 2003, respectively.

r. Accounting for stock-based compensation:

The Group has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44"), in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Group's share options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

The Group adopted the disclosure provisions of Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure" ("SFAS No. 148"), which amended certain provisions of Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS No. 123") to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation, effective as of the beginning of the fiscal year. The Group continues to apply the provisions of APB No. 25, in accounting for stock-based compensation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Pro forma information regarding the Group's net loss and net loss per share is required by SFAS No. 123 and has been determined as if the Group had accounted for its employee stock options under the fair value method prescribed by SFAS No. 123. The fair value for these options was estimated at the date of the grant using a Black-Scholes option pricing model and amortized over the vesting

period. Fair values were estimated using the following weighted-average assumptions for 2001, 2002 and 2003: risk-free interest rates of 4%, 3% and 3% respectively, dividend yields of 0% for each year, volatility factors of the expected market price of the Company's Ordinary shares of 1.30, 1.13 and 1.08, respectively, and a weighted average expected life of the options of 5, 5 and 4 years, respectively. Black-Scholes pricing-model was used to estimate the fair value of Employee Stock P urchase Plan ("ESPP") compensation. Assumptions are not provided due to immateriality.

Pro forma information under SFAS No. 123 is as follows:

	December 31,		
	2001	2002	2003
Net loss as reported	$ (13,273)	$ (14,157)	$ (8,434)
Add: stock based compensation expenses determined under the intrinsic value based method included in reported net loss	363	161	50
Deduct: total stock-based compensation expenses determined under the fair value based method for all awards	(25,897)	(15,398)	(10,004)
Pro forma net loss	$ (38,807)	$ (29,394)	$ (18,388)
Basic and diluted net loss per share as reported	$ (0.34)	$ (0.37)	$ (0.22)
Pro forma basic and diluted net loss per share	$ (1.09)	$ (0.76)	$ (0.49)

The Group applies SFAS No. 123 and Emerging Issues Task Force No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" ("EITF 96-18"), with respect to options and warrants issued to non-employees. SFAS No. 123 requires the use of option valuation models to measure the fair value of the options and warrants at the date of grant.

s. Severance pay:

The Group's liability for severance pay for Israeli employees is calculated pursuant to the Israeli 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. Employees 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 by monthly deposits with severance pay funds, insurance policies and an accrual. The value of these policies is recorded as an asset in the Group's balance sheet.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrender value of these policies and includes immaterial profits.

Severance expenses for the years ended December 31, 2001, 2002 and 2003, amounted to approximately $ 997, $ 878 and $ 1,127 respectively.

t. Advertising expenses:

Advertising expenses are charged to the statements of operations as incurred. Advertising expenses for the years ended December 31, 2001, 2002 and 2003, amounted to $ 296, $ 154 and $ 211, respectively.

u. Fair value of financial instruments:

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, short-term bank deposits, trade receivables, trade payables and foreign currency contracts approximate their fair value due to the short-term maturity of such instruments.

Long-term bank deposits and structured notes are estimated by discounting the future cash flows using current interest rates for deposits of similar terms and maturities. The carrying amount of long-term deposits approximates their fair value.

The fair value of foreign currency contracts (used for hedging purposes) is estimated by obtaining current quotes from investment bankers.

v. Derivative investments:

The Group uses derivatives instruments to manage exposures to foreign currency, primarily salary payments denominated in New Israeli Shekel ("NIS"). The Group's objectives for holding derivatives are to minimize risks.

Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), requires a company to recognize all of its derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, cash flow hedge or a hedge of a net investment in a foreign operation.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For those derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same line item associated with the forecasted transaction in the same period or periods during which the hedged transaction affects earnings.

At December 31, 2003, the Group expects to reclassify $ 145 of net gains on derivative instruments from accumulated other comprehensive income to earnings during the next six months due to actual payment of variable interest associated with the floating rate debt.

Since the amounts of forward transaction does not exceed the salary payments, those transactions are all highly effective and the results are recorded as payroll expenses, at the time that the hedged expense is recorded. When the Group hedges payrolls for the following periods, then the results as of the balance sheet are recorded in other comprehensive income.

w. Impact of recently issued accounting standards:

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"). The objective of FIN 46 is to improve financial reporting by companies involved with variable interest entities. A variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. The Interpretation provides that a development stage entity is not a variable interests entity, if it can be demonstrated that the equity invested in the entity is sufficient to permit it to finance the activities it is currently engaged in and provisions in the entity's governing documents and contractual arrangements allow addit ional equity investments. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns or both. FIN 46 also requires disclosures about variable interest entities that the company is not required to consolidate but in which it has a significant variable interest. The consolidation requirements of FIN 46 apply immediately to variable interest entities created after January 31, 2003. The consolidation requirements apply to older entities in the first fiscal year or interim period end after December 15, 2003. As of December 31, 2003, the Group does not expect the adoption of FIN 46 to have a material impact on its consolidated financial statements.

NOTE 3:- INVENTORIES

	December 31,	
	2002	2003
Raw materials	$ 2,714	$ 2,515
Finished products	1,963	2,152
	$ 4,677	$ 4,667

The Group periodically evaluates its inventory in accordance with its revenues forecasts and technological obsolescence. In the years ended December 31, 2001, 2002 and 2003, the Group wrote-off and wrote-down excess inventory that was expected to be sold at a price lower than the carrying value, in a total amount of $ 6,185, $ 1,684 and $ 835. These amount are included in cost of revenues.

NOTE 4:- LONG-TERM BANK DEPOSITS AND STRUCTURED NOTES

Long-term bank deposits and structured notes are composed as follows:

	December 31, 2003	
	Weighted average interest	U.S. dollars in thousands
Long-term bank deposits (in U.S. dollars)	2.70%	$ 25,270
Structured notes (1)	4.37%	25,000
		$ 50,270

(1) During August 2003, the Group purchased four structured notes at par value totaling $ 25,000 for settlement during August 2006 from several banks. Under the arrangements with the banks, whether or not the deposits bear interest depends upon the rate of the three months to one year LIBOR.

For each day in which the relevant LIBOR rate is below an agreed annual fixed rate, which ranges from 2.25% to 5%. The deposits bear interest at the rate of 3.08% to 5.30% per annum. On all other days, the deposits do not bear any interest. As of December 31, 2003, investments in structured notes securities approximate their market value.

NOTE 5:- INVESTMENT IN AN AFFILIATED COMPANY

In December 2000, the Company signed an agreement to invest in an unrelated privately-held company ("Affiliated Company").

The Preferred shares have a preference in liquidation and are convertible at the holders option or upon an IPO into Ordinary shares and on weighted average ratchet basis.

NOTE 5:- INVESTMENT IN AN AFFILIATED COMPANY (Cont.)

	December 31,	
	2002	2003
Equity, net (1)	$ 150	$ 491
Convertible loans	149	-
Total investments	299	491

(1) Net equity as follows:

Net equity as of purchase date	73	93
Unamortized goodwill	1,127	1,877
Accumulated net losses	(1,050)	(1,479)
	$ 150	$ 491

As of December 31, 2003, the Company holds 40% of the Affiliated Company's share capital.

NOTE 6:- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2002	2003
Cost:		
Computers and peripheral equipment	$ 7,576	$ 8,276
Office furniture and equipment	1,696	3,314
Motor vehicles	111	111
Leasehold improvements	1,128	1,186
	10,511	12,887
Accumulated depreciation:		
Computers and peripheral equipment	4,510	5,934
Office furniture and equipment	457	1,476
Motor vehicles	86	104
Leasehold improvements	391	809
	5,444	8,323
Depreciated cost	$ 5,067	$ 4,564

Depreciation expenses amounted to $ 1,572, $ 2,073 and $ 2,880 for the years ended December 31, 2001, 2002 and 2003, respectively.

NOTE 7:- INTANGIBLE ASSETS, NET

		December 31,	
		2002	2003
a.	Acquired technology	$ -	$ 1,173
	Accumulated amortization	-	(160)
	Amortized cost	$ -	$ 1,013

b. Amortization expenses amounted to $ 160 for the year ended December 31, 2003

c. Expected amortization expenses for the years ended December 31:

2004	$ 240
2005	$ 240
2006	$ 240
2007	$ 240
2008	$ 53
	$ 1,013

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2002	2003
Employees and payroll accruals	$ 3,358	$ 4,040
Technology licensing fee provision	5,253	4,332
Government authorities	889	594
Accrued expenses	1,552	2,106
Third payment to Nortel with respect to acquisition	-	1,500
Accrual payment to Nortel, net	-	1,000

Other	128	253
	$ 11,180	$ 13,825

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Group's facilities are rented under several rental agreements in Israel and the U.S. for periods ending in 2013.

Future minimum rental and lease commitments under non-cancelable leases for the years ended December 31, are as follows:

2004	$ 2,618
2005	2,653
2006	2,551
2007	2,270
2008-2013	10,197
	$ 20,289

Rent expenses for the years ended December 31, 2001, 2002 and 2003, were approximately $ 1,652, $ 1,713 and $ 1,829, respectively.

b. Royalty commitment to the Office of the Chief Scientist of Israel:

The Company participated in programs sponsored by the Israeli Government for the support of research and development activities. Through December 31, 2003, the Group had obtained grants from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade ("the OCS") aggregating to $ 435 for certain of the Group's research and development projects. The Group is obligated to pay royalties to the OCS, amounting to 3%-3.5% of the sales of the products and other related revenues generated from such projects, up to 100% of the grants received, linked to the U.S. dollars 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.

As of December 31, 2003, the aggregate contingent liabilities to the OCS amounted to $ 437.

c. Royalty commitments to a third party:

The Group entered into a patent license agreement with a third party. Under the agreement, the Group agreed to pay the third party quarterly royalty fees until 2008, based on 0.75%-0.9% of the Group 's revenues .

NOTE 10:- TAXES ON INCOME

a. Measurement of taxable income under the Income Tax (Inflationary Adjustments) Law, 1985:

Results for tax purposes are measured in real terms, in accordance with the changes in the Israeli Consumer Price Index ("CPI") or changes in the exchange rate of the NIS against the dollar for a "foreign investors" company. Until the taxable year 2002, the Company measured its results for tax purposes in accordance with changes in the Israeli CPI. Commencing with taxable year 2003, the Company has elected to measure its results for tax purposes on the basis of the changes in the exchange rate of NIS against the dollar. This election obligates the Company for three years.

b. Tax benefits under the Law for the Encouragement of Capital Investments, 1959 ("the law"):

The Company's production facilities have been granted the status of an "Approved Enterprise" in accordance with the law under four separate investment programs that were approved in October 1993, January 1996, March 1999 and February, 2002. The Company is also a "foreign investors' Company", as defined by that law and, as such, is entitled to a ten-year period of benefit instead of seven years period and to an additional reduction in tax rates of 10% to 25% (based on the percentage of foreign ownership in each taxable year). According to the provisions of the law, the Company has elected the "alternative benefits" - waiver of Government grants in return for a tax exemption.

Income derived from the first "Approved Enterprise" program was tax-exempt for the two-year period ended December 31, 1999 and is eligible for a reduced tax rate of 10% to 25% for the eight year period ending December 31, 2007.

Income derived from the second "Approved Enterprise" program will be tax-exempt for a period of four years, and is subject to a corporate tax at the reduced rate of 10% to 25% for an additional period of six years. The benefit period will commence when the Company realizes taxable income from this enterprise.

Income derived from the third and fourth "Approved Enterprise" programs will be tax-exempt for a period of two years, and is subject to a corporate tax at the reduced rate of 10% to 25% for an additional period of eight years. The benefit period will commence when the Company realizes taxable income from this enterprise.

The period of tax benefits detailed above is subject to limits of the earlier of 12 years from commencement of production or 14 years from receiving the approval. Based on the aforementioned conditions, under the second, the third and the fourth expansion programs, the period of benefits for the production facilities, which has not yet commenced, will terminate in the years 2011, 2013 and 2015, respectively.

NOTE 10:- TAXES ON INCOME (Cont.)

The entitlement to the above benefits is conditional upon the Company fulfilling the conditions stipulated by the above law, regulations published thereunder and the instruments of approval for the specific investments in "Approved Enterprises". In the event of failure to comply with these conditions, the benefits may be canceled and the Company may be required to refund the amount of the benefits, in whole or in part, including interest. As of December 31, 2003, management believes that the Company is meeting all of the aforementioned conditions.

The tax-exempt income attributable to the "Approved Enterprise" can be distributed to shareholders without imposing tax liability on the Company only upon the complete liquidation of the Company. As of December 31, 2003, retained earnings included approximately $ 540 in tax-exempt income earned by the Company's "Approved Enterprise".

In the event of a distribution of such tax-exempt income as a cash dividend, in a manner other than upon the complete liquidation of the Company, it will be required to pay tax at the rate of 10% to 25% on the amount distributed and an income tax liability would be incurred of approximately $ 135 as of December 31, 2003.

The Company's Board of Directors has determined that such tax-exempt income will not be distributed as dividends.

The law also grants entitlement to claim accelerated depreciation on equipment used by the "Approved Enterprise" during five tax years.

If the Company derives income from sources other than the "Approved Enterprise" during the relevant period of benefits, such income will be taxable at the regular corporate tax rate of 36%.

c. Net operating losses carryforwards:

The Company has accumulated losses for tax purposes as of December 31, 2003, in the amount of approximately $ 76 million, which may be carried forward and offset against taxable income in the future for an indefinite period.

Through December 31, 2003, AudioCodes Inc. has a U.S. federal net operating loss carryforward of approximately $ 25 million, which can be carried forward and offset against taxable income for 15 to 20 years, and expires from 2015 to 2022, respectively.

Utilization of U.S. net operating losses may be subject to substantial annual limitation due to the "change in ownership" provision of the Internal Revenue Code of 1986 and similar state provision. The amount limitation may result in the expiration of net operating losses before utilization.

NOTE 10:- TAXES ON INCOME (Cont.)

d. Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969:

The Company currently qualifies as an "industrial company" under the above law and as such is entitled to certain tax benefits, including accelerated depreciation and the deduction of public offering expenses in three equal annual payments.

e. Loss before taxes consists of the following:

	Year ended December 31,		
	2001	2002	2003
Domestic	$ (8,665)	$ (8,746)	$ (7,338)
Foreign	(4,608)	(5,411)	(1,096)

$(13,273)	$(14,157)	$ (8,434)

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,	
	2002	2003
Deferred tax assets:		
Reserves and allowances	$ 1,629	$ 2,495
Net operating loss carryforwards	35,362	37,548
Net deferred tax assets before valuation allowance	36,991	40,043
Valuation allowance	(36,991)	(40,043)
Net deferred tax assets	$ -	$ -

As of December 31, 2003, the Group has provided full valuation allowances in respect of deferred tax assets resulting from tax loss carryforwards and other temporary differences, due to its history of operating losses and current uncertainty concerning its ability to realize these deferred tax assets in the future. Management currently believes that since the Group has a history of losses for tax purposes it is more likely than not that the deferred tax regarding the loss carryforwards and other temporary differences will not be realized in the foreseeable future.

AudioCodes Inc. has provided valuation allowances in respect of deferred tax assets resulting from tax benefits related to employee stock option exercises, which will be credited to additional paid-in capital when realized. Management currently believes that it is more likely than not that those deferred tax deductions will not be realized in the foreseeable future.

The main reconciling items between the statutory tax rate of the Group and the effective tax rate are the tax adjustments and the effects of "Approved enterprise".

NOTE 11:- SHARE CAPITAL

a. General:

1. In January 2001 and in April 28, 2002, the Company's Board of Directors approved a share repurchase program pursuant to which the Company is authorized to purchase up to an aggregate amount of 4,000,000 of its outstanding Ordinary shares. As of December 31, 2003, the Company had purchased 3,942,139 of its outstanding Ordinary shares, at a weighted average price per share of $ 2.87.

2. The Company's shares are traded on the Nasdaq National Market. In addition, since October 2001, the Company's shares have been listed for trade also on the Tel-Aviv Stock Exchange.

b. The Ordinary shares entitle their holders to the right to receive notice to participate and vote in general meetings of the Company and the right to receive cash dividends and a share dividend if declared.

c. Warrants issued to consultants:

During 1999, the Company issued warrants to directors to purchase 4,000 and 50,000 Ordinary shares of NIS 0.01 par value at an exercise price of $ 9.82 per share and $ 18.82 per share, respectively, expiring seven years from the date of grant. Warrants to purchase 24,000 Ordinary shares at an exercise price of $ 18.82 per share are exercisable immediately, and warrants to purchase 30,000 Ordinary shares are exercisable in four equal annual installments from the date of grant. During 2001, warrants to purchase 10,000 Ordinary shares at an exercise price of $ 18.82 were exercised.

As of December 31, 2003, 44,000 warrants are outstanding and exercisable at a weighted average exercise price of $ 18.00.

d. Employee Stock Purchase Plan:

In May 2001, the Company's Board of Directors adopted the Employee Stock Purchase Plan ("the Purchase Plan"), which provides for the issuance of a maximum of 2,000,000 Ordinary shares. As of December 31, 2003, 1,499,988 shares are still available for future issuance. Eligible employees can have up to 15% of their wages, up to certain maximums, to be used to purchase Ordinary shares. The Purchase Plan is implemented with purchases every six months occurring on July 31, and January 31. The price of the Ordinary shares purchased under the Purchase Plan is equal to 85% of the lower of the fair market value of the Ordinary shares on the commencement date of each offering period or on the semi-annual purchase date.

During the year ended 2001, 2002 and 2003, 32,608, 226,799 and 290,605 shares, respectively, were issued under the Purchase Plan for aggregate consideration of $ 139, $ 607, and $ 537, respectively.

NOTE 11:- SHARE CAPITAL (Cont.)

e. Employee Stock Option Plans:

Under the Company's 1997 and 1999 Stock Option Plans ("the Plans"), options to purchase Ordinary shares may be granted to officers, directors, employees and consultants of the Company.

The total number of shares authorized for grant of options under the Plans is 12,769,626. As of December 31, 2003, 1,343,548 shares are still available for future option grants.

Stock options granted under the Plans are exercisable usually at the fair market value of the Ordinary shares at the date of grant and expire ten or seven years from the date of grant, and are subject to termination of employment. The options generally vest over four or five years, from the date of grant. Any options, which are forfeited or cancelled before expiration, become available for future grants.

A summary of the Company's stock option activity and related information for the years ended December 31, 2001, 2002 and 2003, is as follows:

	2001		2002		2003	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
		$		$		$
Outstanding at the beginning of the year	5,536,080	13.21	7,042,392	9.50	7,202,088	8.21
Granted	3,140,146	5.37	1,376,289	2.69	1,737,500*)	3.94
Exercised	(757,300)	0.92	(195,000)	0.76	(269,742)	4.14
Forfeited	(876,534)	25.14	(1,021,593)	11.07	(243,899)	5.92
Outstanding at the end of the year	7,042,392	9.50	7,202,088	8.21	8,425,947	7.06
Options exercisable at the end of the year	1,709,664	9.47	3,181,218	9.27	4,526,834	9.39

*) During 2003, the Company issued options to directors to purchase 130,000 Ordinary shares of NIS 0.01 par value at an average exercise price of $ 7.38 per share expiring 10 years from the date of grant.

NOTE 11:- SHARE CAPITAL (Cont.)

The options outstanding as of December 31, 2003, have been separated into exercise price, as follows:

Range of exercise price	Options outstanding as of December 31, 2003	Weighted average remaining contractual life	Weighted average exercise price	Options exercisable as of December 31, 2003	Weighted average exercise price of exercisable options
$		(years)	$		$
0-0.61	276,600	3.13	0.61	276,600	0.61

1.1	417,000	4.48	1.10	417,000	1.10
1.73-2.51	1,382,736	8.28	2.24	416,498	2.09
2.67-4	939,685	8.43	3.14	263,029	2.95
4.1-6.04	1,609,732	8.32	4.43	459,357	4.23
6.51-9.24	2,156,794	6.58	7.51	1,345,800	7.34
9.81-14	661,500	6.32	10.01	529,000	10.02
18.82-20.35	102,500	7.51	18.88	143,000	18.86
25.5-36.56	835,400	5.50	29.40	643,550	29.38
50.50	44,000	5.50	50.50	33,000	50.50
	8,425,947		7.06	4,526,834	9.39

The Company has recorded deferred stock compensation for options issued with an exercise price below the fair market value of the Ordinary shares on the date of grant. The deferred stock compensation has been amortized and recorded as compensation expense ratably over the vesting period of the options. Compensation expenses of approximately $ 363, $ 161 and $ 50 were recognized during the years ended December 2001, 2002 and 2003, respectively.

Options granted to employees in 2001, 2002 and 2003, have an exercise price equal to the fair market value of Ordinary share at the grant date. The weighted average fair values of the options granted during 2001, 2002 and 2003 respectively were $ 4.61, $ 2.18 and $ 3.77, respectively. As to the way of computation of the fair value and the assumptions used in such computation, see Note 2r.

f. Dividends:

In the event that cash dividends are declared in the future, such dividends will be paid in NIS. The Company does not intend to pay cash dividends in the foreseeable future. (See also Note 10b.)

NOTE 12:- FINANCIAL INCOME, NET

	Year ended December 31,		
	2001	**2002**	**2003**
Financial expenses:			
Interest and others	$ (225)	$ (139)	$ (125)
Financial income:			
Foreign currency translation differences	67	236	25
Interest and others	6,546	2,526	1,983
	6,613	2,762	2,008
	$ 6,388	$ 2,623	$ 1,883

NOTE 13:- MAJOR, CUSTOMERS AND GEOGRAPHIC INFORMATION

a. Summary information about geographic areas:

The Group manages its business on a basis of one reportable segment. (See Note 1 for a brief description of the Group's businesses). The data is presented in accordance with Statement of Financial Accounting Standards No. 131 "Disclosure About Segments of an Enterprise and Related Information" ("SFAS No. 131"). 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, 2001, 2002 and 2003 and long-lived assets as of December 31, 2001, 2002 and 2003.

	2001		**2002**		**2003**	
	Total revenues	**Long-lived assets**	**Total revenues**	**Long-lived assets**	**Total revenues**	**Long-lived assets**
Israel	$ 5,873	$ 4,489	$ 3,227	$ 4,694	$ 2,984	$ 9,144
U.S.A.	19,845	515	10,864	373	25,179	753
Europe	3,516	-	2,919	-	5,587	-
Far East	6,405	-	10,179	-	10,478	-
Other	95	-	-	-	-	-
	$ 35,734	$ 5,004	$ 27,189	$ 5,067	$ 44,228	$ 9,897

NOTE 13:- SEGMENTS, CUSTOMERS AND GEOGRAPHIC INFORMATION (Cont.)

b. Major customers data as a percentage of total revenues:

	Year ended December 31,		
	2001	**2002**	**2003**
Customer A	-	-	14%
Customer B	32%	*) -	*) -

*) Less than 10% of total revenues.

- - - - - - - - - - -

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Shabtai Adlersberg, certify that:

1. I have reviewed this annual report on Form 20-F of AudioCodes Ltd.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The company's other certifying officers 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)) 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. 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

c. 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 officers and I have disclosed, based on our most recent evaluation, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):

a. all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls.

Date: June 30, 2004

/s/ SHABTAI ADLERSBERG
Shabtai Adlersberg
Chief Executive Officer

Exhibit 12.2

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Nachum Falek, certify that:

1. I have reviewed this annual report on Form 20-F of AudioCodes Ltd.;

2. Based on my knowledge, this annual 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report;

4. The company's other certifying officers 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)) 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. 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

c. 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 officers and I have disclosed, based on our most recent evaluation, to the company's auditors and the audit committee of company's board of directors (or persons performing the equivalent function):

a. all significant deficiencies and material weaknesses in the design or operation of internal controls 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 controls.

Date: June 30, 2004

/s/ NACHUM FALEK
Nachum Falek
Vice President Finance and
Chief Financial Officer

Exhibit 13.1

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. (the "Company") on Form 20-F for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Shabtai Adlersberg, 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.

/s/ SHABTAI ADLERSBERG
Shabtai Adlersberg
Chief Executive Officer

June 30, 2004

Exhibit 13.2

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. (the "Company") on Form 20-F for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Nachum Falek, Vice President 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.

/s/ NACHUM FALEK
Nachum Falek
Vice President Finance and
Chief Financial Officer

June 30, 2004

Exhibit 21.1

Subsidiaries of AudioCodes Ltd.

AudioCodes Europe Limited

AudioCodes Inc.

Ai-Logix Inc.

AudioCodes National Inc.

- # -

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in the Registration Statement on Form S-8 (File Number 333-11894) pertaining to the AudioCodes Ltd. 1999 Key Employee Option Plan (F) and the AudioCodes Ltd. 1999 Key Employee Option Plan, Qualified Stock Option Plan—US Employees (F), the Registration Statement on Form S-8 (File Number 333-13268) pertaining to the AudioCodes Ltd. 1999 Key Employee Option Plan (F), as amended, and the AudioCodes Ltd. 1999 Key Employee Option Plan, Qualified Stock Option Plan—US Employees (F), on Form S-8 (File Number 333-105473) pertaining to the AudioCodes Ltd. 1999 Key Employee Option Plan (F) and the AudioCodes Ltd. 1999 Key Employee Option Plan, Qualified Stock Option Plan—US Employees (F)and the Registration Statement on Form S-8 (File Number 333-13378) pertaining to the AudioCodes Ltd. 2001 Employee Stock Purchase Plan—Global Non-U.S. and the AudioCodes Ltd. 2001 U.S. Employee Stock Purchas e Plan, of our report dated January 25, 2004 with respect to the Consolidated Financial Statements of AudioCodes Ltd., included in this Annual Report (Form 20-F) for the year ended December 31, 2003 filed with Securities and Exchange Commission.

Tel - Aviv, Israel
June 29 2004

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Exhibit 10.23

SUBLEASE AGREEMENT

by and between

CONTINENTAL RESOURCES, INC.,
a Massachusetts Corporation,
("Sublandlord")

-and-

AI-LOGIX, INC.,
a New Jersey Corporation
("Subtenant")

27 Worlds Fair Drive
Franklin Township, Somerset, New Jersey

December 30, 2003

SUBLEASE AGREEMENT

THIS SUBLEASE AGREEMENT (this "Agreement" or this "Sublease"), is made as of the 30th day of December 2003, by and between CONTINENTAL RESOURCES, INC., a Massachusetts corporation having an office at 175 Middlesex Turnpike, Bedford, Massachusetts 01730-1469 (the "Sublandlord") and AI-LOGIX, INC., a New Jersey corporation having an office at 27 Worlds Fair Drive, Somerset, New Jersey 08873 (the "Subtenant").

W I T N E S S E T H:

WHEREAS, the Sublandlord is lessee of a certain two-story office building containing approximately 60,000 square feet (the "Building") located in Franklin Township, Somerset County, New Jersey, commonly known as 27 Worlds Fair Drive, Somerset, New Jersey pursuant to a certain Lease Agreement dated January 1, 2001 (the "Master Lease") by and between The Ellsworth Trust, as landlord (the "Master Landlord") and Sublandlord, as tenant. The Master Lease is attached hereto as Exhibit "A".

WHEREAS, Subtenant desires to sublease from Sublandlord approximately 28,361 square feet of rentable area on the first floor of the Building (the "Subleased Premises").

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS, in consideration of the rents reserved herein, the other mutual considerations herein and the parties mutually intend to be legally bound hereby, the Sublandlord does demise, sublease and let unto the Subtenant and the Subtenant does rent and take from the Sublandlord the Subleased Premises as further described in Section 1 hereof, and the Sublandlord and Subtenant do hereby mutually covenant and agree as follow:

SECTION 1. SUBLEASED PREMISES.

1.1 Subleased Premises. The Subleased Premises are shown on the floor plan annexed hereto as Exhibit "B" and shall consist of 28,361 square feet on the first floor of the Building, together with all improvements therein to be constructed by the Sublandlord for the use of the Subtenant, and together with all easements, improvements, tenements, appurtenances, fixtures and rights and privileges appurtenant thereto. Sublandlord and Subtenant acknowledge and agree that the area of the Subleased Premises shall be 28,361 for all purposes hereunder during the Term. In furtherance of the foregoing, the Subleased Premises includes the right to use together with Sublandlord, Master Landlord and members of the pubic, the common and public areas within and outside of the Building, including, without limitation all parking areas and sidewalks.

1.2 Right of First Offer. Prior to the expiration of this Sublease or any extension or renewal thereof, Sublandlord shall not enter into any lease, sublease or occupancy agreement of any kind or nature affecting the balance of the Building with any third-party without first offering Subtenant an opportunity to lease such space on the same terms and conditions as Sublandlord is willing or may negotiate to lease such space. Sublandlord shall offer the opportunity to lease to Subtenant by notifying Subtenant in writing of the proposed terms and conditions thereof, or, at Sublandlord's option, submitting to Subtenant a copy of such proposed lease, sublease or occupancy agreement. If within ten (10) working days of the date of such notice, Sublandlord has received written notice from Subtenant of its election to lease the premises covered by such proposed lease, sublease, or occupancy agreement on the same terms and conditions of such proposed lease, sublease or occupancy agreement, then Sublandlord shall not enter into such proposed lease, sublease or occupancy agreement with the third-party tenant, and Sublandlord and Subtenant shall promptly enter into a modification of this Sublease or a new agreement memorializing the terms of the proposed lease, sublease, or occupancy agreement. If Sublandlord has not received Subtenant's written election to lease such premises within said ten (10) day period, Sublandlord shall be free to execute the proposed lease with the third-party tenant. This right of first refusal shall be applicable to all portions of the Building that become available during the Term, and shall not be terminated by Subtenant's failure to exercise as to any space offered to a third-party.

SECTION 2. TERM OF SUBLEASE.

2.1 Term. Sublandlord subleases unto Subtenant and Subtenant hires the Subleased Premises for the term of ten (10) years (the "Initial Term") to commence on or about the later of (a) the date that the Subleased Premises are delivered to the Subtenant with all of Sublandlord's Work substantially complete and otherwise ready for occupancy or (b) May 15, 2004 (the "Sublease Commencement Date") and end at 12:00 midnight on the day before the tenth (10th) anniversary of the Sublease Commencement Date unless earlier terminated pursuant to the terms hereof or by operation of law (the "Sublease Termination Date"). In the event that Sublandlord fails to deliver possession of the Subleased Premises in accordance with the terms of this Agreement on or prior to May 15, 2004, Subtenant, in addition to any other rig hts and remedies provided in this Sublease (including, without limitation Section 4.4(f) hereof), may terminate this Sublease at any time after August 31, 2004 but prior to the date of delivery of the Subleased Premises to Subtenant, time being of the essence. In the event of any such termination, all prepaid rent and the Security Deposit shall be refunded to Subtenant promptly but in no event later than ten (10) days after termination as provided herein.

2.2 Early Termination. The Sublandlord hereby grants to Subtenant the right and option (the "Early Termination Option") to terminate this Agreement and the Term hereby granted (a) at any time after the termination of the seventh year of the Term upon not less than six months prior written notice to Sublandlord, and (b) to reduce Subleased Premises to not less than 21,818 rentable square feet at any time after the seventh (7th) year upon not less than six (6) months prior written notice to Sublandlord. The Early Termination Fee (as defined below) shall be payable not later than ten (10) days after the effective date of surrender of the Subleased Premises (or portion thereof) by Subtenant as provided herein. If Subtenant elects to exercise the Early Termination Option, Subtenant shall pay to Sublandlord an early termination fee (the 47;Early Termination Fee") based upon that portion of the unamortized construction hard costs for Sublandlord's Work and real estate brokerage commissions ("Sublandlord's Unamortized Occupancy Costs") attributable to the space surrendered in the exercise of the Early Termination Option determined as follows: (i) Sublandlord's Unamortized Occupancy Costs shall be multiplied by the floor area surrendered by Subtenant in the exercise of the Early Termination Option, and (ii) the product thereof shall be divided by the total floor area of the Subleased Premises so that the result of such calculation shall be the Early Termination Fee. To facilitate the calculation of the Early Termination Fee, Sublandlord shall deliver to Subtenant all invoices relating to the construction hard costs for Sublandlord's Work and real estate brokerage commissions paid in connection with this Sublease not later than thirty (30) days after the Sublease Commencement Date.

2.3 Renewal Term. So long as Subtenant shall not have terminated this Sublease as provided in Section 2.2 above, Tenant shall have the right to extend the Initial Term as provided in Section 32 of this Sublease.

SECTION 3. RENT.

3.1 Base Rent. Subtenant shall pay to the Sublandlord base rent as follows: the ("Base Rent"):

Period	Annual	Monthly
First Sublease Year:	$261,816.00	$21,818.00
Second Sublease Year:	$269,670.48	$22,472.54
Third Sublease Year:	$361,035.53	$30,086.29
Fourth Sublease Year:	$371,812.71	$30,984.39
Fifth Sublease Year:	$382,873.50	$31,906.13
Sixth Sublease Year:	$394,217.90	$32,851.49
Seventh Sublease Year:	$406,129.52	$33,844.13
Eighth Sublease Year:	$418,041.14	$34,836.76
Ninth Sublease Year:	$430,519.98	$35,876.67
Tenth Tease Year:	$443,566.04	$36,963.84

For purposes hereof a "Sublease Year" shall mean the period commencing on the Sublease Commencement Date, and expiring on the day immediately preceding the first (1st) anniversary of the Sublease Commencement Date, inclusive, and each succeeding twelve (12) month period during the Term hereof or any extension or renewal thereof.

3.2 Payment of Base Rent. The Base Rent shall be payable in monthly installments as provided herein on or before the tenth (10th) day of each month during the Term at 175 Middlesex Turnpike, Bedford, Massachusetts 01730-1469 or such other address as the Sublandlord shall designate by written notice to Subtenant as provided herein. If the Sublease Commencement Date shall be other than the first day of a calendar month, then Subtenant shall pay Base Rent for the fractional month on the basis of the actual number of days remaining in such calendar month. If the Sublease Termination Date shall be on a day other than the last day of a calendar month, then Subtenant shall pay Base Rent for the fractional month on the basis of the actual number of days of such calendar month during which the Sublease is in effect. Except where Subtenant exercises its right o f set-off as set forth herein, any installment of rent accruing hereunder and any other sum payable hereunder by Subtenant to Sublandlord which is not received by Sublandlord on or before the tenth (10th) day of any sublease month shall require payment by Subtenant of a late charge of five ($.05) cents for each dollar of rental payment required which payment shall be made in such event by Subtenant with the required payment of rent, if late, and which payment in any event shall be made by Subtenant upon demand if not otherwise theretofore paid. Notwithstanding anything herein to the contrary, with respect to the first two (2) times in any calendar year that Subtenant fails to pay any rent when due under this Sublease, no late charge shall be due and payable by Subtenant as otherwise provided herein,

3.3 Rent. The Base Rent, additional rent and all other charges reserved and payable under this Sublease are collectively referred to herein as "rent".

SECTION 4. CONDITION OF PREMISES.

4.1 Sublandlord's Work; Final Plans. Sublandlord shall provide turn-key build-out of the Subleased Premises at the sole cost and expense of Sublandlord ("Sublandlord's Work") in accordance with the preliminary plan attached hereto as Exhibit "C" (the "Preliminary Plan") and the building standards set forth in Exhibit "D" (the "Building Standards"). The initial plans and specifications constituting the final plans shall be submitted to Subtenant for review, and not later than ten (10) days thereafter Subtenant shall provide Sublandlord with written notice which shall either approve the plans and specifications so submitted, or disapprove such plans and specifications, in which event the Subtenant shall provide reasonably detailed reasons for such disapproval. Following any su ch disapproval, Sublandlord shall within ten (10) days following Subtenant's notice of disapproval hereunder thereafter re-submit the final revised plans and specifications for approval by Subtenant. The foregoing process of submission and resubmission shall be repeated as necessary until the Subtenant has approved the plans and specifications. The approval of any matter submitted for approval by Sublandlord hereunder shall in no event be unreasonably withheld, conditioned or delayed. The final plans and specifications approved by Subtenant hereunder shall be referred to herein as the "Final Plans". Sublandlord acknowledges that there is substantial identity of interest between Sublandlord and Master Landlord, so that any matter approved by Sublandlord under this Sublease shall constitute approval by Master Landlord, and Subtenant may rely on any approval or consent by Sublandlord hereunder as the final binding approval or consent of Master Landlord.

4.2 Construction. Sublandlord shall be responsible for the construction of the Sublandlord's Work in accordance with the terms hereof. All of Sublandlord's Work shall be constructed in accordance with the Building Standards in all material respects and the Final Plans. Sublandlord shall use standard building materials for construction as specified in the Final Plans approved by Subtenant and shall competitively bid the construction job to a minimum of three (3) qualified contractors that have been pre-approved by Subtenant. The turn-key construction to be performed by Sublandlord shall include all fees for contractors, subcontractors, architects, engineers, consultants, filing and license fees and permits. Subtenant shall have the opportunity to review all bid documents, however, final approval of such bid documents will be made by the Sublandlord in the exe rcise of Sublandlord's reasonable discretion with the advice and consultation of Subtenant. The Sublandlord will accommodate specific needs of the Subtenant regarding the construction of the Subleased Premises, including, without limitation, providing access to Subtenant's contractors and agents, for purposes of installing furniture, fixtures or equipment for which Subtenant is responsible hereunder. Notwithstanding anything herein to the contrary, the installation of Subtenant's voice and data wiring and related equipment shall be at Subtenant's sole cost and expense and shall not be included within Sublandlord's Work.

4.3 Additional Work. It is expressly understood and agreed that any improvements required by Subtenant to be installed by Sublandlord, in excess of Sublandlord's Work, shall be agreed upon by Sublandlord and Subtenant in good faith, in writing, with respect to the scope of such additional work to be performed and the establishment of the portion of the cost thereof to be borne by Subtenant. The cost of such additional work shall be based upon the actual cost to Sublandlord.

4.4 Work Standards; Substantial Completion. Sublandlord shall commence construction of Sublandlord's Work as soon as reasonably practicable after receipt of all governmental permits required for the construction of Sublandlord's Work, and Sublandlord shall prosecute such construction diligently and in a good and workmanlike manner at Sublandlord's sole cost and expense using only materials that are new, good quality and free of material defect. Sublandlord shall construct Sublandlord's Work in accordance with the Final Plans, and in accordance with all laws. For purposes hereof, laws shall mean all federal, state, county and local governmental or quasi-governmental and municipal laws, statutes, codes, ordinances, rules, decrees, orders, standards and regulations, both foreseen and unforeseen, either now or in force or hereafter adopted or ena cted. As a condition to the commencement of the Term hereof, the Subleased Premises shall be delivered to Subtenant on the Subleased Commencement Date in a neat, orderly condition, broom clean and free of debris and rubbish.

(a) Sublandlord shall prosecute Sublandlord's Work in accordance in the terms of this Sublease so as to achieve substantial completion of Sublandlord's Work in the Subleased Premises by not later than May 15, 2004 (the "Estimated Substantial Completion Date"). Notwithstanding the foregoing, Sublandlord shall perform that portion of the work necessary to achieve substantial completion of that portion of the Subleased Premises set forth on Exhibit "B-1" attached hereto (the "Initial Subleased Premises") on or prior to the Estimated Substantial Completion Date, time being of the essence.

(b) Sublandlord's Work (as to the Subleased Premises or the Initial Subleased Premises) shall be deemed substantially completed on the fifth (5th) business day after the following conditions have been satisfied (such date being hereinafter referred to as the "Completion Date"): (i) all of the Sublandlord's Work shall have been completed other than details of construction and decoration which are minor in character and the non-completion of which shall not unreasonably interfere with Subtenant's use of the Subleased Premises; (ii) all of the plumbing, electrical, heating, air conditioning any other systems servicing the Subleased Premises shall have been completed and are in good order and in operating condition; (iii) Sublandlord shall have obtained a temporary or final certificate of occupancy; and (iv) Sublandlord shall have delivered possess ion to Subtenant.

(c) Within thirty (30) days after the Completion Date (as to the Subleased Premises or the Initial Subleased Premises), Subtenant shall submit to Sublandlord a punchlist setting forth those items which are incomplete or defective or which are not completed in accordance with the Final Plans or laws. Sublandlord shall complete the work on the punchlist within thirty (30) days after receipt thereof.

(d) Notwithstanding anything herein to the contrary, in the event that the Subleased Premises are not substantially completed on or before the Estimated Substantial Completion Date, Subtenant may take occupancy of the Initial Subleased Premises on the Completion Date thereof, together with that portion of the Building designated on Exhibit "B-2" attached hereto (the "Swing Space"). Subtenant may use and occupy the Swing Space until the Completion Date for the balance of the Subleased Premises in accordance with the terms of this Sublease, except that the base rental rate for the Swing Space shall be Twelve and 50/100 Dollars ($12.50) per rentable square foot and the charge for Subtenant's electrical usage shall be One and 50/100 Dollars ($1.50) per rentable square foot. Subtenant shall relocate into the balance of the Subleased Premises not later than fifteen (15) business days following the Completion Date for the balance of the Subleased Premises; in the event that Subtenant fails to so relocate, the base rental rate for the Swing Space shall be increased to Twenty-Five Dollars ($25.00) per rentable square foot, which shall be payable on a day-for-day basis until such time as Subtenant surrenders the Swing Space.

(e) In the event that the Completion Date for the Subleased Premises or any portion thereof does not occur on or prior to August 31, 2004 for any reason whatsoever and Subtenant has not taken occupancy of the Initial Subleased Premises, Subtenant may terminate this Sublease at any time after August 31, 2004 but prior to the date of delivery of the Subleased Premises to Subtenant, time being of the essence. In the event of any such termination, all prepaid rent and the Security Deposit shall be refunded to Subtenant promptly, but in no event later than ten (10) days after termination as provided herein.

(f) Notwithstanding anything herein to the contrary, in the event that Sublandlord fails to complete Sublandlord's Work by August 31, 2004, then such failure may constitute a default by Sublandlord, if not cured by Sublandlord within thirty (30) days after Sublandlord's receipt of written notice delivered by Subtenant of the existence of such failure to so substantially complete Sublandlord's Work. If Sublandlord shall fail to substantially complete Sublandlord's Work within such thirty (30) day period, then such failure shall constitute a default by Sublandlord and Subtenant may, at Subtenant's option, and as Subtenant's sole remedy with respect to such failure (other than the credits set forth below, and the termination right set forth herein), take such reasonable steps as Subtenant may reasonably deem necessary or appropriate to cure such default. Subtenant shall thereafter deliver to Sublandlord a written statement of the reasonable and actual costs and expenses (including the reasonable industry standard costs and expenses of employing contractors or labor at overtime or premium rates incurred by Subtenant in connection with

effecting such cure, which statement shall be accompanied by paid invoices or other evidence reasonably satisfactory to Sublandlord evidencing the amount expended by Subtenant within thirty (30) days after receipt by Sublandlord of such statement and evidence. If Sublandlord shall fail to reimburse Sublandlord for the amount expended by Subtenant in performing Sublandlord's Work, then Subtenant shall have the right to offset such amount (together with interest thereon at the interest rate from the date such amount is incurred by Subtenant until the date of such offset).

4.5 For purposes hereof, "laws" shall mean all federal, state, county and local governmental or quasi-governmental and municipal laws, statutes, codes, ordinances, rules, decrees, orders, standards and regulations, both foreseen and unforeseen, whether now in force or hereafter adopted or enacted. As a condition to the commencement of the Term hereof, the Subleased Premises shall be delivered to Subtenant on the Sublease Commencement Date in a neat, orderly condition, broom clean and free of debris and rubbish.

4.6 Early Access. Subtenant, its contractors, architects and agents shall have the right to have access to and egress from the Subleased Premises commencing on a date not earlier than fifteen (15) days prior to the date reasonably estimated by Sublandlord as the date of substantial completion to prepare the Subleased Premises for Subtenant's use and occupancy; provided, however, that Subtenant's obligation to pay all Base Rent and Additional Rent and any other costs and charges payable by Subtenant hereunder shall not begin until the Sublease Commencement Date.

4.7 Warranty. Sublandlord shall warrant Sublandlord's Work for a period of one (1) year from substantial completion, and shall promptly repair or replace (as appropriate) any work found to be defective or non-conforming by Subtenant. If, from and after the Sublease Commencement Date, any governmental or quasi-governmental authority having jurisdiction should either prohibit Subtenant from opening its business on the Subleased Premises or require Subtenant to close its business on the Subleased Premises, in whole or in part, because of any reason within Sublandlord's control including, but not limited to, the failure of Sublandlord to obtain all final, unappealable and unappealed permits and approvals required for the commencement and completion of Sublandlord's Work, no rent shall be due or payable by Subtenant during such period and Sublandlord shall be resp onsible for all direct and consequential damages incurred by Subtenant by virtue thereof, and if such closure continues for more than thirty (30) days, Subtenant, in addition to any and all rights and remedies available hereunder and at law or in equity, may (but shall not be obligated to) terminate this Sublease at any time after the expiration of such thirty (30) day period by notice to Sublandlord.

SECTION 5. USE. The Subtenant covenants and agrees to use and occupy the Subleased Premises for general offices and electronic testing laboratories purpose only, which use by Subtenant, however, is and shall be expressly subject to all applicable zoning ordinances, rules and regulations of any governmental boards or bureaus having jurisdiction thereof.

SECTION 6. REPAIRS AND MAINTENANCE.

6.1 Sublandlord's Repairs. Sublandlord shall, at its sole cost and expense, make all repairs to the exterior bearing walls, foundation and roof of the Building and Subleased Premises, provided that any damage to the foregoing is not caused by the negligence of Subtenant, its servants, employees, invitees or agents, in which case said damage shall be repaired at the sole cost of Subtenant.

6.2 Exterior Maintenance. Subject to the provisions of Section 8 hereof, Sublandlord shall take good care of and maintain and repair the lawns, shrubbery, driveway, sidewalks, entranceways, foyers, curbs and parking area on the property surrounding the Building, and the Sublandlord shall provide snow and ice removal within eight (8) hours after the formation thereof upon the ground.

6.3 Subtenant Repairs. Subtenant agrees to keep the Subleased Premises in as good repair as they are at the Sublease Commencement Date, reasonable use and wear thereof and damage by fire or other casualty not caused by Subtenant excepted. Subtenant further agrees not to damage, overload, deface or commit waste of the Subleased Premises. Subtenant shall be responsible for all damage of any kind or character to the Subleased Premises, including the windows, glass, floors, walls, and ceilings, caused by Subtenant or by anyone using or occupying the Subleased Premises by, through or under the Subtenant. Sublandlord shall repair the same, and Subtenant agrees to pay the reasonable costs incurred therefore to Sublandlord promptly following demand. Notwithstanding anything hereinabove to the contrary, it is expressly understood and agreed that the Subtenant shall, at its sole cost and expense, be responsible for the repair, maintenance and replacement of any items installed by Sublandlord for Subtenant's use as leasehold improvements over and above the improvements furnished by Sublandlord, as part of Sublandlord's Work.

SECTION 7. SUBLANDLORD'S SERVICES.

7.1 HVAC. Subject to the provisions of Section 8, the Sublandlord shall furnish the services for which the building is equipped (including, maintenance and repair services), to the extent that then existing facilities for such services permit, except that heat and air-conditioning, as required, shall be furnished only between the hours of 7:00 A.M. and 7:00 P.M. Monday through Friday and from 7:00 A.M. to 1:00 P.M. on Saturday's and Sunday's. Heating and air conditioning shall be furnished in such quality and quantity as to maintain comfortable temperatures at all times during the Term.

7.2 Janitorial Services. Janitorial Services in accordance with Exhibit "E" are provided to the Subleased Premises Monday through Friday except for holidays on which the building is closed. Janitorial Services include cleaning of the Building common areas including the restrooms as well as cleaning of Subleased Premises.

7.3 Electricity. During the Term hereof, Subtenant shall pay to Sublandlord the sum of Three Thousand Five Hundred Forty-Five and 13/00 Dollars ($3,545.13) per month for electrical service delivered to the Subleased Premises and consumed in connection with the lighting and office equipment requirements of the Subtenant ("Subtenant Electric Charge").

7.4 After-Hours Services. If Subtenant uses the Subleased Premises beyond the regular work week, Subtenant shall be responsible for the cost of heating, ventilating and air-conditioning services furnished to the Subleased Premises at the rate of FORTY AND 00/100 DOLLARS ($40.00) per hour, exclusive of Subtenant's Electric. The said FORTY AND 00/100 DOLLARS ($40.00) per hour.

7.5 Lightbulbs. Promptly following notice from Subtenant, Sublandlord shall replace at the expense of Subtenant, all light bulbs and fluorescent lamps using Building standard light bulbs, fluorescent lamps and bulbs, and all ballasts used by Subtenant in the Subleased Premises with "like-kind" bulbs, lamps and ballasts. Subtenant shall pay the reasonable costs and charges incurred by Sublandlord in connection with such replacement within thirty (30) days after receipt of an invoice thereof.

SECTION 8. ADJUSTMENT OF RENTS. Sublandlord acknowledges that there is a substantial identity of interests between Master Landlord and Sublandlord by reason of common control and ownership. Notwithstanding any provisions of the Master Lease to the contrary, Sublandlord represents and warrants to Subtenant that as of the date hereof, Master Landlord does not impose Operating Expenses under the Master Lease onto Sublandlord, and that Sublandlord manages the Building and incurs and pays all Operating Expenses for its own account. As a material inducement to Subtenant entering into this Sublease, Sublandlord covenants that Sublandlord shall not amend the Master Lease or modify its business practices during the Term hereof to change in any manner the methodology by which Operating Expenses are calculated or assessed under this Sublease.

8.1 Certain Definitions. For all purposes hereof:

(a) "Taxes" shall mean all real estate taxes, assessments, sewer rents and other governmental charges imposed upon the Building and the land upon which it is located ("Land") and shall in no event include interest, penalties or any other levy or assessment of any kind or nature.

(b) "Base Taxes" shall mean the taxes assessed for the 2004 calendar year.

(c) "Subtenant's Proportionate Share" for purposes of this Sublease shall be:

Years 1-2 36.36%

Years 3-10 47.27%

8.2 Tax Payment. If Taxes for any calendar year during the term exceed the Base Taxes, Subtenant shall pay to Sublandlord Subtenant's Proportionate Share of such excess ("Tax Payment"), prorated for any portion of a calendar year not completed within the Term. Subtenant's Tax Payment shall be paid monthly in 12 equal installments, together with the rent to be paid pursuant to Section 3, based on a written Tax Payment estimate to be furnished by Sublandlord to Subtenant for any period for which Subtenant shall be responsible for its Tax Payment as hereinabove provided. Sublandlord shall furnish to Subtenant a computation and breakdown of Subtenant's Tax Payment as soon as ascertained and Subtenant shall be credited with, or shall pay to Sublandlord in a lump sum, within thirty (30) days after demand any required adjustment applica ble to Subtenant's Tax Payment.

8.3 Refund. If Sublandlord receives a refund of Taxes for any calendar year for which Subtenant has made a Tax Payment, Sublandlord shall promptly pay to Subtenant Subtenant's Proportionate Share of the refund after first deducting the reasonable cost and expenses incurred by Sublandlord, if any, while procuring the refund.

8.4 Change in Method. If at any time during the Term the method or scope of taxation prevailing at the date of execution of this Sublease shall be altered, modified or enlarged so as to cause the method of taxation to be changed, in whole or in part, so that in substitution for the Taxes, there may be a capital levy or other imposition based on the value of the Building, or the rents received there from, or some other form of assessment based in whole or in part on some other valuation of the real property including the Subleased Premises, then in such event, such substituted tax or imposition shall be payable and discharged pro rata, in accordance with the obligations set forth in this Section 8. Such substitute tax shall be computed as if the Building of which the Subleased Premises are a party were the only property owned by the Sublandlord.

8.5 Tax Exclusions. No provision hereof shall be deemed to require subtenant to pay municipal, state or federal income, capital levy, estate, succession inheritance or corporate franchise taxes imposed upon Sublandlord.

8.6 Certain Definitions. For all purposes hereof:

(a) "Operating Expenses" shall mean all expenses incurred by Sublandlord in connection with the operation, maintenance and repair of the Building, land upon which it is built and all related improvements during any calendar year without limitation, (i) wages and fringe benefit payments to persons engaged in the operation, maintenance and repair of the Building; (ii) the reasonable and customary cost of building and cleaning supplies and service and maintenance contracts with independent contractors; (iii) landscaping and grounds maintenance, HVAC maintenance and repairs (excluding capital improvements and expenditures of any kind or nature); (iv) the cost of all utilities serving the Building, except for Subtenant's Electric; and (v) all charges for insurance coverage on the Building, the land underlying the Building, improvements and Building operations, including fire a nd casualty insurance in broad form, public liability insurance, rent

insurance and such other insurance reasonably maintained by Sublandlord. Sublandlord reserves the right to adjust the amount of coverage from time to time as may be reasonably required to provide adequate coverage consistent with then existing economic conditions; but Sublandlord shall always carry sufficient insurance coverage comparable to similar buildings within the Building's immediate vicinity and otherwise in accordance with the terms of this Sublease.

(b) Notwithstanding the foregoing subsection 8.6(a) or any term of this Agreement to the contrary, Operating Expenses shall not include any of the following (i) all expenditures which are deemed capital under generally accepted accounting principles consistently applied, except that capital expenses for improvements which result in savings of labor, energy, utility or material costs shall be included at the lesser of the cost of such improvements or the annual savings in costs resulting from the improvement; (ii) debt service on the Building, the land of which it is a part or any portion thereof or rents arising under any ground lease; (iii) costs incurred in connection with the remediation of any hazardous materials, substances or wastes regulated under any law, ordinance or regulation governing environmental matters; (iv) contributions to any "reserve fund" (or the like) which Sublandlord or Master Landlord may maintain or be required to maintain for purposes of paying costs (1) associated with future repairs, replacements or modifications to the Building or (2) insurance claims not covered by Master Landlord or Sublandlord's insurance policies, whether such costs result from deductibles under such policies or the under-insurance of an insurable risk; (v) wages, salaries or benefits paid to any off-site employees and/or any management or administrative fee; (vi) costs of any kind or nature relating to the leasing of the Building or the enforcement of Master Landlord or Sublandlord's rights; (vii) costs or charges incurred by Master Landlord or Sublandlord as a result of either of them failing to maintain adequate insurance coverage in accordance with the term of this Sublease or the Master Lease, as applicable; (viii) costs that Sublandlord or Master Landlord are entitled to recover from tenant's subtenants, occupants, third party contractors or wana ntics as a result of their specific leases, contracts and/or warranties; (ix) costs, fines or penalties incurred due to violations by Sublandlord or Master Landlord of any leases or governmental rules or authority; (x) costs associated with the operation of the business of the owner/Master Landlord or entity which constitutes "Sublandlord" as distinguished from the costs of Building operations, including, without limitation, partnership or trust accounting and legal matters; (xi) costs of correcting defects in or inadequacy of the initial design or construction of the Building; (xii) payments for any rented equipment, the cost of which would constitute a capital expenditure not permitted to be included in Operating Expenses hereunder if purchased; (xiii) any fee or expenditure in excess of the amount which would be paid in an arms-length transaction paid to any trust, corporation, partnership or entity which controls, is controlled by or under common control with Sublandlord or Master Landlord. In the calculation of any Operating Expenses incurred hereunder (a) all Operating Expenses shall be reduced by all cash discounts, trade discounts or quantity discounts received in the purchase of goods, services or utilities for the Building, and (b) in the calculation of any costs hereunder, it is understood that no expense shall be charged more than once, and Sublandlord shall not collect any more than one hundred percent (100%) of the actual Operating Expenses incurred by Sublandlord or Master Landlord. If in the Base Year, or in any Operational Year the Building is partially unoccupied, the Operating Expenses for such year that vary with occupancy for any such year shall be reasonably adjusted by Sublandlord to the amount that such Operating Expenses would have been if the average Building occupancy had been one hundred percent (100%); provided, however that in no event shall the adjustment of Operating Expenses as provided herein result in Sublandlord receiving more than the actual Operating Expense s received by Sublandlord for the Building.

(c) "Base Year" shall mean the calendar year 2004. Upon completion of Base Year Master Landlord will provide Subtenant a copy of the Base Year Operating Expenses. Subtenant shall have the right to audit the Base Year Operating Expenses as provided in Section 8.7(c) hereof.

(d) "Operational Year" shall mean each calendar year during the year of the Base Year.

8.7 Payment. The Sublandlord shall make a reasonable estimate of the Operating Expenses for each Operational Year after the Base Year, and if it is estimated that the Operating Expenses will be greater than the Operating Expenses for the Base Year, then the Subtenant shall pay as additional rent Subtenant's pro-rata share of any such increase in twelve (12) equal monthly installments beginning in January of the applicable Operational Year.

(a) Not later than thirty (30) days after the end of each Operational Year, Sublandlord will furnish to Subtenant a statement of actual Operating Expenses for the Operational Year just elapsed and the parties shall adjust in a single payment from the Subtenant or the Sublandlord, as the case may be, any differences between the estimated and actual Operating Expenses.

(b) Any required payment to Sublandlord or Subtenant as applicable shall be made within thirty (30) days after Sublandlord furnishes the required reconciliation statement of Operating Expenses provided in subsection 8.7(c) above. Every statement forwarded by Sublandlord to Subtenant pursuant to this Section 8 shall he binding upon Subtenant unless, within ninety (90) days after the receipt of such statement, Subtenant notifies Sublandlord, in detail, of Subtenant's objections thereto. Subtenant shall have the right to audit Landlord's books and records relating to Operating Expenses, which right may be exercised by Subtenant upon written notice delivered not less than ninety (90) days following the delivery of the reconciliation statement to Tenant. In the event that such audit discloses a discrepancy in excess of three percent (3%) Sublandlord shall refund the entire amount overpaid to Tenant, together with interest thereon at the prevailing commercial prime rate as published in the eastern edition of The Wall Street Journal. To facilitate the exercise of the audit rights provided herein, Sublandlord shall (a) make available to Subtenant's agents and employees at reasonable times and locations all books, records, invoices and other evidence of the expenditures constituting Operating Expenses for inspection and photocopy and (b) permit the continuing right of the Subtenant to audit the Base Year Operating Expenses throughout the Term.

8.8 Pro-Ration. If the Term ends on any day other than the last day of a calendar year, any payment due to Sublandlord or to Subtenant by reason of any increase or decrease in Operating Expenses shall be pro-rated as applicable within thirty (30) days of written notice. This covenant shall survive for a period of one (1) year after the Sublease Termination Date or other termination of this Sublease.

SECTION 9. INSURANCE.

9.1 Sublandlord Insurance. Sublandlord shall, subject to the provisions of Section 8 hereof, obtain for the benefit of the Master Landlord and Subtenant fire insurance with full extended coverage, as set forth in Section 6.1, of the Master Lease and Master Landlord and Subtenant shall be named as additional insured.

9.2 Subtenant Insurance. The Subtenant covenants and agrees that it will, at its sole cost and expense, maintain commercial general liability insurance covering the Subleased Premises in the minimum amount of One Million ($1,000,000.00) Dollars per accident for one (1) person, Three Million ($3,000,000.00) Dollars per accident for (2) or more persons, and a minimum amount of Two Hundred Fifty Thousand ($250,000.00) Dollars for property damage, and Subtenant further covenants and agrees it will add the Sublandlord and the Master Landlord as additional insured's and Subtenant will furnish Sublandlord with a certificate of said liability insurance.

9.3 Cancellation. It is expressly understood and agreed that all policies of insurance shall contain a clause that the same shall not be canceled except on thirty (30) days' prior written notice to any and all parties in interest.

9.4 Waiver of Subrogation. The parties hereto mutually covenant and agree that each party, in connection with insurance policies required to be furnished in accordance with terms and conditions of this sublease, or in connection with insurance policies which they obtain insuring such insurable interest as Sublandlord or Subtenant may have in its own properties, whether personal or real, shall expressly waive any right of subrogation on the part of the insurer against the Sublandlord or Subtenant as the same may be of any such policy is hereby expressly waived, and Sublandlord and Subtenant each mutually waive all right of recovery against each other, their agents, or employees for any loss, damage or injury of any nature whatsoever to property or person for which either party is required by this sublease to carry insurance.

SECTION 10. SIGNS. Sublandlord shall, at its cost and expense, prior to August 31, 2004 (a) install the Subtenant's name on the monument sign located in Front of the Building, (b) include Subtenant's name on the directory located in the lobby area of the Building, and (c) indicate Subtenant's name on the entrance door to the Subleased Premises.

SECTION 11. FIXTURES.

11.1 Installation; Removal. Subtenant is given the right and privilege of installing and removing property, equipment and fixtures in the Subleased Premises during the Term. However, if the Subtenant is in default and vacates, or is dispossessed and fails to remove any property, equipment and fixtures or other property within thirty (30) days after such default, dispossess or removal, then and in that event, the said property, equipment and fixtures or other property shall be deemed at the option of the Sublandlord to be abandoned; or in lieu thereof, at the Sublandlord's option, the Sublandlord may remove such property and charge the reasonable cost and expense of removal and storage to the Subtenant.

11.2 Personal Property. Notwithstanding anything herein to the contrary, it is expressly understood and agreed that the Subtenant slay install, connect and operate. equipment as may he deemed necessary the Subtenant for its business, subject to compliance with applicable rules and regulations of governmental boards and bureaus having jurisdiction thereof. Subject to the terms and conditions of this Agreement, the machinery, fixtures and equipment belonging to the Subtenant shall at all times be considered and intended to be personal property of the Subtenant, and not part of the realty and subject to removal by the Subtenant, provided at the time of such removal, that the Subtenant is not in default pursuant to the terms and conditions of this sublease, and that the Subtenant, at its own cost and expense, pays for any damage (reasonable wear and tear excepted) to the Subleas ed Premises caused by such removal. Any alterations made by Sublandlord to the Subleased Premises for the benefit of the Subtenant (including, without limitation, Sublandlord's Work) shall be considered a part of the realty and Subtenant shall not have any obligation to remove or repair such alteration on the expiration or earlier termination of this Sublease.

SECTION 12. GLASS. The Subtenant expressly covenants and agrees to replace broken glass in the windows of the Subleased Premises which may become damaged or destroyed by reason of Subtenant's acts or the acts of Subtenant's employees, agents, servants or invitees at its cost and expense.

SECTION 13. ASSIGNMENT AND SUBLETTING.

13.1 Recapture. Except provided in Section 13.2 below, Subtenant may not assign this Sublease or sublet the Subleased Premises or any part thereof, unless it shall first advise Sublandlord in writing by certified mail, return receipt requested, of its intention to assign or sublease. In such event the Sublandlord shall have thirty (30) days from receipt of such notice to elect to recapture the Subleased Premises and terminate this Sublease or to consent to the assignment of this Sublease or the sublease of the Subleased Premises, which consent shall not be unreasonably withheld, providing the proposed assignee or sub-subtenant is financially responsible in the reasonable judgment of Sublandlord, and shall assume in writing the terms and conditions of this Sublease on the part of the Subtenant to be performed. In connection with any permitted assignment or subletting, the Subtenant shall be entitled to retain any increment in rent or other consideration received by Subtenant per square foot per annum over the annual rent as in effect hereunder from time-to-time.

13.2 Permitted Assignments. Notwithstanding anything herein to the contrary. Sublandlord's consent shall not be required and the terms and conditions of Section 13.1 shall not apply as to Sublandlord's right of first refusal to recapture the Subleased Premises if Subtenant assigns this Sublease or subleases the Subleased Premises to a parent, subsidiary, affiliate or a company into which Subtenant is merged or with which Subtenant is consolidated, or to the purchaser of all or substantially all of the assets of Subtenant.

13.3

No Release. In the event of any assignment or subletting permitted by the Sublandlord, the Subtenant shall remain and be directly and primarily responsible for payment and performance of this Sublease's obligations, and the Sublandlord reserves the right, at all times, to require and demand that the Subtenant pay and perform the terms and conditions of this Sublease. No such assignment or subletting shall be made to any Subtenant who shall occupy the Subleased Premises for any use other than that which is permitted to the Subtenant, or for any use which may be deemed disreputable or extra hazardous, or which would in any way violate applicable laws, ordinances or rules and regulations of governmental boards and bodies having jurisdiction.

13.4 Occupancy Agreement. Notwithstanding anything herein to the contrary, the short-term use of space within the Subleased Premises by customers, vendors and suppliers shall not be considered a sublease hereunder and shall not require Sublandlord's consent as provided herein. For purposes of this Section 13.4, "short term use" shall mean thirty (30) or less consecutive days.

SECTION 14. FIRE AND CASUALTY; CONDEMNATION.

14.1 Total Destruction. If the Subleased Premises, or any portion of the Subleased Premises, are damaged or destroyed by any cause whatsoever, such that the Master Lease is terminated, this Sublease shall terminate immediately upon termination of the Master Lease. Rent and any other payments for which Subtenant is liable shall be apportioned and paid to the date of such damage or destruction, and Subtenant shall promptly deliver possession of the Subleased Premises to Sublandlord. Notwithstanding anything herein or in the Master Lease to the contrary, Sublandlord shall notify Subtenant of the termination of the Master Lease not less than thirty (30) days after the occurrence of the damage or destruction.

14.2 Partial Destruction. If all or any portion of the Subleased Premises is damaged or destroyed by any cause whatsoever, and such damage or destruction is not significant enough to cause a termination of the Master Lease, Sublandlord agrees, subject to Section 14 of the Master Lease, to use good faith efforts to cause Master Landlord to repair such damage. Rent shall be proportionately abated during the period of restoration. In addition, if the repairs to the Subleased Premises are not completed within one hundred twenty (120) days following the date of the damage or destruction, Subtenant shall be entitled to terminate this Sublease by written notice to Sublandlord at any time before such restoration has been completed.

14.3 Condemnation. Upon any taking by condemnation or other eminent domain proceeding of all or a portion of the Subleased Premises which results in the termination of the Master Lease, this Sublease shall terminate concurrently with the Master Lease. As between Sublandlord and Subtenant, any awards or damages payable as a result of such taking by condemnation or other eminent domain proceeding shall be the sole property of Sublandlord, and Subtenant shall have no claim to any part of such awards or damages.

SECTION 15. COMPLIANCE WITH LAWS. Subtenant and Sublandlord shall comply with all laws applicable to the Building and Subleased Premises.

SECTION 16. DEFAULT BY SUBTENANT. In the event that Subtenant shall be in default under any covenant, or shall fail to honor any term, agreement, condition or obligation under this Sublease or the Master Lease as incorporated herein, if such default or failure shall continue uncured beyond the notice and cure period set forth in the Master Lease, Sublandlord shall have available to it all of the remedies available to Landlord under the Master Lease in the event of a like default or failure on the part of the tenant thereunder. Sublandlord hereby waives and shall not have any lien for rents against the assets or property of Subtenant, and agrees to execute and deliver to Subtenant on request such documents as may reasonably be required to evidence and/or confirm such waiver. In no event shall Subtenant be liable for consequential, punitive or speculative damages. In the event that Sublandlord shall default in the payment or performance of any of its obligations under this Sublease, Subtenant shall be entitled to exercise all remedies available at law or in equity and any provision contained in the Master Lease limiting the Master Landlord's liability to its interest in the Building or otherwise shall not be applicable to or benefit Sublandlord.

SECTION 17. NOTICES. All notices required or permitted to be given to the Sublandlord shall be given by certified mail, return receipt requested, at the address herein before set forth on the first page of this sublease, and/or such other place as the Sublandlord may designate in writing. A copy of said notice shall be sent by certified mail to the Sublandlord at Continental Resources, Inc., 175 Middlesex Turnpike, Bedford, Massachusetts 01730, Attention: James M. Bunt. All notices required or permitted to be given to the Subtenant shall be given by certified mail, return receipt requested, at the address herein before set forth on the first page of this sublease, and to AI Logix, Inc., 27 Worlds Fair Drive, Somerset, New Jersey 08873, Attention: Mark Ringel, Vice President, Finance and Administration, and/or such other place as the Subtenant shall de signate in writing.

SECTION 18. SUBTENANT'S RIGHT TO MAKE ALTERATIONS AND IMPROVEMENTS. Except for minor alterations that do not include the structural elements, common areas or service systems of the Building, or painting and carpeting within the Subleased Premises which have a cost of not more than Ten Thousand Dollars ($10,000) in each instance (which shall not require the consent of Sublandlord hereunder), Subtenant may not make alterations, additions or improvements to the Subleased Premises without the prior written consent of Sublandlord or Master Landlord, which consent shall not be unreasonably withheld, conditioned or delayed, provided such alterations, additions or improvements do not require structural changes in the Subleased Premises, or do not lessen the fair market value of the Subleased Premises or the Building. Any consent which Sublandlord may give shall be reasonably co nditioned upon Subtenant furnishing to Sublandlord, detailed plans and specifications (to the extent that their preparation is customary) with respect to any such changes, to be approved by Sublandlord in writing. As a condition of such consent, Sublandlord reserves the right to require Subtenant to remove, at Subtenant's sole cost and expense any such alterations or additions upon the surrender of the Subleased Premises on the Subleased Termination Date. If Sublandlord does not require such removal, it shall so indicate in writing at the time of the consent and any such alterations or additions shall be deemed to be part of the realty upon installation, provided that Subtenant, at its option, shall have the right to remove the same, provided it shall be responsible to repair any damage (reasonable wear and tear excepted) to the Subleased Premises or the Building occasioned by such removal, provided such removal is made prior to the expiration of the Term. All such alterations, additions or improvements shall he only in conformity with applicable governmental requirements applicable to the Subleased Premises. Subtenant shall hold and save Sublandlord harmless and indemnify Sublandlord against any claim for damage or injury in connection with any of the foregoing work which Subtenant may make as hereinabove provided.

SECTION 19. NON- LIABILITY OF SUBLANDLORD.

19.1 Assumption of Risk. It is expressly understood and agreed by and between the parties to this agreement that the Subtenant shall assume all risk of damage to its property, equipment and fixtures occurring in or about the Subleased Premises, whatever the cause of such damage unless due to the willful or negligent act or omission of Sublandlord or Master Landlord.

19.2 No Liability. It is expressly understood and agreed that the Sublandlord shall not be liable for any damage or injury to property or person caused by or resulting from steam, electricity, gas, water, rain, ice or snow, or any leak or flow from or into any part of the Building, or from any damage or injury resulting or arising from any other cause or happening whatsoever unless due to the willful or negligent act or omission of Sublandlord or Master Landlord.

SECTION 20. WARRANTY OF TITLE. Sublandlord represents that it has the full right, capacity and authority to enter into this Agreement, subject to the approval of the Master Landlord as set forth in the Master Lease.

SECTION 21. AIR, GROUND AND WATER POLLUTION AND ENVIRON-MENTAL REPRESENTATIONS. Sublandlord represents, warrants and covenants to Subtenant that Sublandlord has not caused or permitted the Subleased Premises, the Building, or any other structures and other improvements on the land underlying the Building and any common areas (all such buildings, structures and improvements being hereinafter referred to collectively as the "Project Improvements") or the land underlying the Building, to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce, or process asbestos, asbestos containing materials, PCB's or any other hazardous substances or hazardous materials or any other dangerous or toxic substances, or solid waste, except in compliance with all applicable federal, state and local laws or regulations, and Sublandlord has not caused or permitted and has no knowledge of the presence of or of a release or threatened release of any hazardous substances, or solid waste, except in compliance with all applicable federal, state and local laws or regulations, and Sublandlord has not caused or permitted and has no knowledge of the presence of or of a release or threatened release of any hazardous substances or hazardous materials at, on, from or under the Premises, the Building or any other land underlying the Building or at, on, from, under or off of any other property affecting, or impacting the Building in any way.

(a) Sublandlord hereby agrees to indemnify and hold harmless Subtenant, its shareholders, directors, employees, customers, successors and assigns, from and against and in respect of, any and all damages, claims, losses, liabilities and expenses, including without limitation, court costs and reasonable legal, accounting, consulting, engineering and other expenses, which may be imposed upon or incurred by Subtenant, its shareholders, directors, employees, customers, successors or assigns, or asserted against Subtenant, its shareholders, directors, employees, customers, successors or assigns, by any other party or parties (including, without limitation, a governmental entity), arising out of or in connection with any environmental contamination or pollution in or about the Premises, the Building or the land underlying the Building arising out of or in connection with any inaccuracy in the representation and warranty set forth above, including, without limitation, the exposure of any person to any such environmental contamination or pollution regardless of whether such environmental contamination or, pollution resulted from activities of Sublandlord or Sublandlord's predecessors in interest or any other Subtenant or occupant of the Building or for such land. This indemnity shall survive the expiration or termination of the Term.

(b) If during the Term Subtenant shall determine that there is any inaccuracy in the representation and warranty of Sublandlord set forth above and that such inaccuracy may result in the risk of damage to the health or safety of Subtenant many of its employees or customers or any other damage to Subtenant, Subtenant shall have the right, upon not less than ninety (90) days prior written notice to Sublandlord, to terminate the term of the Lease and all of Subtenant's duties and obligations under the Lease unless during such ninety (90) day period Sublandlord removes all such hazardous materials or substances and cleans up the Building, Subleased Premises, and/or such land, as the case may be, such that risk of such damage to Subtenant, its employees and customers is eliminated.

(c) Subtenant expressly covenants and agrees to indemnify, defend and save the Master Landlord and the Sublandlord harmless against any claim, damage, liability, costs, penalties, of fines which the Sublandlord may suffer as a result of air, ground or water pollution caused by Subtenant in its use of the Subleased Premises. The Subtenant covenants and agrees to notify the Sublandlord immediately of any claim or notice served upon it with respect to any such claim that Subtenant is causing water, ground or air pollution; and Subtenant, in any event, will take immediate steps to halt, remedy or cure any pollution of air, ground or air water caused by Subtenant by its use of the Subleased Premises. This covenant shall survive the Sublease Termination Date or earlier expiration of this Agreement for a period of one (1) year after termination.

SECTION 22. FORCE MAJEURE. The period of time during which the Sublandlord or Subtenant is prevented from performing any act required to be performed under this sublease by reason of fire, catastrophe, strikes, lockouts, civil commotion, acts of God or the public enemy, government prohibitions or preemptions, embargoes, inability to obtain material or labor by reason of governmental regulations or prohibitions, the act or default of the other party, or other events beyond the reasonable control of Sublandlord or Subtenant, as the case may be, shall be added to the time for performance of such act.

SECTION 23. QUIET ENJOYMENT. Sublandlord further covenants that the Subtenant, on paying the rent and performing the covenants and conditions contained in this Sublease, shall and may peaceably and quietly have, hold and enjoy the Subleased Premises for the term aforesaid. Master Landlord and Sublandlord shall guarantee that any present or future mortgage, ground, lessor or superior estate will enter into a non-disturbance agreement with Subtenant in reasonable form and content.

SECTION 24.

SURRENDER OF SUBLEASED PREMISES. On the Sublease Termination Date, Subtenant shall quit and surrender the Subleased Premises in good and orderly condition and repair (reasonable wear and tear, and damage by fire or other casualty excepted) and shall deliver and surrender the Subleased Premises to the Sublandlord peaceably, together with all alterations, additions and improvements in, to or on the Subleased Premises made by Subtenant as permitted under the Sublease. The Sublandlord reserves the right, however, to require the Subtenant at its cost and expense to remove any alterations or improvements installed by the Subtenant and not permitted or consented to by the Sublandlord pursuant to the terms and conditions of this Agreement, so as to restore the Subleased Premises to the condition found at the inception of the Term, which covenant by Subtenant shall s urvive the surrender and the delivery of the Subleased Premises as provided hereunder. Prior to the expiration of the Term, Subtenant shall remove all of its property, fixtures, equipment and trade fixtures from the Subleased Premises. All property not removed by Subtenant shall be deemed abandoned by Subtenant, and Sublandlord reserves the right to charge the reasonable cost of such removal to Subtenant, which obligation shall survive the sublease termination and surrender herein above provided. If the Subleased Premises is not surrendered at the end of the Term, Subtenant shall indemnity Sublandlord against loss or liability resulting from delay by Subtenant in surrendering the Subleased Premises, including, without limitation any claims made by any succeeding Subtenant founded on the delay.

SECTION 25. MUTUAL INDEMNITY. Subtenant Indemnity. Without limiting the Subtenant's obligation to provide insurance pursuant to Section 9 hereof, the Subtenant covenants and agrees that it will indemnify, defend and save harmless the Master Landlord and the Sublandlord against and from all liabilities, obligations, damages, penalties, claims, costs, charges and expenses, including without limitation reasonable attorneys' fees, which may be imposed upon or incurred by Sublandlord or Master Landlord by reason of any of the following occurring during the Term of this Agreement except to the extent caused by the negligence or willful misconduct of Master Landlord or Sublandlord:

(i) Negligence on the part of the Subtenant or any of its agents, contractors, servants, employees, licensees or invitees;

(ii) Any accident, injury, damage to any person or property occurring in or about the Subleased Premises resulting from Subtenant's occupancy thereof; or

(iii) Any failure on the part of Subtenant to perform or comply with any of the covenants, agreements, terms or conditions contained in this Sublease on its part to be performed or complied with.

The foregoing shall not require indemnity by Subtenant in the event of damage or injury occasioned by the negligence or acts of commission or omission of the Sublandlord, its agents, servants or employees. Sublandlord shall promptly notify Subtenant of any such claim asserted against it and shall promptly send to Subtenant copies of all papers or legal process served upon it in connection with any notion or proceeding brought against Sublandlord by reason of any such claim.

(b) Sublandlord Indemnity. Without limiting the Sublandlord's obligation to provide insurance pursuant to Section 9 hereof, Sublandlord shall indemnify, defend and save harmless the Subtenant against and from all liabilities, obligations, damages, penalties, claims, costs, charges and expenses, including without limitation reasonable attorneys' fees, which may be imposed upon or incurred by Subtenant by reason of any of the following occurring during the Term except to the extent caused by the negligence or willful misconduct of Subtenant:

(i) Negligence on the part of Sublandlord or any of its agents, contractors, servants, employees, licensees or invitees;

(ii) Any accident, injury, damage to any person or property occurring in or about the Subleased Premises or the Building resulting from Sublandlord's management or occupancy thereof; or

(iii) Any failure on the part of Sublandlord or Master Landlord to perform or comply with any of the covenants, agreements, terms or conditions contained in this Sublease on their respective parts to be performed or complied with.

The foregoing shall not require indemnity by Subtenant in the event of damage or injury occasioned by the negligence or acts of commission or omission of Subtenant, its agents, servants or employees. Subtenant shall promptly notify Sublandlord of any such claim asserted against it and shall promptly send to Sublandlord copies of all papers or legal process served upon it in connection with any action or proceeding brought against Subtenant by reason of any such claim.

SECTION 26. SUBLEASE CONSTRUCTION. This Agreement shall be construed pursuant to and in accordance with the laws of the State of New Jersey. Each party hereto consents to the exclusive jurisdiction of New Jersey state courts and the federal courts located in New Jersey. Sublandlord and Subtenant understand, agree and acknowledge that (i) this sublease has been freely negotiated by both parties, (ii) that, in the event of any controversy, dispute or contest over the meaning, interpretation, validity or enforceability of this Sublease or any of its terms or conditions, there shall be no inference, presumption or conclusion drawn whatsoever against either party by virtue of that party having drafted this Sublease or any portion thereof.

SECTION 27. BIND AND INURE CLAUSE. This Sublease sets forth tits complete agreement between Sublandlord and Subtenant regarding the subject matter of this Sublease. This Sublease may not be amended or modified in any respect except by an agreement in writing executed by both parties hereto. The terms, covenants and conditions of this Sublease shall be binding upon and inure to the benefit of each of the parties hereto, their respective, executors, administrators, heirs, successors and assigns, as the case may be.

SECTION 28. NO TERMINATION. Sublandlord shall not take any action to terminate the Master Lease or fail to take any action that would permit Master Landlord to terminate the Master Lease.

SECTION 29. ATTORNEYS FEES AND COSTS OF ENFORCEMENT. If either party to this Sublease commences an action to enforce any of the provisions of this Sublease, the prevailing party in such action shall be entitled to collect all of the costs or such action (including, without limitation, attorneys fees and court costs) from the other party.

SECTION 30. COVENANT AGAINST LIENS. Subtenant agrees that it shall not knowingly encumber or suffer or permit to be encumbered, the Subleased Premises or the fee thereof by any lien, charge or encumbrance, and Subtenant shall have no authority to mortgage or hypothecate this Agreement or the estate hereby granted in any way whatsoever. The violations of this Section shall be considered a breach of this Agreement if Subtenant fails to hand over or otherwise satisfy any such lien within fifteen (15) days after written notice from Sublandlord.

SECTION 31. BROKERAGE. In connection with this Agreement, the Sublandlord has agreed to pay Richard Ellis Real Estate Services, Inc. and Acclaim Group LLC, a brokerage commission as follows: fifty percent (50%) upon the execution of said Agreement and the balance upon occupancy in Subleased Premises by Subtenant, and otherwise in accordance with the terms of a separate commission agreement. The parties hereto warrant that no other real estate broker has been commissioned in connection with this Sublease. Sublandlord shall indemnify and hold Subtenant harmless from and against any and all loss, cost, damage, claim, liability and expense (including reasonable legal fees and disbursements) which Subtenant may sustain or which may be asserted against Subtenant by reason of a claim for real estate commission or other compensation by any other person, firm or corporat ion with whom Sublandlord has or is alleged to have dealt in connection with this Sublease or the Subleased Premises.

SECTION 32. RESERVED PARKING. The parking ratio at the Building is 5 cars per 1,000 rentable square feet leased. Subtenant shall be provided 12 reserved spaces on the WEST AND EAST side of the Building in the location shown on Exhibit "F" hereto. Eight (8) reserved visitor parking spaces for the entire building shall be designated in the front of the Building as presently located. The entire parking area and access driveways will be for the mutual use and benefit of the Sublandlord and Subtenant hereunder, and/or the Sublandlord's other Subtenants in the building. The parties agree that they will not permit the access driveways to be blocked so as to unreasonably interfere with the use of said access driveways and parking area.

SECTION 33. OPTION TO RENEW.

33.1 Option. Upon the expiration of the Initial Term, Sublessee may renew the initial Term for two (2) renewal term(s) of five (5) years each, commencing on the day after the Sublease Termination Date or the expiration of the first Renewal Term (as the case may be) and expiring on, unless sooner terminated pursuant to filly provision herein (each, a "Renewal Term"). Subtenant may exercise its option to renew the Initial Term by giving Sublessor written notice of Subtenant's intent to renew on or before. The Renewal Term shall be on the sane terms and conditions set forth herein, except that Base Rent shall be at the Base Rent set forth in Section 33.2 below (the Initial Term and any Renewal Term are hereinafter collectively referred to as the "Term").

33.2 Renewal Rent. During any Renewal Term, Subtenant shall pay to Sublandlord Base Rent for the Subleased Premises at the then-current fair market rental rate for comparable space in Somerset County, New Jersey, as reasonably determined by Sublandlord and Subtenant in their joint discretion within ten (10) clays after any exercise of the renewal option in this Section 33 1.

33.3 Arbitration. In the event that Sublandlord and Subtenant are unable to agree upon the fair market rent in accordance with Section 33.2 hereof, the Sublandlord and Subtenant may submit determination of fair market value rent to arbitration as provided herein. Within the first five (5) days after receipt of written notice Subtenant's election to submit the determination of fair market rental value to appraisal, Sublandlord and Subtenant shall each provide the other with the name and respective qualifications of an appraiser who meets the "Appraiser Qualifications" (as set forth below), and those two appraisers, within five (5) additional days after their appointments, shall select a third appraiser who meets the Appraiser Qualifications. The parties shall share equally the cost of the appraisers. Within three (3) days following the selection o f the appraisers, Sublandlord and Subtenant shall each notify the other and the appraisers, in writing, or their determination of the fair market rental value. Within ten (10) days thereafter, the appraisers shall decide in writing whether Sublandlord's or Subtenant's determination of the fair market rental value is more correct and shall state in detail the reasons therefor, and the determination of the fair market rental value which the appraisers decide to be the more correct shall be the fair market rental value during the Renewal Term for purposes of this Sublease. The appraisers shall be empowered to choose only between Sublandlord's and Subtenant's determination, and shall reach no other or compromise decision. As used herein, "Appraiser Qualifications" shall mean a commercial real estate broker not previously employed by Sublandlord or Subtenant with experience in commercial office leases, including at least ten (10) years experience in leasing commercial pr operties in the immediate vicinity of the building in the Somerset County, New Jersey market. Following the final determination of fair market value as determined by the appraiser, Subtenant shall have the right to withdraw the exercise of the renewal option provided herein by written notice to Sublandlord delivered not later than the (10) days after written notice of the final determination of the appraisers in which event the Initial Term or then current Renewal Term shall terminate upon the Sublease Termination Date.

SECTION 34. SECURITY. As part of this Agreement Subtenant agrees to maintain a security deposit in the amount of Twenty Two Thousand Four Hundred Seventy Two and 54/100 Dollars ($22,472.54) with Sublandlord (the "Security Deposit"). Sublandlord shall maintain the Security Deposit in an account segregated from other funds of Sublandlord. If Subtenant defaults with respect to any provision of this Sublease and such default is not cured during the notice and cure period set forth herein, Sublandlord may use, apply or retain all or any portion of this Security Deposit to the extent necessary to remedy such default. If any portion of said Security Deposit is so used or applied, Subtenant shall, within thirty (30) days after demand therefore, deposit cash with Sublandlord in an amount sufficient to restore the Security Deposit to its original amount, and Subtenant's failure to do so shall be a material breach of this Sublease. The Security Deposit or any balance thereof wall be returned to Subtenant within thirty (30) days of the Expiration Date.

SECTION 35. **RELATIONSHIP BETWEEN MASTER LEASE AND SUBLEASE**. Except as herein otherwise expressly provided, all of the terms of the Master Lease as they pertain to the Subleased Premises are hereby incorporated into and made a part of this Agreement as if stated herein at length, and Subtenant accepts this Agreement subject to, and hereby assumes all of the terns, covenants, conditions and agreements contained in the Master Lease with respect to the Subleased Premises, to be performed by Sublandlord hereunder; provided, however, that the following sections of the Master Lease shall not be incorporated into this Sublease: Sections 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 16, 17, 18, 21, 24, 25, and Schedule B. The parties hereto agree that subject to the provisions of this Agreement, wherever the words "Premises" or words of similar import appear in the Master Lease, the same shall be deemed to mean the "Subleased Premises" and wherever the words "Landlord" and "Tenant" appear in the Master Lease, the words shall be deemed to refer to "Sublandlord" and "Subtenant" hereunder, so that subject to the express provisions of this Agreement to the contrary, and with respect only to the Subleased Premises, Sublandlord shall have the rights and powers of Master Landlord under the Master Lease, and Subtenant shall have and does hereby agree to be bound by and accepts all the rights and powers, duties aid obligations of the Sublandlord (as Tenant) under the Master Lease. Sublandlord and Subtenant covenant and agree that neither shall do anything which shall have the effect of creating a breach of any of the terms, covenants and conditions of the Master Lease. To the extent applicable to the Subleased Premises, Subtenant shall have the benefit of each and every covenant and agreement made by the Master Landlord to Sublandlord under the Master Lease, except as otherwise set forth herein. Sublandlord hereby agrees to cooperate with and execute, all at Subtenant's expense, all instruments and supply information reasonably required by Subtenant in order to enforce such compliance. Sublandlord hereby grants to Subtenant the right to proceed in its own name directly against Master Landlord under the Master Lease. Sublandlord represents that no specific provisions in this Sublease is in conflict with a provision in the Master Lease. In the event of any conflict between the provisions of the Master Lease and the provisions of this Sublease, the provisions of this Sublease shall control and be binding upon the parties hereto.

SECTION 36. **AMERICANS WITH DISABILITIES ACT**. In furtherance of the terms and conditions of this Sublease, Sublandlord agrees to complete all of Sublandlord's Work in compliance with the requirements of the Americans with Disabilities Act (as such act may be amended from time to time, the "ADA"). Sublandlord warrants that the Building common areas and parking areas serving the Building shall not violate the ADA requirements on the date of substantial completion of the Subleased Premises. Following substantial completion of Sublandlord's Work, any ADA amendments requiring alterations to the Subleased Premises shall be the sole cost and responsibility of Subtenant unless, Sublandlord was actually or constructively aware of said amendments and constructed the Subleased Premises not in conformity therewith. In no event shall Subtenant bear any res ponsibility or cost for alterations to any and all areas outside the Subleased Premises as required by ADA and in such case(s) it shall be the sole cost and responsibility of Sublandlord. Both parties agree to indemnify and hold each other harmless from and against any and all claims, damages including but not limited to, reasonable attorney's fees, costs, fines or penalties which either party incurs as a result of either party's failure to abide by such ADA requirements. Both parties further agree to inform each other in writing as soon as is reasonably possible in the event they are actually notified of any noncompliance with the provisions of the ADA.

SECTION 37. **MOVING EXPENSE REIMBURSEMENT**. Subtenant shall arrange with a reputable moving company selected from the lowest amongst three qualified bidders chosen by Subtenant in its sole discretion (the "Moving Company") the move from 53 Howard Avenue, Somerset, New Jersey to 27 Worlds Fair Drive, Somerset, New Jersey. Sublandlord shall reimburse the Subtenant for the costs of the Moving Company incurred by Subtenant for relocating to the Subleased Premises. Sublandlord will reimburse the Subtenant costs of the Moving Company within ten (10) days after receipt of an invoice therefore.

IN WRITTEN WHEREOF, the parties have hereunto set their hands and seals or caused these presents to be signed by its proper corporate officers and caused its proper corporate seal to be hereunto affixed, the day and year first above written.

ATTEST: **CONTINENTAL RESOURCES, INC.**

Robert L. Hill By: /s/ James M. Bunt Name: James M. Bunt Title: Chief Financial Officer

ATTEST: **AL-LOGIX, INC.**

_____ By: /s/ John R. Gengher Name: John R. Gengher Title: Vice President

.

CONSENT TO SUBLEASE

The undersigned ("Landlord"), being "Landlord" under that certain Lease Agreement by and between Landlord and Continental Resources, Inc. ("Tenant") dated January 1, 2001 (as amended and restated from time-to-time, the "Lease") for that certain office building located at 27 Worlds Fair Drive, Somerset, New Jersey, does hereby consent to a sublease from Tenant to AI-Logix, Inc. ("Subtenant") without waiver of any restriction in the Lease concerning further assignment or subletting; provided, however, that (i) Tenant shall remain primarily liable on the Lease for the entire Lease term and is in no way released from the full and complete performance of all the terms, conditions, covenants and agreements contained in the Lease, (ii) except as set forth in this Consent to Sublease, Landlord is not bound by any o f the terms, covenants and provisions of the Sublease and, except for approval of the entering into of the Sublease itself and of the Sublease to Subtenant thereunder, does not hereby consent to or approve any matters which are contemplated by the Sublease and which are subject to Landlord's further consent or approval under the provisions of the Lease, and (iii) except as set forth in this Consent to Sublease, in the event of any inconsistencies between the Lease and the Sublease, the provisions of the Lease shall be controlling as between Landlord and Tenant. Notwithstanding any provision contained in this Consent to Sublease or the Lease to the contrary, Landlord hereby agrees as follows: (a) Landlord and Sublandlord are under common control and share an identity of interests; (b) any consent by Sublandlord granted to Subtenant shall be binding upon Landlord, and Subtenant shall be entitled to rely thereon; (e) Landlord shall not enter into any modification or amendment to the Lease or alter its busi ness practices so as to increase the obligations of the Tenant under the Lease: (d) Landlord consents to and approves Subtenant's rise of the Subleased Premises as described in Paragraph 5 of the Sublease; (e) Landlord consents to and approves the Sublandlord's Work attached hereto and made a part hereof; (f) Landlord consents to and approves the assignment of the Sublease and/or sublease of the Subleased Premises to a transferee permitted under Section 13 of the Sublease; (d) Landlord hereby waives and shall not have any lien for rents against the assets or property of Subtenant, and agrees to execute and deliver to Subtenant on request such documents as may reasonably be required to evidence and/or confirm such waiver; (e) Landlord agrees to perform for the benefit of Subtenant with respect to the Subleased Premises all of Landlord's obligations under the Lease in the same manner as if Subtenant were the Tenant named in the Lease; (f) in the event that the Lease is terminated b y reason of Tenant's default thereunder, Landlord shall recognize Subtenant: as the direct tenant under the Lease, as modified by the terms of the Sublease, and Subtenant shall attorn to Landlord, and (g) Landlord shall furnish to Subtenant a subordination, non-disturbance and attornment agreement from any holder of a mortgage encumbering the Building and underlying in form and substance reasonably satisfactory to all parties, providing that Subtenant's possession. use and enjoyment of the Subleased Premises shall not be disturbed in the event of a foreclosure or other exercise of remedies by the holder of such mortgage. Landlord represents and warrants that there is no default under the Lease, and the Lease is in full force and effect.

IN WITNESS WHEREOF, Landlord has executed this Consent to Sublease on this _____ day of December, 2003.

Witnesses as to Landlord: LANDLORD:

_____ ELLSWORTH TRUST,
Signature a Massachusetts Trust

_____ By:_____
Print Name:

Title:_____

_____
Signature

_____
Print Name:

LIST OF EXHIBITS

Exhibit “A” – Master Lease

Exhibit “B” – Subleased Premises

Exhibit “B-1” – Initial Subleased Premises

Exhibit “B-2” – Swing Space

Exhibit “C” – Preliminary Plans

Exhibit “D” – Sublandlord’s Building Standard Improvements

Exhibit “E” – Janitorial Services

Exhibit “F” – Reserved Parking

EXHIBIT A

L E A S E A G R E E M E N T

BY AND BETWEEN:

ELLSWORTH TRUST,
a Massachusetts Trust,

“LANDLORD”

-and-

CONTINENTAL RESOURCES, INC.,
a Massachusetts Corporation

“Tenant”

PREMISES: 27 Worlds Fair Drive
Franklin Township, Somerset, New Jersey

DATED: January 1, 2001

TABLE OF /CONTENTS

THIS LEASE AGREEMENT, made the 1st day of January, 2001, by and between ELLSWORTH TRUST, a Massachusetts trust, having an office at One Thistle Lane, Westford, Massachusetts 01886, hereinafter called the “Landlord”; and CONTINENTAL RESOURCES, INC., a Massachusetts corporation, having an office at 175 Middlesex Turnpike, Bedford, Massachusetts 01730, hereinafter called the “Tenant”.

W I T N E S S E T H:

WHEREAS, the Landlord is lessee of certain lands and premises in Franklin Township, Somerset, State of New Jersey, which said lands and premises are commonly known as 27 Worlds Fair Drive.

WHEREAS, the Landlord owns a two-story office-warehouse building containing approximately 60,000 square feet, hereinafter called the “building”, on the lands and premises aforementioned, of which building which the tenant shall lease, outside dimensions to center line of common wall (hereinafter called the “leased premises”, all in accordance with the terms and conditions hereinafter mentioned and the considerations herein expressed.

NOW, THEREFORE, KNOW ALL MEN BY THESE PRESENTS, that for the rents reserved, the mutual considerations herein and the parties mutually intending to be legally bound hereby, the Landlord does demise, sublease and let unto the Tenant and the Tenant does rent and take from the Landlord the leased premises as described in section 1, and the Landlord and Tenant do hereby mutually covenant and agree as follow:

SECTION 38. LEASED PREMISES.

The entire premises, located at 27 Worlds Fair Drive, Somerset NJ which consists of 60,000 gross rentable square feet of the building.

SECTION 39. TERM OF SUBLEASE.

39.1 The Landlord subleases unto the said Tenant and the Tenant hires the leased premises for the term, of twenty five (25) years, to commence on or about January 1, 2001 and to end on the 31st day of December, 2025.

39.2 The Tenant shall have the option to renew for an additional ten (10) years based upon the fair market value at the time of such renewal. The lease will automatically renew at the time of expiration in the absence of a written notification by the tenant to the landlord.

SECTION 40. BASE RENT.

40.1 During the lease, the Tenant covenants and agrees to pay a monthly rent of sixty five thousand dollars and 00/100 ($65,000.00).

40.1.1 At the beginning of each calendar year, the Landlord reserves the right to adjust the "Base Rent" based upon the change in the Consumer's price index. Such change shall be based upon the difference between the Current Price Index and the Base Year 2000 Index.

40.2 Except where Tenant exercises its right of set-off as set forth herein, any installment of rent accruing hereunder and any other sum payable hereunder by Tenant to Landlord which is not received by Landlord on or before the tenth (10^{th}) day of any lease month shall require payment by Tenant of a late charge of five ($.05) cents for each dollar of rental payment required, which payment shall be made in such event by Tenant with the required payment of rent, if late, and which payment in any event shall be made by Tenant upon demand if not otherwise theretofore paid.

40.3 Except where Tenant exercises its right of set-off as set forth herein, Tenant covenants and agrees that in the event of any material dispute with respect to the within sublease, its obligation to pay the rent shall continue without abatement notwithstanding any such dispute, and the Tenant agrees that it shall seek such remedies as the law may allow by way of plenary proceedings with respect to such issues in dispute.

SECTION 41. CONDITION OF PREMISES.

Tenant shall occupy leased premises as is at the start of this lease.

SECTION 42. USE.

The Tenant covenants and agrees to use and occupy the leased premises for general administration and sales office purposes only, which use by Tenant, however, is and shall be expressly subject to all applicable zoning ordinances, rules and regulations of any governmental boards or bureaus having jurisdiction thereof.

SECTION 43. REPAIRS AND MAINTENANCE.

43.1 The Landlord shall, at its sole cost and expense, make all repairs to the exterior bearing walls, foundation and roof of the leased premises which are considered to be capital improvements and, provided that any damage to the foregoing is not caused by the negligence of the Tenant, its servants, employees, invitees or agents, in which case said damage shall be repaired at the sole cost of the Tenant.

43.2 The Tenant shall, at its own cost and expense, take good care of and maintain and repair the lawns, shrubbery, driveway, sidewalks, entranceways, foyers, curbs and parking area on the property, snow removal and the maintenance and repair of all common areas of the building and property of which the premises are a part, including but not limited to the HVAC Systems.

43.3 Tenant agrees to keep the leased premises in as good repair as they are at the beginning of the term, reasonable use and wear thereof and damage by fire or other event not caused by Tenant excepted. Tenant further agrees not to damage, overload, deface or commit waste of the leased premises. Tenant shall be responsible for all damage of any kind or character to the leased premises, including the windows, glass, floors, walls and ceilings, caused by Tenant or by anyone using or occupying the leased premises by, through or under the Tenant. Landlord shall repair the same, and Tenant agrees to pay the reasonable costs incurred therefor to Landlord upon demand. Anything herein above contained to the contrary notwithstanding, it is expressly understood and agreed that the Tenant shall, at its sole cost and expense, be responsible for the repair, maintenance and replacement of any items i nstalled by Landlord for Tenant's use as leasehold improvements over and above the improvements furnished by Landlord, as part of Landlord's Work.

43.3.1 Anything herein above contained to the contrary notwithstanding, Tenant shall, at its own cost and expense, replace all light bulbs, fluorescent fixtures and ballasts and other lighting fixtures.

SECTION 44. TENANT'S SERVICES.

44.1 Anything herein contained to the contrary notwithstanding, it is expressly understood and agreed that Tenant shall be responsible for the full cost of all utilities, including water, sewer and electric service delivered to the premises in connection with the lighting and office equipment requirements.

SECTION 45. ADJUSTMENT OF RENTS.

45.1 For all purposes hereof:

The Tenant shall be responsible for the operating expenses of the complex, including but not limited to the real estate taxes assessed by the Township of Franklin.

(a) "Tenant's Proportionate Share" for all lease purposes shall be 100%.

SECTION 46. INSURANCE.

46.1 The Landlord will subject to the provisions of Section 8 hereof, obtain for the benefit of the Landlord, when the Landlord shall be the named insured, fire insurance with full extended coverage, as set forth in Section 6.1 of the Lease.

46.2 The Tenant covenants and agrees that it will, at its sole cost and expense, carry liability insurance covering the leased premises in the minimum amount of ONE MILLION ($1,000,000.00) DOLLARS per accident for one (1) person, THREE MILLION $3,000,000.00) DOLLARS per accident for (2) or more persons, and a minimum amount of TWO HUNDRED FIFTY THOUSAND (250,000.00) DOLLARS for property damage, and Tenant further covenants and agrees that it will add the Landlord as additional insureds and Tenant will furnish Landlord with a certificate of said liability insurance.

46.3 It is expressly understood and agreed that all policies of insurance shall contain a clause that the same shall not be canceled except on ten (10) days' written notice to any and all parties in interest.

46.4 The parties hereto mutually covenant and agree that each party, in connection with insurance policies required to be furnished in accordance with the terms and conditions of this sublease, or in connection with insurance policies which they obtain insuring such insurable interest as Landlord or Tenant may have in its own properties, whether personal or real, shall expressly waive any right of subrogation on the part of the insurer against the Landlord or Tenant as the same may be of any such policy is hereby expressly waived, and Landlord and Tenant each mutually waive all right of recovery against each other, their agents, or employees for any loss, damage or injury of any nature whatsoever to property or person for which either party is required by this sublease to carry insurance.

SECTION 47. SIGNS.

The Tenant will be responsible for all the building signage at the leased premises.

SECTION 48. FIXTURES.

48.1 The Tenant is given the right and privilege of installing and removing property, equipment and fixtures in the leased premises during the term of the lease. However, if the Tenant is in default and moves out, or is dispossessed and fails to reprove any property, equipment and fixtures or other property within thirty (30) days after such default, dispossess or removal, then and in that event, the said property, equipment and fixtures or other property shall be deemed at the option of the Landlord to be abandoned; or in lieu thereof, at the Landlord's option, the Landlord may review such property and charge the reasonable cost and expense of removal and storage to the Tenant.

48.2 Anything to the contrary contained herein notwithstanding, it is expressly understood and agreed that the Tenant may install, connect and operate equipment as may be deemed necessary by the Tenant for its business, subject to compliance with applicable rules and regulations of governmental boards and bureaus having jurisdiction thereof. Subject to the terms and

conditions of this lease, the machinery, fixtures and equipment belonging to the Tenant shall at all times be considered and intended to be personal property of the Tenant, and not part of the realty and subject to removal by the Tenant.

SECTION 49. GLASS.

The Tenant expressly covenants and agrees to replace any broken glass in the windows of the leased premises which may become damaged or destroyed at its cost and expense due to Tenant's acts or the acts of Tenant's employees, agents, servants or invitees.

SECTION 50. ASSIGNMENT AND SUBLEASING.

50.1 For purposes of the section, the Tenant shall have the right to sublease any unoccupied space within the lease premises. Any sublease payments collected shall be to the benefit of the Tenant.

SECTION 51. FIRE AND CASUALTY.

51.1 In case of any damage to or destruction of the building by fire or other casualty occurring during the term of this sublease which is not covered by the insurance required to be carried by Section 9.1 or which cannot be repaired within one hundred eighty (180) days from the happening of such casualty, then, in such event, the term hereby created shall, at the option of either party, upon written notice to the other by certified mail, return receipt requested, within ten (10) days of such fire or casualty, cease and become null and void from the date of such destruction or damage. However, if neither party shall elect to cancel this lease within the ten (10) day period herein above provided, the Landlord shall thereupon repair and restore the leased premises with reasonable speed and dispatch, and the rent shall not be accrued after said damage or while the repairs and restorations a re being made, but shall recommence immediately after said leased premises are restored. Landlord, in any event, shall advise Tenant in writing as to whether or not the leased premises can be restored within the one hundred eighty (180) day period from the date of such casualty. In the event of cancellation in accordance with this Section, the Tenant shall immediately surrender the leased premises and the Tenant's interest in said sublease to the Landlord, and the Tenant shall only pay rent to the time of such destruction or damage, in which event, the Landlord may re-enter and repossess the leased premises thus discharged from this sublease and may remove all parties therefrom.

51.2 In the event of any other insured casualty, which shall be repairable within one hundred eighty (180) days from the happening of such damage or casualty, the Landlord shall repair and restore the leased premises with reasonable speed and dispatch, and the rent shall abate and be equitably apportioned as the case may be as to any potion of the leased premises which shall be unfit or occupancy by the Tenant, or which cannot be used by the Tenant so as to conduct its business. The rent, however, shall accrue and recommence immediately upon restoration of the leased premises.

51.3 In the event of such fire or casualty as above provided, wherein the Landlord shall rebuild, the Tenant agrees, at its cost and expense, to otherwise remove any and all of its equipment, fixtures, stock and personal property as the same may be required to permit Landlord to expedite rebuilding and/or repair. In any event, the Tenant shall assume at its sole risk the responsibility for damage or security with respect to such fixtures and equipment in the event the building area where the same may be located has been damaged, until the building shall be restored and made secure.

51.4 Anything in this Section 14 to the contrary notwithstanding, it is expressly understood and agreed that wherever reconstruction shall be undertaken, in the event of damage or casualty as in this Section 14 provided, the Landlord shall prosecute such reconstruction with reasonable speed and dispatch. In the event, however, such reconstruction or repair shall not be completed within 180 days from the date of such damage or casualty, then, in that event, the Tenant shall have the option at the expiration of the 180 days period to terminate this sublease by notice in writing by Tenant to Landlord by certified mail, return receipt requested. In the event of such termination, neither party shall thereafter have any further liability, one to the other, in accordance with the terms and conditions of the sublease. The Landlord during such period of reconstruction shall give the Tenant reason able notice at least thirty (30) days in advance of the estimated date on which the building shall be ready for re-occupancy.

SECTION 52. DEFAULT BY TENANT.

52.1 Each of the following shall be deemed a default by Tenant and breach of this lease.

(a) filing of a petition by the Tenant for adjudication as a bankrupt, or for reorganization, or for an arrangement under any federal or state statute,

(1) dissolution or asset liquidation of the Tenant,

(2) appointment of a permanent receiver or a permanent trustee of all or substantially all the property of the Tenant,

(3) making by the Tenant of an assignment for the benefit of creditors, or

(4) abandonment, desertion or vacation of the leased premises by Tenant, except such shall not be a default if Tenant is paying the rent and additional rent.

If any event mentioned in this subdivision (1) shall occur, Landlord may thereupon or at any time thereafter elect to cancel this lease by ten (10) days' notice to the Tenant, and this lease shall terminate on the day in such notice specified with the same force and effect as if that date were the date hereon fixed for the expiration of the term of the sublease.

(b) Default in the payment of the rent or additional rent herein reserved or any part thereof for a period of ten (10) days after the same is due and payable as in this sublease required.

(1) Default by the late payment of the rent or additional rent herein by a minimum of two (2) months during a twelve (12) calendar month period.

(2) Default in the performance of any other covenant or condition of this sublease on the part of the Tenant to be performed for a period of thirty (30) days after notice. For purposes of this subdivision (2) (ii) hereof; no default on the part of Tenant in performance of work required to be performed or acts to be done or conditions to be modified shall be deemed to exist if steps shall have been commenced by Tenant diligently after notice to rectify the same and shall be prosecuted to completion with reasonable diligence, subject, however, to unavoidable delays.

52.2 In case of any such default under Section 16 and at any time thereafter following the expiration of the respective grace periods above mentioned, Landlord may serve a notice upon the Tenant electing to terminate this lease upon a specified date not less than seven (7) days after the date of serving such notice and this sublease shall then expire on the date so specified as if that date has been originally fixed as the expiration date of the term herein granted; however, a default under Section 16 hereof shall be deemed waived if such default is made good before the date specified for termination in the notice or termination served on Tenant.

52.3 In case this lease shall be terminated as herein before provided, or by summary proceedings or otherwise, Landlord or its agents may, immediately or any time thereafter, re-enter and resume possession of the leased premises or such part thereof, and remove all persons and property therefrom, either by summary proceedings or by a suitable action or proceeding at law without being liable for any damages, provided any entry pursuant to the foregoing shall be in accordance with law. No re-entry by Landlord shall be deemed an acceptance of a surrender of this sublease.

52.4 In case this lease shall be terminated as hereinafter provided, or by summary proceedings or otherwise, Landlord may, in its own name and in its own behalf re-let the whole or any portion of the leased premises, for any period equal to or greater or less than the remainder of the then current term, for any sum which it may deem reasonable, to any tenant which it may deem suitable and satisfactory, and for any use and purpose which it may deem in good faith appropriate, and in connection with any such lease Landlord may make such reasonable changes in the character of the improvements on the leased premises as Landlord may determine to be appropriate or helpful in effecting such lease and may grant reasonable concession or free rent. Landlord agrees that it will take all reasonable steps to mitigate Tenant's damages. Landlord shall not in any event be required to pay Tenant any surplus of any sums received by Landlord on a reletting of the leased premises in excess of the rent reserved in this lease.

52.5 In case this lease shall be terminated by summary proceedings, or otherwise, as provided in this Section 16, and whether or not the leased premises be relet, Landlord shall be entitled to recover from the Tenant, (less all Moneys received by Landlord in re-letting the Premises as set forth in Paragraph 17.4) the following:

(1) A sum equal to all reasonable expenses, if any, including reasonable counsel fees, incurred by Landlord in recovering possession of the leased premises, and all reasonable costs and charges for the care of said leased premises while vacant, which damage shall be due and payable by Tenant to Landlord at such time or times as such expenses shall have been incurred by Landlord; and

(2) A sum equal to all damages set forth in this Section 15 and in Section 16 hereinafter referred to.

Without any previous notice or demand, separate actions may be maintained by Landlord against Tenant from time to time to recover any damages which, at the commencement of any such action, have then or theretofore become due and payable to the Landlord under this Section 15 and subsections hereof without waiting until the end of the then current term.

All sums which Tenant has agreed to pay by way of taxes, sewer charges, water rents or water meter charges, insurance premiums and other similar items becoming due from time to time under the terms of this sublease, shall be deemed additional rent reserved in this sublease within the meaning of this Section 16 and subsections hereof.

SECTION 53. LIABILITY OF TENANT FOR DEFICIENCY.

In the event that the relation of the landlord and Tenant may cease or terminate by reason of the default by the Tenant and the re-entry of the Landlord as permitted by the terms and conditions contained in this sublease or by the ejectment of the Tenant by summary proceedings or other judicial proceedings, or after the abandonment of the leased premises by the Tenant, it is hereby agreed

that the Tenant shall remain liable to pay in monthly payments the rent (less all moneys received by Landlord in re-letting the Premises as set forth in Section 15.4 which shall accrue subsequent to the re-entry by the Landlord, and the Tenant expressly agrees to pay as damages for the breach of the covenants herein contained the difference between the rent reserved and the rent collected and received, if any, by the Landlord, during the remainder of the unexpired term, as the amount of such differe nce or deficiency shall from time to time be ascertained. Anything herein contained to the contrary notwithstanding, the rent referred to shall include the stated reserved rent together with all additional rent and charges required to be paid by the Tenant under the lease including but not limited to taxes and insurance costs, and the reasonable costs of re-renting.

SECTION 54. NOTICES.

All notices required or permitted to be given to the Landlord shall be given by certified mail, return receipt requested, at the address herein before set forth on the first page of this sublease, and/or such other place as the Landlord may designate in writing. A copy of said notice shall be sent by certified mail to the Landlord at Continental Resources, Inc., 175 Middlesex Turnpike, Bedford, Massachusetts 01730, Attn: Kevin McCann, Trustee. All notices required or permitted to be given to the Tenant shall be given by certified mail, return receipt requested, at the address herein before set forth on the first page of this sublease and/or such other place as the Tenant shall designate in writing.

SECTION 55. RIGHT TO TENANT TO MAKE ALTERATIONS AND IMPROVEMENTS.

55.1 The Tenant may make alteration, additions or improvements to the leased premises only with the prior consent of the Landlord, which consent shall not be unreasonably withheld or delayed, provided such alterations, additions or improvements do not require structural changes in the leased premises, or do not lessen the value of the leased premises or the building.

55.2 Nothing herein contained shall be construed as a consent on the part of the Landlord to subject the estate of the Landlord to liability under the Mechanic's Lien Law of the state of New Jersey, it being expressly understood that the Landlord's estate shall not be subject to such liability.

SECTION 56. NON-LIABILITY OF LANDLORD.

56.1 It is expressly understood and agreed by and between the parties to this agreement that the Tenant shall assume all risk of damage to its property, equipment and fixtures occurring in or about the leased premises, whatever the cause of such damage unless due to the willful or negligent act or omission of Landlord.

56.2 It is expressly understood and agreed that in any event, the Landlord shall not be liable for any damage or injury to property or person caused by or resulting from steam, electricity, gas, water, rain, ice or snow, or any leak or flow from or into any part of the building, or from any damage or injury resulting or arising from any other cause or happening whatsoever unless due to the willful or negligent act or omission of Landlord.

SECTION 57. WARRANTY OF TITLE.

Landlord represents that it has the full right, capacity and authority to enter into the within sublease agreement, subject to the approval of the Landlord as set forth in the Over-Lease.

SECTION 58. AIR, GROUND AND WATER POLLUTION AND ENVIRONMENTAL REPRESENTATIONS.

The Tenant expressly covenants and agrees to indemnify, defend, and save the Landlord harmless against any claim, damage, liability, costs, penalties, or fines which the Landlord may suffer as a result of air, around or water pollution caused by the Tenant in its use of the leased premises. The Tenant covenants and agrees to notify the landlord immediately of any claim or notice served upon it with respect to any such claim the Tenant is causing water, ground or air pollution; and the Tenant, in any event, will take immediate steps to halt, remedy or cure any pollution of air, ground or water caused by the Tenant by its use of the leased premises. This covenant shall survive the expiration or earlier termination of this sublease. Landlord represents, warrants and covenants to Tenant that Landlord has not caused or will not permit tine Demised Premises, the Building, or any other stru ctures and other improvements on the land underlying the Building and such common areas (all such buildings, structures and improvements being hereinafter referred to collectively as the "Project Improvements") or the land underlying the Building, to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce or process asbestos, asbestos containing materials, PCB's or any other hazardous substances or hazardous materials or any other dangerous or toxic substances, or solid waste, except in compliance with all applicable federal, state and local laws or regulations, and Landlord has not caused or permitted and has no knowledge of the presence of or of a release or threatened release of any hazardous substances, or solid waste, except in compliance with all applicable federal, state and local laws or regulations, and Landlord has not caused or permitted and has no knowledge of the presence of or of a release or threatened release of any hazardous substa nces or hazardous materials at, on, from or under the Demised Promises, the Building or any other Project Improvements or the land underlying the Building or any other Project Improvements, or at, on, from, under or off of any other property affecting or impacting the Building or any other Project Improvement in any way.

If during the term of the Lease, the Tenant shall determine that there is any inaccuracy in the representation and warranty of Landlord set forth above and that such inaccuracy may result in the risk of damage to the health or safety of Tenant or any of its employees or customers or any other damage to Tenant, Tenant shall have the right, upon not less than ninety (90) days' prior written notice to Landlord, to terminate the term of the Lease and all of Tenant's duties and obligations under the Lease unless during such ninety (90) day period Landlord removes all such hazardous materials or substances and cleans up the Building, Demised Premises, Project Improvements and/or such land, as the case may be, such that the risk of such damage to Tenant, its employees and customers is eliminated.

Landlord hereby agrees to indemnify and hold harmless Tenant, its shareholders, directors, employees, customers, successors and assigns, from and against and in respect of, any and all damages, claims, losses, liabilities and expenses, including without limitation, court costs and reasonable legal, accounting, consulting, engineering and other expenses, which may be imposed upon or incurred by Tenant, its shareholders, directors, employees, customers, successors or assigns, or asserted against Tenant, its shareholders, directors, employees, customers, successors or assigns, by any other party or parties (including, without limitation, a governmental entity), arising out of or in connection with any environmental contamination or pollution in or about the Demised Premises, the Building or any other Project Improvements or the land underlying the Building or any other Project Improveme nts, arising out of or in connection with any inaccuracy in the representation and warranty set forth above, including, without limitation, the exposure of any person to any such environmental contamination or pollution regardless of whether such environmental contamination or pollution resulted from activities of Landlord or Landlord's predecessors in interest or any other tenant or occupant of the Building or for such land. This indemnity shall survive the expiration or termination of the term of the Lease.

SECTION 59. FORCE MAJEURE.

The period of time during which the Landlord or Tenant is prevented from performing any act required to be performed under this lease by reason of catastrophe, strikes, lockouts, civil commotion, acts of God or the public enemy, government prohibitions or preemptions, embargoes, inability to obtain material or labor by reason of governmental regulations or prohibitions, the act or default of the other party, or other events beyond the reasonable control of Landlord or Tenant, as the case may be, shall be added to the time for performance of such act. This Section shall not extend the time periods set forth in the Section 14 of the Sublease.

SECTION 60. QUIET ENJOYMENT.

The Landlord further covenants that the Tenant, on paying the rental and performing the covenants and conditions contained in this lease, shall and may peaceably and quietly have, hold and enjoy the leased premises for the term aforesaid.

SECTION 61. SURRENDER OF LEASED PREMISES

On the last day, or earlier permitted termination of the sublease term, Tenant shall quit and surrender the leased premises in good and orderly condition and repair (reasonable wear and tear, and damage by fire or other casualty excepted) and shall deliver and surrender the leased premises to the Landlord peaceably, together with all alterations, additions and improvements in, to or on the leased premises made by Tenant as provided in Section 19 under the sublease. Subject to the terms of Section 18, the Landlord reserves the right, however, to require the Tenant at its cost and expense to remove any alterations or improvements installed by the Tenant and not permitted or consented to by the Landlord pursuant to the terms and conditions of the lease, so as to restore the leased premises to the condition found at the inception of the lease term, which covenant by Tenant shall survive the surrender and the delivery of the leased premises as provided hereunder. Prior to the expiration of the sublease term the Tenant shall remove all of its property, fixtures, equipment and trade fixtures from the leased premises. All property not removed by Tenant shall be deemed abandoned by Tenant, and Landlord reserves the right to charge the reasonable cost of such removal to the Tenant, which obligation shall survive the lease termination and surrender herein above provided. If the leased premises be not surrendered to the end of the sublease term, Tenant shall indemnify Landlord against loss or liability resulting from delay by Tenant in surrendering the leased premises, including, without limitation any claims made by any succeeding tenant founded on the delay.

SECTION 62. INDEMNITY.

Anything in this lease to the contrary notwithstanding, and without limiting the Tenant's obligation to provide insurance pursuant to Section 9 hereunder, the Tenant covenants and agrees that it will indemnify, defend and save harmless the Landlord against and from all liabilities, obligations, damages, penalties, claims, costs, charges and expenses, including without limitation reasonable attorneys' fees, which may be imposed upon or incurred by Landlord or Over-Landlord by reason of any of the following occurring during the term of this sublease:

(i) Any matter, cause or thing arising out of Tenant's use, occupancy, control or management of the leased premises and any part thereof;

(ii) Any negligence on the part of the Tenant; or any of its agents, contractors, servants, employees, licensees or invitees;

(iii) Any accident, injury, damage to any person or property occurring in or about the leased premises resulting from Tenant's occupancy thereof;

(iv) Any failure on the part of Tenant to perform or comply with any of the covenants, agreements, terms or conditions contained in this lease on its part to be performed or complied with;

(v) Subject to the exception set forth in Section 20, the foregoing shall not require indemnity by Tenant in the event of damage or injury occasioned by the negligence or acts of commission or omission of the Landlord, its agents, servants or employees. Landlord shall promptly notify Tenant of any such claim asserted against it and shall promptly send

to Tenant copies of all papers or legal process served upon it in connection with any action or proceeding brought against Landlord by reason of any such claim.

SECTION 63. SUBLEASE CONSTRUCTION- INTENTIONALLY DELETED.

SECTION 64. BIND AND INURE CLAUSE.

The terms, covenants and conditions of the within sublease shall be binding upon and inure to the benefit of each of the parties hereto, their respective executors, administrators, heirs, successors and assign, as the case may be.

SECTION 65. COVENANTS OF FURTHER ASSURANCES.

If, in connection with obtaining financing for the improvements on the leased premises, the Mortgage Lender shall request reasonable modifications in this sublease as a condition to such financing, Tenant will not unreasonably withhold, delay or refuse its consent thereto, provided that such modifications do not in Tenant's reasonable judgment increase the obligations of Tenant hereunder or materially adversely affect the leasehold interest hereby created or Tenant's use and enjoyment of the leased premises including without limitation rent, square footage or use or the length of the term.

SECTION 66. COVENANT AGAINST LIENS.

Tenant agrees that it shall not knowingly encumber, or suffer or permit to be encumbered, the leased premises or the fee thereof by any lien, charge or encumbrance, and Tenant shall have no authority to mortgage or hypothecate this sublease in any way whatsoever. The violations of this Section shall be considered a breach of this sublease.

SECTION 67. BROKERAGE – INTENTIONALLY DELETED.

SECTION 68. MUTUAL PARKING – INTENTIONALLY DELETED

SECTION 69. SECURITY.

69.1 No Security Deposit is required under this lease agreement.

SECTION 70. AMERICANS WITH DISABILITIES ACT "ADA".

Landlord agrees there is no violation of the requirements of the Americans with Disabilities Act, as such Act may be amended from time to time ("ADA"). Landlord warrants that the Building common areas and parking areas serving the Building shall not violate the ADA requirements on the date of substantial completion of the subject construction work. Following Landlord's completed construction, ADA amendments requiring alterations to the Demised Premises shall be the sole cost and responsibility of Tenant; unless Landlord was actually or constructively aware of said amendments and constructed the Demised Premises not in conformity therewith. In no event shall Tenant bear any responsibility or cost for alterations to any and all areas outside the Demised Premises as required by ADA and in such case(s) it shall be the sole cost and responsibility of Landlord. If Tena nt shall make any alterations, the Tenant shall comply with ADA Amendments at its sole cost and expense.

If Tenant is required by any means to bear the cost and/or responsibility (in whole or in part) of ADA required alterations to any and all areas outside the Demised Premises and/or those to the Demised Premises which is/are Landlord's obligations, then Tenant shall have the right to set-off all such costs from its rent as provided in Section 35. Both parties agree to indemnify and hold each other harmless from and against any and all claims, damages, including but not limited to, reasonable attorney's fees, costs, fines or penalties which either party incurs as a result of either party's failure to abide by such ADA requirements. Both parties further agree to inform each other in writing as soon as is reasonably possible in the event they are actually notified of any noncompliance with the provisions of the ADA.

SECTION 71. WAIVER OF LANDLORD'S LIEN.

Neither the Landlord or the Tenant shall be required to execute a "Waiver of Landlord's Lien" in connection with this agreement, except that Landlord shall subordinate any Landlord's lien to the lien of any lender providing financing for equipment that the Tenant shall maintain at the premises.

SECTION 72. TENANT'S REMEDIES: SELF-HELP AND SET-OFF RIGHT.

In the event that Landlord shall breach any of its duties, obligations or agreements contained in the Lease or otherwise default in the performance of any of its duties, obligations or agreements contained in the Lease, Tenant shall have the right to exercise all legal and equitable remedies available to Tenant at law and in equity. Should Tenant prevail in any legal action against Landlord for breach of this Lease, Landlord shall pay Tenant's reasonable attorneys' fees and court costs. Nothing in the preceding sentences shall limit or restrict any other rights and remedies granted to Tenant elsewhere in the Lease, including, without limitation, those specified in Subparagraph (a) below.

(a) Notwithstanding any other provisions of the Lease, if Landlord breaches any of the following agreements and obligations of Landlord set forth in Subparagraphs 1-2 of this Subparagraph (a), and such breach is not cured within thirty (30) days after written notice thereof from Tenant to Landlord and Landlord is not actively and diligently pursuing curing such breach and cannot show evidence of such reasonably acceptable to Tenant, Tenant shall have the right to cure such breach and in addition to any other remedies, to set-off against all Rent and other amounts from time to time due from Tenant to Landlord under the Lease (in the order of maturity of such amounts) an amount equal to one hundred percent (100%) of Tenant's reasonable and actual costs and expenses of curing such breach plus interest at the rate provided in the Lease for late payment of rent. Landlord shall be provid ed a statement of costs and expenses incurred by Tenant and shall be given fifteen (15) days to make payment (without interest) before interest accrues and Tenant begins to offset rent:

(1) Landlord's obligations to furnish Tenant with services; or

(2) Landlord's obligation to make any alterations in the Building, to comply with any governmental laws or requirements, unless diligently pursuing, contesting, protesting, or negotiating.

SECTION 73. CONDEMNATION.

73.1 If as a result of the exercise of the power of eminent domain (hereinafter in this Section referred to as a "proceeding"), the entire premises shall be taken by any governmental authority, this Lease and all right, title, and interest of the Tenant hereunder shall cease and come to an end on the date of vesting of the title in such governmental authority pursuant to such proceeding, the basic rent and additional rent shall be apportioned as of the date of such vesting, the Landlord shall be entitled to and shall receive the total award made in such proceeding and the Tenant hereby assigns its interest, if any, in such award to the Landlord. Notwithstanding the foregoing, the Tenant shall be entitled to any such compensation specifically granted for the Tenant's trade fixtures or for its expense in relocating its operations.

73.2 If less than the entire premises shall be taken in any proceeding, this Lease shall terminate as to the portion of the premises so taken upon the vesting of title in such governmental authority pursuant to the proceeding; and in, but only in, the event that the remainder of the premises not so taken is not reasonably fit or suited to being used and employed by the Tenant to enable the Tenant to discharge and satisfy the purposes for which the premises are leased hereby to the Tenant and to carry on its business as conducted thereon at the time of such taking, the Tenant, provided that the Tenant is not in default under this lease (unless the Tenant has not been notified of such default or is endeavoring to cure the same within the period for cure provided in Section 19.2) may in such event terminate this Lease as to the remainder.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals or caused these presents to be signed by its proper corporate officers and caused its proper corporate seal to be hereunto affixed, the day and year first above written.

ATTEST: CONTINENTAL RESOURCES, INC.

By:

ATTEST: ELLSWORTH TRUST

By:

STATE OF MASSACHUSETTS)
) SS:
COUNTY OF MIDDLESEX)

BE IT REMEMBERED, that on this 7th day of February 2001, before me, the subscriber, _____, personally appeared James M. Bunt who, I am satisfied, is the person who signed the within Instrument as Chief Financial Officer, Finances of CONTINENTAL RESOURCES, INC., a Massachusetts corporation, the Landlord named therein, and he thereupon acknowledged that the said instrument made by the corporation and sealed with its corporate seal, was signed, sealed with the corporate seal and delivered by him as such officer and is the voluntary act and deed of the corporation, made by virtue of authority from its Board of Directors.

STATE OF MASSACHUSETTS)
) SS:
COUNTY OF MIDDLESEX)

BE IT REMEMBERED, that on this 7th day of February 2001, before me, the subscriber, _____, personally appeared Kevin McCann who, I am satisfied, is the person who signed the within Instrument as Trustee of ELLSWORTH TRUST, a Massachusetts Trust, the Tenant named therein, and he thereupon acknowledged that the said instrument made by the corporation and sealed with its corporate seal, was signed, sealed with the corporate seal and delivered by him as such officer and is the voluntary act and deed of the corporation, made by virtue of authority from its Board of Trustees.

LIST OF SCHEDULES

Schedule “A” – Legal Description of Property

Schedule “A”

LEGAL DESCRIPTION

OF

LOTS 53, 54, & 55 BLOCK 468.09

FRANKLIN TOWNSHIP, SOMERSET COUNTY, NEW JERSEY

All that certain lot, tract or parcel of land and premises situate, lying and being in the Township of Franklin County of Somerset, and State of New Jersey, being more particularly described as follows:

Beginning at a point on the southerly sideline of Worlds Fair Drive (60.00’ right-of-way), said point being distant the following three (3) courses from the projected intersection of the westerly sideline of Napoleon Court (60.00’ right-of-way), S49 47’ 35”E, a distance of one hundred fifty two and zero hundredths (152.00’) feet to a point, and from said point of beginning;

Thence (1) departing from the aforementioned southerly sideline of Worlds Fair Drive along the westerly line of Lot 56.01 Block 468.09 being lands belonging now or formerly to Worlds Fair Associates, S40 12’25”E, a distance of two hundred eighty six and zero hundredths (286.00’) feet to a point in the northerly line of Lot 37 Block 468.01 being lands belonging now or formerly to Sonia Zygmaniak;

Thence (2) along the said northerly line of Lot 37 Block 468.01 and also the northerly line of Lot 39 Block 468.01 being lands belonging now or formerly to Alexander & Lydia Harkawij, S48 30’30”W, a distance of four hundred seven and seventy one hundredths (407.71’) feet to a point, said point being the most northwesterly corner of said Lot 39 Block 468.01 and the most northeasterly corner of Lot 40 Block 468.01 being lands belonging now or formerly to Henry & Marguerite Henning;

Thence (3) along the northerly line of said Lot 40 Block 468.01, S48 52’40”W, a distance of forty four and forty hundredths (44.40’) feet to a point, said point being the most southeasterly correct of Lot 52 Block 468.09 being lands belonging now or formerly to Worlds Fair Associates,

Thence (4) along the easterly line of said Lot 52 Block 468.09, N40 12’25”W, a distance of two hundred ninety five and eighty five hundredths (295.85’) feet to a point in the southerly sideline of Worlds Fair Drive (60.00’ right-of-way);

Thence (5) along said southerly sideline of Worlds Fair Drive N49 47’35”E, a distance of four hundred fifty two and zero hundredths (452.00) feet to the TRUE POINT AND PLACE OF BEGINNING.

Containing 131,558 square feet 3.020 acres of land more or less.

The above Lots 53 and 54 Block 468.09 are as shown on a map entitled “Final Plat; Worlds Fair Estates; Section IV – Industrial” as filed in the Somerset County Clerk’s Office on March 1, 1984 as map no. 2076 and the above Lot 55 Block 488.09 is shown on a map entitled “section Three-Industrial; Worlds Fair Associates” as filed in the Somerset County Clerk’s Office on June 30, 1982 as map no. 1964.

The above description is subject to the following easements, being more particularly described as;

20’ Wide Sanitary Easement

Beginning at a point on the westerly line of said Lot 56.01, S40 12’25”E, a distance of twenty five and eighteen hundredths (25.18’) feet along said westerly line of Lot 56.01 Block 468.09 from the true point and place of beginning as recited in the above description;

Thence (6) along the aforementioned westerly line of said Lot 56.01, S40 12’55”E, a distance of twenty and zero hundredths (20.00’) feet to a point;

Thence (7) departing from said westerly line of Lot 56.01, S49 49’12”W, a distance of three hundred nineteen and seventy six hundredths (319.76’) feet to a point;

Thence (8) 47 33’27”W, a distance of one hundred thirty two and thirty four hundredths (132.34’) feet to a point on the easterly line of Lot 52; 468.06

Thence (9) along said easterly line of Lot 52, N40 a distance of fifty and twenty hundredths (50.20’) feet to a point on the southerly line of Worlds Fair Drive (60.00’ right-of -way);

Thence (10) along the aforementioned southerly sideline N49 47’35”E, distance of twenty and zero hundredths (20.00’) feet to a point;

Thence (11) departing from said southerly sideline, S40 12’22”E, a distance of twenty nine and thirty nine hundredths (29.39’) feet to a point;

Thence (12) N47 33’27”E, a distance of one hundred eleven and ninety eight hundredths (111.98’) feet to a point;

Thence (13) N49 49’12”E, a distance of three hundred twenty and fifteen hundredths (320.15) feet to the POINT AND PLACE OF BEGINNING.

Containing 9,279 square feet or 0.218 acres of land more or less.

20’ Wide Drainage Easement

Beginning at a point on the westerly line of Lot 56.01 Block 468.09, said point being N40 12’25”W, a distance of thirty and zero hundredths (30.00’) feet along said westerly line of Lot 56.01 Block 468.09 from the terminus of course one as recited in the above description;

Thence (14) departing form said westerly line of Lot 56.01, S48 30’30”W, a distance of four hundred eight and twenty nine hundredths (408.29’) feet to a point;

Thence (15) departing from said westerly line of Lot 56.01, S49 49’12”W, a distance of three hundred nineteen and seventy six hundredths (319.76’) feet to a point;

Thence (16) S48 52’40”W, a distance of forty three and eighty two hundredths (43.82’) feet to a point on the easterly line of Lot 52 Block 468.09

Thence (17) along said easterly line of Lot 52, N40 12’25”W a distance of twenty and zero hundredths (20.00’) feet to a point;

Thence (18) departing from said easterly line of Lot 52, N48 52’40”E, a distance of forty three and forty four hundredths (43.44’) feet to a point;

Thence (19) N48 30’30”E, a distance of four hundred eight and sixty seven hundredths (408.67’) feet to a point on the aforementioned westerly line of Lot 56.01 Block 468.09’

Thence (20) along the said westerly line of Lot 56.01, S40 12’25”E, a distance of twenty and zero hundredths (20.00’) feet to the POINT AND PLACE OF BEGINNING

Containing 9,043 square feet or 0.208 acres land more or less.

10’ Wide Utility Easement

As recorded at the Somerset County Clerk’s Office in Deed Book 1448 on Page 424.

EXHIBIT “B”

EXHIBIT “C”

PRELIMINARY PLANS

In addition to the installation of demising walls and other improvements as shown on the floor plan attached hereto, Sublandlord shall provide to Subtenant as part of Sublandlord’s Work the following:

1. Installation of electrostatic discharge tile or VDT with electrostatic coating in laboratory rooms.
2. Parabolic lighting.
3. Installation of an ADT keyless entry system to all of Subtenant’s entrances and to the main entrance of the Building.
4. Replace ceiling tile as necessary to maintain uniform color throughout the Subleased Premises and discard damaged ceiling tile.

EXHIBIT “D”

SUBLANDLORD’S BUILDING STANDARD
AND IMPROVEMENT ALLOWANCES

Sublandlord, at its expense, shall construct Subtenant’s space using the following Building Standard improvements in the initial preparation of the Subleased Premises for Subtenant’s occupancy. Final floor plan shall be approved by Sublandlord and Subtenant.

1. Floor Covering

a. The High Quality Standard carpet installed in office area and open areas with the exception of the cafeteria area which is already supplied with vinyl tile.

b. 4” high straight vinyl wall base shall be provided along the perimeter of each private office and common area.

1. Ceiling

Ceilings will be lay-in units of 24” X 48” X 5/8 mineral acoustical tile set in a standard, exposed “t-bar” mechanical suspension system (color: white) (already installed)

2. Partitions

Any additional interior partitioning within the Subleased Premises, shall be constructed of nine foot high partitioning with 2 1/2” metal wall studs with one layer of gypsum wall board on each side extending from floor to underside of ceiling and prepared to receive final wall finishes. Construction of offices dependent upon a floor plan submitted to and accepted by Sublandlord and acceptance by the Building Department of the Township of Franklin, NJ.

3. Door and Hardware

a. Standard interior doors will be 1 3/4 thick birch veneer, solid core flush wood doors, 3’0” x 7’ nominal size, set in 18-gauge factory primed, interior hollow door frames.

b. Standard interior door hardware package will consist of a standard duty, ADA compliant lockset 1/2” pair butts and doorstop. Subtenant shall be allowed one interior door hardware package per standard interior door.

1. Painting

a. All standard interior partitions, all exterior wall surfaces and all demising partitions constructed within the Subleased Premises will receive two coats of latex wall paint. Existing partitioning will receive one coat of latex paint.

b. Optional special wall finishes and wall covering can be provided at Subtenant's expense.

c. Building Standard interior doors, and all entrance/exit doors to and from the Subleased Premises will receive two coats of clear polyurethane finish; door frames to receive two coats of alkyd semi-gloss enamel paint.

1. Electrical

a. Standard lighting fixtures shall be 2' X 4' flush fluorescent fixtures.

b. Subtenant shall be allowed one duplex receptacle for each 100 square feet of net rentable area of the Subleased Premises. Location of electrical duplexes at reasonable discretion of Subtenant.

c. Sublandlord will provide electric requirements in accordance with building code, as shown on final floor plan.

1. Telephone

Subtenant shall have use of telephone wiring already installed in Subleased Premises. Additional wiring will be the responsibility of Subtenant.

2. HVAC

Heat, ventilation and air-conditioning shall be provided throughout the Subleased Premises with a heat pump system configured to each area. Sublandlord will maintain temperatures of approximately 70 degrees under normal conditions. Separate thermostat in computer room will allow for independent heating or cooling as needed in order to maintain approximately 70 degree conditions.

3. Fire Protection

Subtenant's Subleased Premises will be fully sprinkled. Sprinkler system will meet code requirements. Fire extinguishers to be provided by Sublandlord.

4. Signage

Sign will be located outside of the entrance lobby. In addition, there will be a directory inside the lobby area and a sign on the entrance door to the Sublandlord's usable space.

EXHIBIT "E"

CLEANING SPECIFICATIONS

I. OFFICE SPACE

A. Daily

1. Dust ceilings, walls and baseboards for cobwebs
2. Dust window frames and sills in entrance area
3. Dump and wipe each ash tray
4. Empty all waste baskets (replace liners as needed)
5. Dust room dividers including tops
6. Vacuum all carpets including those carpeted surfaces underneath tables and desks (moving desk chairs back to proper place)
7. Spot clean all glass
8. Spot clean all walls
9. Wipe down vending machines including tops
10. Wipe down sinks in kitchens
11. Dust mop and rinse kitchen floors
12. Spot clean around switch plates and doorways
13. Whisk clean upholstered chairs
14. Dust work surfaces which are cleared

A. Weekly

1. Wipe window frames, sills and blinds
2. Wipe entire desk and polish
3. Wipe and sanitize phone and cradle
4. Clean and polish stainless steel in kitchen

A. Monthly

1. Lightly strip and apply one coat of wax on kitchen floors
2. Wash all interior glass

I. COMMON AREAS

A. Daily

1. Dust for cobwebs on ceilings, walls and baseboards
2. Dust window sills and frames
3. Dust mop and rinse tiled surfaces
4. Empty and wipe out ash trays

5. Vacuum and wipe down elevator and door tracks
6. Vacuum and spot clean all carpeted surfaces
7. Spot clean walls, door and frames
8. Spot clean switch plates, push plates and kick plates
9. Spot clean all glass
10. Wipe down banisters and railings
11. Clean and polish drinking fountain
12. Dust prints and artwork

A. Weekly

1. Wipe down sills and window frames
2. Sweep under entrance mats
3. Squeegee clean entrance windows
4. Wipe down baseboards
5. Clean, polish and sanitize drinking fountains
6. Clean stairwell glass
7. Vacuum carpet edges and corners

I. REST ROOMS (Daily)

1. Spot clean walls
2. Wipe down wall partitions
3. Wipe clean and sanitize all urinals, toilets, chrome fixtures, sinks, counters, soap dispensers and mirrors
4. Empty sanitary napkin receptacles and waste baskets and replacement liners
5. Refill sanitary napkins, toilet paper and soap dispensers
6. Sweep and rinse floors
7. Wash mirrors and keep clean and free of spots

I. FLOORS (and Other Marble Tiled Surfaces)

A. Resilient, VCT, Stone, Light Colored Marble

1. Strip floors semi-annually and apply five coats of 18% acrylic wax
2. Lightly scrub and apply one coat
3. Spray buff entire surface once weekly (Sunday)
4. Spray buff traffic areas as needed

A. Black Marble

1. Redress entire surface once weekly (Sunday)
2. Redress traffic areas as needed

A. Carpeted Surfaces

1. Spot clean as needed including areas of three square feet or less
2. Bonnet traffic lanes as needed

I. MATERIALS

Supplied by Janitorial Contractor:

1. Cleaning chemicals
2. Equipment
3. Trash can liners

Supplied by Agent/Owner:

4. Toilet tissue
5. Hand towels
6. Hand soap
7. Sanitary napkins and disposable bags

I. ITEMS NOT COVERED

1. Carpet extraction (other than spot cleaning)
2. Other situations not included above such as:
    (a) Emergency cleaning
    (b) Construction cleaning
    (c) Vacant space cleaning
    (d) Tenant move-in/move-out cleaning

I. SCHEDULE

Cleaning shall be done Mondays through Fridays, five days per week, after Building Hours, but prior to 8 p.m.

II. EXTERIOR WINDOW CLEANING

Exterior windows shall be cleaned at least once a year during the term of this Lease.

EXHIBIT "F"

RIDER TO
SUBLEASE AGREEMENT DATED AS OF JANUARY __, 2004
BY AND BETWEEN
CONTINENTAL RESOURCES, INC., AS SUBLANDLORD
AND
AI-LOGIX, INC., AS SUBTENANT

This RIDER TO SUBLEASE AGREEMENT (the "Rider") is made as of this __ day of January, 2004 to be affixed to and made a part of that certain Sublease Agreement dated as of January __, 2004 (the "Sublease") by and between Continental Resources, Inc. (the "Sublandlord") and AI-Logix, Inc. (the "Tenant"). Capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Sublease.

The following is added to Exhibit "C" of the Sublease as Item 5: "Two sets of double glass entry doors shall be installed in the first floor lobby of the Building leading into the Subleased Premises at a cost not to exceed Twenty-Five Thousand Dollars ($25,000) which shall be paid by Sublandlord". Except as amended hereby, the Sublease shall remain in full force and effect.

IN WITNESS WHEREOF, Sublandlord and Subtenant have executed this Rider as of the date first above written.

ATTEST: **CONTINENTAL RESOURCES, INC.**

_____ By:_____ Name: Title:

ATTEST: **AI-LOGIX, INC.**

_____ By:_____ Name: Title: Vice President

ATTEST: **ELLSWORTH TRUST**

_____ By:_____ Name: Title:

RIDER TO
SUBLEASE AGREEMENT DATED AS OF JANUARY __, 2004
BY AND BETWEEN
CONTINENTAL RESOURCES, INC., AS SUBLANDLORD
AND
AI-LOGIX, INC., AS SUBTENANT

This RIDER TO SUBLEASE AGREEMENT (the "Rider") is made as of this __ day of January, 2004 to be affixed to and made a part of that certain Sublease Agreement dated as of January ____, 2004 (the "Sublease") by and between Continental Resources, Inc. (the "Sublandlord") and AI-Logix, Inc. (the "Tenant"). Capitalized terms not otherwise defined herein shall have the meaning assigned to them in the Sublease.

The following is added to Exhibit "C" of the Sublease as Item 5: "Two sets of double glass entry doors shall be installed in the first floor lobby of the Building leading into the Subleased Premises at a cost not to exceed Twenty-Five Thousand Dollars ($25,000) which shall be paid by Sublandlord". Except as amended hereby, the Sublease shall remain in full force and effect.

IN WITNESS WHEREOF Sublandlord and Subtenant have executed this Rider as of the date first above written.

ATTEST: **CONTINENTAL RESOURCES, INC.**

_____ By:_____ Name: Title:

ATTEST: **AI-LOGIX, INC.**

_____ By:_____ Name: Title: Vice President

ATTEST: **ELLSWORTH TRUST**

________________________ By:______________________________ Name: Title:

#

Exhibit 10.24

STOCK PURCHASE AGREEMENT

By and among

AUDIOCODES LTD.,

AUDIOCODES INC.,

AI-LOGIX INC.

and

AI TECHNOLOGY N.V.

Dated as of May 12, 2004

#

#

STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT dated as of May 12, 2004 by and among AUDIOCODES LTD., a public company organized under the laws of the State of Israel ("**AudioCodes**"), AUDIOCODES INC., a corporation organized under the laws of the State of Delaware ("**Purchaser**"), AI-LOGIX INC., a corporation organized under the laws of the State of Delaware ("**Company**") and AI TECHNOLOGY N.V., a company organized under the laws of The Netherlands (the "**Seller**"), referred to collectively as "the parties".

RECITALS

WHEREAS, Seller is the record and beneficial owner of all the Shares of the Company (the "**Seller Shares**"); and

WHEREAS, Seller desires to sell and transfer and Purchaser desires to purchase and acquire all of the Seller Shares, upon the terms and subject to the conditions set forth herein; and

WHEREAS the parties desire to consummate the transaction in such manner, that immediately after such acquisition by the Purchaser from Seller, Purchaser shall become the sole and exclusive owner of all the Shares;

WHEREAS the Board of Directors of each of Purchaser and Seller believes it is in the best interests of its respective corporation and stockholders that the transactions contemplated hereby be consummated and, in furtherance thereof, has approved this Agreement and the transactions contemplated hereby.

WHEREAS the parties desire to make certain representations, warranties, covenants and other agreements in connection with the transactions contemplated hereby.

NOW, THEREFORE, in consideration of the covenants and representations set forth herein, and for other good and valuable consideration, the parties agree as follows:

ARTICLE I

DEFINITIONS

Any capitalized term used and not otherwise defined in this Agreement, shall have the following meaning:

"**Action**" means any legal, administrative, governmental or regulatory proceeding or other action, suit, proceeding, claim, arbitration, mediation, alternative dispute resolution procedure, inquiry or investigation by or before any arbitrator, mediator, court or other Governmental Entity.

"**Affiliate**" means, with respect to any Person, any other Person directly or indirectly Controlling, Controlled by or under common Control with such Person.

"**Agreement**" means this Stock Purchase Agreement, including all Exhibits and Schedules hereto, as the same may be amended, modified or supplemented from time to time in accordance with its terms.

"Board of Directors" means the Company's board of directors.

"**Business Day**" means any day other than a Saturday, Sunday or any other day on which banking institutions in the United States are not open for the transaction of normal banking business.

"**Control**" (including, with correlative meanings, the terms "Controlling", "Controlled by" and "under common Control with") as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities or partnership interests, by contract or otherwise.

"**Convertible Securities**" means any and all options, warrants, bonds, debentures, notes, indebtedness of any type whatsoever or other securities that are convertible into, exchangeable or exercisable for shares or other capital stock of the Company or that have the right to vote on any matters on which any shareholders of the Company may vote.

"**Damages**" means any and all losses, liabilities, claims, deficiencies, fines, payments, Taxes, Liens, costs and expenses (including all amounts paid in connection with any demands, assessments, judgments, settlements and compromises relating thereto; interest and penalties with respect thereto; and costs and expenses, including reasonable attorneys', accountants' and other experts' fees and expenses, incurred in investigating, preparing for or defending against any such Actions or in asserting, preserving or enforcing an Indemnitee's rights hereunder).

"**Knowledge**" means actual knowledge of current senior management and officers and directors of Seller, or Company, respectively, and any information such Person(s) should have or could have been expected to be aware of, after due inquiry.

"**Liability**" means any and all claims, debts, obligations and commitments of whatever nature, whether asserted or reasonably expected to be asserted, fixed, absolute or contingent, matured or unmatured, accrued or unaccrued, liquidated or unliquidated or due or to become due, and whenever or however arising (including those arising out of any contract or tort, whether based on negligence, strict liability or otherwise) regardless of whether the same would be required by GAAP to be reflected as a liability in financial statements or disclosed in the notes thereto.

"**Lien**" means any charge, claim, equitable interest, lien, encumbrance, option, proxy, pledge, security interest, attachment, mortgage, right of first refusal, right of preemption, transfer or retention of title agreement, or restriction by way of security of any kind or nature, including any restriction on use, voting, transfer, receipt of income or exercise of any other attribute of ownership.

"**Material Adverse Effect**" shall mean any event, change or effect (excluding general changes in, or events affecting, the economy generally or the industry in which such entity operates which are not specifically related to such entity) that is materially adverse to the financial condition, properties, assets, Liabilities, business, operations or results of operations of such entity and its subsidiaries (if any), taken as a whole.

"**Person**" means any individual, firm, partnership, joint venture, trust, corporation, limited liability entity, unincorporated organization, estate or other entity (including a Governmental Entity).

"**Purchaser Shares**" means the Ordinary Shares of AudioCodes, par value NIS 0.01 each, ranking pari passu with all other ordinary shares of AudioCodes' stock.

"**Shares**" means all issued and outstanding capital stock of the Company.

"**Subsidiary**" when used with respect to any Person, means any other Person of which a majority of the equity interests having voting power to elect or direct the election of a majority of the board of directors or other Persons performing similar functions of such Person are owned or controlled, directly or indirectly, by such first Person, by any one or more of its Subsidiaries, or by such first Person and one or more of its Subsidiaries.

"**Tax**" means any tax, charge, duty, fee, levy or other assessment, including income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental, customs duties, capital shares, franchise, profits, withholding, social security (or similar), unemployment, disability, property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, imposed by any Governmental Entity, and including any interest, penalty, or addition thereto, whether disputed or not.

"**Tax Return**" or "**Return**" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof, required to be filed with any Governmental Entity.

"**Transaction**" means the transactions contemplated by the Transaction Documents.

"**Transaction Documents**" means this Agreement and all other instruments, certificates and agreements delivered or required to be delivered by Seller, the Company, AudioCodes or the Purchaser pursuant to this Agreement.

Section 1.2. **Terms Generally**. The definitions in Section 1.1 shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The words "herein", "hereof" and "hereunder" and words of similar import refer to this Agreement in its entirety and not to any part hereof unless the context shall otherwise require. All references herein to Articles, Sections, Exhibits and Schedules shall be deemed references to Articles and Sections of, and Exhibits and Schedules to, this Agreement unless the context shall otherwise require. Any reference in this Agreement to a "day" or a number of "days" (without explicit reference to "Business Days") shall be interpreted as a reference to a calendar day or number of calendar days. If any action is to be taken or given on or by a particular calendar day, and such calendar day is not a Business Day, then such action may be deferred until the next Business Day.

ARTICLE II
PURCHASE AND SALE OF SHARES

Section 2.1. **Purchase and Sale of Shares**. Subject to the terms and conditions of this Agreement and in reliance on the covenants, representations and warranties of the parties contained herein, Seller will at the Closing sell, convey, transfer, assign and deliver to Purchaser all the Seller Shares free and clear of all Liens, and Purchaser will purchase and acquire from Seller at the Closing all the Seller Shares, in such manner that immediately after such acquisition, the Purchaser shall become the sole and exclusive owner of all the Shares.

Section 2.2. **Consideration**. On the terms and subject to the conditions set forth in this Agreement, as full payment for the transfer of the Seller Shares by Seller to Purchaser at the Closing, Purchaser shall pay Seller the Total Consideration (as defined below), which shall be comprised of and paid in two installments, subject to occurrence of Closing, as follows: (i) at the Closing, Purchaser shall pay Seller a consideration equal to Ten Million US Dollars (US$10,000,000) (the "**First Installment**"), in any combination of cash and Purchaser Shares as determined by Purchaser in its sole discretion; and (ii) on April 1, 2005 (the "**Second Installment Date**") Purchaser shall pay Seller an additional consideration, calculated in accordance with Exhibit A hereto, if any (the "**Second Insta llment**"), in any combination of cash and Purchaser Shares as determined by Purchaser in its sole discretion; the First Installment and Second Installment shall be hereinafter referred to as the "**Total Consideration**".

Section 2.3. **Stock Consideration**.

(a) In the event that the Purchaser elects to pay all or any portion of the First Installment or Second Installment by issuance of Purchaser Shares, the number of Purchaser Shares so issued shall be equal to 1.0526 (one and five hundredths and 2.6 thousandths) multiplied by a fraction, the numerator of which is (i) the portion in US Dollars of the First Installment or Second Installment, as applicable, that Purchaser wishes to pay in stock, and the denominator of which is (ii) the average of the NASDAQ Market System closing prices for the ordinary shares of AudioCodes during the last five trading days prior to the Business Day immediately before the Closing Date or Second Installment Date, respectively. No fraction of a Purchaser Share will be issued by Purchaser hereunder, and any fraction of a Purchaser Share that would otherwise be issuable hereunder shall be r ounded to the nearest whole number. At Closing and at the due date of the Second Installment, Purchaser shall provide Seller with written notice of its election to pay all or any portion of the First Installment or Second Installment (as applicable) by issuance of Purchaser Shares, along with the number of Purchaser Shares to be issued.

(b) AudioCodes agrees to file, at its own expense, a registration statement on Form F-3 (or any successor form) ("Registration Statement") for all the Purchaser Shares issued to the Seller in order to allow the sale of such Purchaser Shares on the NASDAQ Market System, no later than 60 days after the Closing Date (with respect to all Purchaser Shares, if any, issued under the First Installment) and the Second Installment Date (with respect to all Purchaser Shares, if any, issued under the Second Installment), as applicable, and shall use, at its own expense, all reasonable commercial efforts to ensure that such Registration Statement shall become effective no later than 90 days as of the Closing Date (with respect to all Purchaser Shares, if any, issued under the First Installment) and after the Second Installment Date (with respect to all Purchaser Shar es, if any, issued under the Second Installment), as applicable, all subject to applicable law and regulations and assuming no Securities and Exchange Commission and/or other regulatory comments or review that affect such Registration Statement.

(c) In the event that (i) the Purchaser elects to pay all or any portion of the First Installment by issuance of Purchaser Shares ("First Installment Consideration Shares"), and (ii) the registration of any of the First Installment Consideration Shares so issued does not become effective within one hundred and eighty (180) days after the Closing Date ("First Registration Period"), then Seller shall be entitled to receive from Purchaser an amount, as liquidated damages and exclusive remedy if AudioCodes used reasonable commercial efforts as stated in subsection 2.3 (b) above, equal to one percent (1%) of the portion in US Dollars of the First Installment paid by First Installment Consideration Shares (as used for calculation in subsection 2.3(a)(i) above) that was not so registered, per month (prorated for partial months), (each such month ly payment, a "Late Registration Payment"). The Late Registration Payment shall accrue from the end of the First Registration Period until the date on which the Registration Statement with respect to all of the First Installment Consideration Shares becomes effective or the date the First Installment Consideration Shares can be sold pursuant to Rule 144 (the "First Installment Effective Date"). The Late Registration Payment shall be payable in cash in US Dollars by Purchaser to Seller to an account designated by Seller, at the end of each monthly period, or portion thereof, following the First Registration Period.

(d) In the event that (i) the Purchaser elects to pay all or any portion of the Second Installment by issuance of Purchaser Shares (the "Second Installment Consideration Shares"), and (ii) the registration of any of the Second Installment Consideration Shares so issued does not become effective within (x) one hundred and eighty (180) days after the Second Installment Date or (y) ninety (90) days, after the Second Installment Date if Seller was entitled to Late Registration Payment pursuant to subsection 2.3(c), then Seller shall be entitled to a Late Registration Payment, as calculated in subsection 2.3(c) above, *mutatis mutandis*,.

(e) In the event that Late Registration Payment was payable and a Suspension Period (as defined in the Registration Rights Agreement) occurs within ten (10) trading days after the affected Registration Statement becomes effective or the date the issued Purchaser Shares can be sold pursuant to Rule 144, then the Late Registration Payment described in Section 2.3(c) and/or 2.3(d), above, with respect to the affected Registration Statement shall continue to accrue until the lapse of ten (10) trading days since the Registration Statement became effective.

Section 2.4. **Cash Consideration**. In the event that the Purchaser elects to pay all or any portion of the First Installment or Second Installment in cash, such portion of the First Installment or Second Installment shall be delivered to Seller in immediately available funds by wire transfer initiated and received at the Closing Date or Second Installment Date, as applicable, to a bank account the details of which shall be provided to the Purchaser at least three Business Days prior to the Closing Date or Second Installment Date, respectively. Prior to initiation of such wire transfer, Seller's and Company's Closing deliveries (as specified in Section 3.2) shall be deposited in escrow with Purchaser's counsel. Each party shall bear the expenses incurred by its own bank. Transfer of funds out of the United States of Ame rica shall be subject to any delays related to legislation or procedures governing such transfers.

(c) The Seller and AudioCodes shall execute the registration rights agreement, attached as Exhibit B hereto, on or prior to Closing (the "**Registration Rights Agreement**").

(d) Any Purchaser Shares delivered to Seller hereunder shall be free and clear of all Liens and Seller shall acquire all such Purchaser Shares in such a manner that immediately after such delivery the Seller shall become the sole and exclusive owner of the Purchaser Shares.

ARTICLE III

CLOSING

Section 3.1. **Closing**. The closing of the purchase and sale of the Seller Shares to be sold, conveyed, transferred, assigned and delivered hereunder (the "**Closing**") will take place (i) at May___, 2004, 5:00 P.M. Israel time, subject to the satisfaction or waiver of all the conditions set forth in Article X; or (ii) at such place, date and time as Seller and Purchaser may agree. The date and time at which the Closing actually occurs is referred to herein as the "**Closing Date**". Closing documents shall be circulated between the parties by facsimile with confirmation via international courier.

Section 3.2. **Closing Deliveries of Seller and the Company**. At the Closing, Seller and the Company, as applicable, will deliver to Purchaser the following:

(i) Seller shall deliver share or other certificates registered in the name of Seller, representing the Seller Shares to be sold and transferred to the Purchaser, accompanied by a duly executed assignment or stock power in form reasonably satisfactory to Purchaser, transferring the Shares to Purchaser (and, if requested by Purchaser, with signatures thereon duly verified) and any other documents that are necessary to transfer to Purchaser good and valid title to Seller Shares, free and clear of any Liens;

(ii) a true copy of the register of stockholders of the Company certified by an officer of the Company recording the transfer of the Shares in the name of Purchaser;

(iii) resolutions of the Company's Board of Directors and of its stockholders approving the transaction contemplated hereunder and the transfer of the Seller Shares to Purchaser and registering such transfer of Shares in the Company's register of shareholders, in the form attached as Schedule 3.2(iii) hereto;

(iv) resolutions of the Seller's Board of Directors and of its stockholders (if necessary), approving the transaction contemplated hereunder and the transfer of the Seller Shares to Purchaser, in the form attached as Schedule 3.2(iv) hereto;

(v) duly signed resignations and releases of all directors of the Company and of all members of all the Company board of directors' committees in the forms set forth in Schedule 3.2(v);

(vi) evidence for revocation of all authorities and signatories relating to Company's bank accounts prior to Closing, and nomination of new signatories and authorities to such persons as Purchaser shall designate to operate the same, as specified in Schedule 3.2(vi) hereto;

(vii) a certificate from the Secretary of State of the State of Delaware and a certificate from the Secretary of the State of New Jersey, certifying as of a recent date as to Company's good standing.

(viii) At least 80% of the key employees identified by Purchaser and listed in Schedule 3.2(viii) hereto (the "**Key Employees**"), shall remain employed by the Company at the Closing; the employment agreements of all such employees shall include confidentiality, non-compete, non-solicitation and invention assignment covenants and assurances to the Company that such employees are not restricted in any way from entering into such agreements and contain acceptable termination provisions.

(ix) Moshe Tal shall enter into an employment agreement with the Company and such other agreements as agreed upon between the parties.

(x) Legal opinions from Company's US counsel and from Seller's legal counsel, in the form of Schedule 3.2(x)(A) and Schedule 3.2(x)(B) hereto.

Section 3.3. **Closing Deliveries of Purchaser**. At the Closing, Purchaser will deliver the following:

(i) confirmation to the Seller that the portion of the First Installment Payment that is paid in cash by Purchaser has been remitted to and received by the depository and credited to the account designated pursuant to the wire transfer instructions provided by the Seller according to Section 2.4, to the extent portion of the First Installment is paid in cash (and for that purpose Seller shall instruct its bank to also provide such confirmation to the Purchaser);

(ii) a certificate representing the Purchaser Shares registered in the name of the Seller delivered to the offices of counsel of the Seller in New Jersey, to the extent portion of the First Installment is paid in stock;

(iii) resolution of the Purchaser's Board of Directors approving the transaction contemplated hereunder and the acquisition of the Seller Shares by Purchaser, in the form attached as Schedule 3.3(iii) hereto; and

(iv) the fully executed Registration Rights Agreement.

Section 3.4. **Transfer Taxes**. Purchaser shall bear and pay any and all Israeli and US sales, use, VAT, duty, charge, fee, levy, consumption and other US or Israeli transfer taxes arising out of the transfer of the Shares to Purchaser, if any (excluding any taxes on income or capital gains on such sale) pursuant hereto (the "**Transfer Taxes**"). To the extent any Tax authority provides notice to Purchaser of an audit of the Transfer Taxes, Purchaser shall promptly notify Seller or any successor thereto and Seller shall provide reasonable cooperation to Purchaser (at Purchaser's expense) in connection with such audit. For the avoidance of doubt, Seller shall bear and pay any Transfer Taxes arising out of the transfer of the Shares to Purchaser, not imposed by Israel and/or US tax authorities.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES OF SELLER

Seller hereby represents and warrants to Purchaser and AudioCodes as follows and acknowledges that Purchaser and AudioCodes are entering into the Transaction in reliance hereon:

Section 4.1. **Organization and Authority**. Seller is duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization. Seller has all requisite power and authority, corporate or otherwise, to execute and deliver each Transaction Document delivered or to be delivered by Seller and to perform all of its obligations hereunder and thereunder. The execution, delivery and performance by Seller of each Transaction Document delivered or to be delivered by Seller and the consummation by Seller of the Transaction have been duly authorized by all necessary and proper action on the part of Seller. This Agreement has been duly executed and delivered by Seller and constitutes the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights in general and by general principles of equity. Each other Transaction Document to be delivered by Seller will be duly executed and delivered by Seller and, when so executed and delivered, will constitute the legal, valid and binding obligation of Seller, enforceable against Seller in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors' rights in general and by general principles of equity.

Section 4.2. **Noncontravention**. None of the execution, delivery or performance by Seller of any Transaction Document or the consummation by Seller of the Transaction does or will, with or without the giving of notice or the lapse of time or both, conflict with, or result in a breach or violation of, or a default under, or give rise to a right of amendment, termination, cancellation or acceleration of any obligation or to a loss of a benefit under (i) the charter, bylaws or memorandum and articles of association (or similar governance documents) of Seller, (ii) any contract of Seller or any of its Subsidiaries (other than contracts required to be terminated pursuant to the terms of this Agreement), or (iii) any law, license and permit to which Seller or its properties or assets is subject.

Section 4.3. **Title to Shares/No Convertible Securities**. Seller has good and valid title to, and is the legal and beneficial owner of, the number of Shares as set forth in Schedule 4.3, which constitute all of the issued and outstanding shares of the Company, and, as of the Closing will have good and valid title to, and will be the legal and beneficial owner of, such Shares set forth on Schedule 4.3, free and clear of any Liens. In the transfer of Shares to Purchaser the Shares hereunder shall be free and clear of any Liens and the transfer shall not trigger any kind of third party rights to the detriment of Purchaser. To Seller's Knowledge apart from reasons attributable to Purchaser, upon transfer and delivery to Purchaser at the Closing, Purchaser will have good and valid title to Seller's Shares free and clear of any Lien s. The number of Shares set forth on Schedule 4.3 constitutes all of the Shares over which any voting or dispositive power is held by Seller, and Seller does not own, beneficially or otherwise, directly or indirectly, any other capital stock or share capital of, or other securities, or any Convertible Securities, equity or any other ownership interest in the Company. There are no (i) outstanding options, warrants, purchase rights, subscription rights, conversion rights, exchange rights, Convertible Securities or other similar contracts relating to Seller's Shares, (ii) outstanding stock appreciation, phantom stock, profit participation or similar rights with respect to Seller's Shares, (iii) voting trusts, proxies, or other contracts or understandings with respect to the voting of Seller's Shares, (iv) transfer restrictions with respect to Seller's Shares (other than any securities laws generally applicable to equity interests of a corporation), or (v) Actions pending or , to Seller's Knowledge, threatened, which, if determined adversely to Seller, would enjoin, restrict or prohibit the transfer of all or any part of the Shares owned by Seller as contemplated by this Agreement.

Section 4.4. **Governmental Approvals**. Except as set forth on Schedule 4.4 and excluding any requirements under Israeli law (if at all), no consent or order of, with or to any Governmental Entity is required to be obtained or made by or with respect to Seller in connection with the execution, delivery and performance by Seller of any Transaction Document or the consummation by such Seller of the Transaction.

Section 4.5. **Brokers' Fees**. Neither Seller nor any of its Affiliates has authorized or retained any Person to act as an investment banker, broker, finder or other intermediary who is or might be entitled to any fee, commission or payment in connection with the negotiation, preparation, execution or delivery of any Transaction Document or the consummation of the Transaction, nor is there any basis for any such fee, commission or payment to be claimed by any Person against Seller.

Section 4.6 **Investment Intent**. Seller is purchasing the Purchaser Shares for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof; provided, however, that Seller shall be permitted to transfer (by way of dividend or other distribution) some or all of the Purchaser Shares to the shareholders of Seller, to the extent permitted by any applicable law. Seller confirms that it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks relating to entering into this Agreement. Seller has not been organized for the sole purpose of acquiring Purchaser Shares. Seller is not a "U.S. Person" as such term is defined in Rule 902 promulgated under the U.S. Securities Act of 1933, as amended (the "Securities Act").

.

Section 4.7 **No Claim to Unavailability of Information**. Subject to Section 8.1 below, Seller shall not assert any claim or institute any Action or proceeding relating to or based, in whole or in part, upon any allegation that any information relating to the Company, or the Shares was unavailable to it.

ARTICLE I

REPRESENTATIONS AND WARRANTIES OF COMPANY AND SELLER

As of the date hereof and as of the Closing Date, except as set forth or otherwise disclosed in a document delivered to Purchaser, dated as of the date hereof and specifically referring to the representations and warranties in this Agreement to which such information relates (the "**Disclosure Schedule**"), each of the Company and Seller, severally and not jointly, hereby represents and warrants to Purchaser and AudioCodes as follows, and acknowledges that Purchaser and AudioCodes are entering into the Transaction in reliance hereon:

1.1 Organization, Standing and Power

The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has the corporate power to own its properties and to carry on its business as now being conducted and as currently proposed to be conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified and in good standing would have a Material Adverse Effect on the Company. Seller has delivered to Purchaser a true and correct copy of Company's Certificate of Incorporation and Bylaws, as amended to date. The Company is not in violation of any of the provisions of its Certificate of Incorporation or Bylaws.

1.2 Capital Structure; Subsidiaries.

(a) The authorized capital stock of the Company consists of: (i) 15,000,000 shares of Common Stock, par value $0.000001 per share ("**Seller Common Stock**"), of which 9,273,333 shares are issued and outstanding, and (ii) no shares of Preferred Stock There are no other outstanding shares of capital stock or voting securities, and no outstanding commitments to issue any shares of capital stock or voting securities, of Company. Seller is the sole stockholder of the Company and no other Person has any rights to acquire securities of the Company. No stock certificates evidencing the Seller Shares were ever issued to Seller. All outstanding shares of capital stock of the Company ("**Capital Stock**") are duly authorized and validly issued, fully paid and non-assessable, and are free of any Liens other than any Liens created by or imposed upon the Seller or imposed by federal or state securities laws, and are not subject to preemptive rights or rights of first refusal created by statute, the Certificate of Incorporation or Bylaws of the Company, as the case may be, or any agreement to which Company is a party or by which it is bound. There are no Convertible Securities issued or promised by the Company. There are no other options, warrants, calls, rights, commitments or agreements of any kind or character to which Company or Seller is a party or by which either is bound obligating Company to issue, deliver, sell, repurchase or redeem, or cause to be issued, delivered, sold, repurchased or redeemed, any shares of Capital Stock or obligating Company to grant, extend, accelerate the vesting of, change the price of, or otherwise amend or enter into any such option, warrant, call, right, commitment or agreement. There is no stock option plan entitling employees, directors or consultants to purchase stock in the Company. Except for the agreement s contemplated by this Agreement, there are no contracts, commitments or agreements relating to voting, purchase or sale of Capital Stock (i) between or among Company and any of its security holders, and (ii) between or among any of Company's security holders. None of the employees of Company hold any options in the Company or have any rights to acquire Capital Stock. All outstanding shares of Company capital stock were issued in compliance with all applicable federal and state securities laws.

(b) Except as set forth in Section 5.2(b) of the Disclosure Schedule, Company does not own or otherwise hold, directly or indirectly, any equity securities or other ownership interests in, or any securities convertible into or exercisable or exchangeable for any equity securities or other ownership interests in, any corporation, limited liability company, general or limited partnership, joint venture, business trust, association or other business enterprise or entity, and is not a party to any contract, agreement, commitment or other arrangement pursuant to which Company has an option or other right to acquire any equity securities or other ownership interest in any corporation, limited liability company, general or limited partnership, joint venture, business trust, association or other business enterprise or entity.

1.3 Authority; Conflicts; Consents

Company has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement by Company, the performance by Company of its obligations hereunder, and the consummation by Company of the transactions contemplated hereby, have been duly authorized by all necessary corporate and stockholder action on the part of Company. This Agreement has been duly executed and delivered by Company and constitutes the valid and binding obligation of Company, enforceable against Company in accordance with its terms. The execution and delivery of this Agreement by Company does not, and the performance by Company of its obligations hereunder and the consummation by Company of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default und er (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of any benefit under (i) any provision of the Certificate of Incorporation or Bylaws of the Company, as amended to date, or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to Company or its assets and properties. No consent, approval, order or authorization of, or registration, declaration or filing with, any court, administrative agency or commission or other governmental authority or instrumentality ("**Governmental Entity**") is required by or with respect to Company in connection with the execution and delivery of this Agreement by Company, the performance by Company of its obligations hereunder, or the consummation by Company of the transactions contemplated hereby.

1.4 Financial Statements

Section 5.4 of the Disclosure Schedule contains a true and complete copy of Company's unaudited but reviewed financial statements as at and for the twelve-month periods ended December 31, 2002 and December 31, 2001 certified as true and correct by the Company's Chief Executive Officer and the Chief Financial Officer, and the Company's audited financial statements as at and for the twelve-month period ended December 31, 2003, (the "**Financial Statements**"). The Financial Statements have been prepared in accordance with United States generally accepted accounting principles ("**GAAP**") applied on a consistent basis throughout the periods indicated and with each other. The Financial Statements fairly present in all material respects the financial condition and operating results of Company as of the dates, and for the periods , indicated therein. The Financial Statements have been prepared from the books of account and financial records of the Company, which are maintained in accordance with GAAP.

1.5 Absence of Certain Changes.

Except as set forth in Section 5.5 of the Disclosure Schedule, since December 31, 2003 (the "**Balance Sheet Date**"), Company has conducted its business in the ordinary course consistent with past practice and there has not occurred: (i) any change, event or condition (whether or not covered by insurance) that has resulted in, or might reasonably be expected to result in, a Material Adverse Effect on Company; (ii) any acquisition, sale or transfer of any material asset of Company (except as contemplated by this Agreement); (iii) any change in accounting methods or practices (including any change in depreciation or amortization policies or rates) by Company or any revaluation by Company of any of its assets or properties; (iv) any declaration, setting aside, or payment of a dividend or other distribution with respect to the shares of Compa ny, or any direct or indirect redemption, purchase or other acquisition by Company of any of its shares of capital stock; (v) any contract entered into by Company, or any material amendment or termination of, or default under, any material contract to which Company is a party or by which it is bound, other than any of such events or contracts occurring in the ordinary course of business or as otherwise expressed in this Agreement; (vi) any amendment or change to the Certificate of Incorporation or Bylaws of the Company; (vii) any increase in or modification of the compensation or benefits payable or to become payable by Company to any of its directors or employees, other than any such events occurring in the ordinary course of business or as otherwise expressed in this Agreement; or (viii) any damage, destruction or other casualty loss (whether or not covered by insurance) affecting the Company which, individually or in the aggregate, has had or could reasonably be expected to have a Mate rial Adverse Effect; (ix) any capital expenditure, or commitment for a capital expenditure, for additions or improvements to property, plant and equipment, other than any such events occurring in the ordinary course of business; or (x) any negotiation or agreement by Company to do any of the things described in the preceding clauses (i) through (ix) of this Section 5.5 (other than negotiations with Purchaser and its representatives regarding the transactions contemplated by this Agreement).

1.6 Absence of Undisclosed Liabilities

Except as set forth in Section 5.6 of the Disclosure Schedule, Company has no Liabilities other than (i) those Liabilities set forth or adequately provided for in the Financial Statements, (ii) those Liabilities not required to be set forth in the Financial Statements under GAAP, and (iii) those Liabilities incurred in the ordinary course of business and in a manner consistent with past practice since the Balance Sheet Date.

1.7 Litigation

Except as set forth in Section 5.7 of the Disclosure Schedule, there is no private or governmental action, suit, proceeding, claim, arbitration or investigation pending before any Governmental Entity, or to the Knowledge of Seller or the Company, threatened (either orally or in writing), against Company, any of its assets and properties or any of its officers or directors (in their capacities as such), and, to the Knowledge of Seller or the Company, except as could not reasonably be expected to have a Material Adverse Effect on Company, there is no valid basis for any such action, suit, proceeding, claim, arbitration or investigation. There is no judgment, decree or order against the Company, or to the Knowledge of the Seller or the Company, any of its directors or officers (in their

capacities as such), that could prevent, enjoin, or materially alter or delay the t ransactions contemplated by this Agreement, or that could reasonably be expected to have a Material Adverse Effect on Company.

1.8 Restrictions on Business Activities

There is no agreement, judgment, injunction, order or decree binding upon Company which has or could reasonably be expected to have the effect of prohibiting or impairing any current or future business practice of Company, any acquisition of property by Company or the conduct of business by the Company as currently conducted.

1.9 Governmental Authorization

Except as set forth in Section 5.9 of the Disclosure Schedule, the Company has obtained each federal, state, county, local or foreign governmental consent, license, permit, grant, or other authorization of a Governmental Entity that is required for the operation of Company's business (collectively, "**Company Authorizations**"), and all such Company Authorizations are in full force and effect, other than any Company Authorizations for which the failure to obtain or maintain in full force and effect would not have a Material Adverse Effect on the Company.

1.10 Title to Property

(a) Company has good and marketable title to all of its assets and properties, real and personal, or with respect to leased assets and properties, valid leasehold interests therein, free and clear of all Liens. All assets and properties used in the operations of Company are reflected in the Financial Statements to the extent GAAP requires the same to be reflected. Section 5.10 of the Disclosure Schedule contains a complete and accurate list of the property owned or leased by Company.

(b) The assets and properties of the Company (other than the Company Intellectual Property), whether owned, leased, licensed or otherwise held, constitute and will constitute on the Closing Date all of the assets and rights that are used by the Company in the operation of its business as it is being conducted as of the date hereof and as it is to be conducted through the Closing Date.

(c) The facilities and equipment owned or leased by the Company are in good operating condition and repair and free from any material defects, reasonable wear and tear excepted, and are suitable for the uses for which they are being used and are performing the functions for which they were intended.

1.11 Intellectual Property

(a) For all purposes of and under this Agreement, the following terms shall have the following respective meanings:

(i) "**Intellectual Property**" means any or all of the following and all rights in, arising out of, or associated therewith: (i) all United States and foreign patents and applications therefore and all reissues, divisions, renewals, extensions, provisionals, continuations and continuations-in-part thereof ("**Patents**"); (ii) all inventions (whether patentable or not), invention disclosures, improvements, trade secrets, proprietary information, proprietary processes or formulae, franchises, licenses, know how, technology, technical data and customer lists, and all documentation relating to any of the foregoing; (iii) all copyrights, copyright registrations and applications therefore and all other rights corresponding thereto throughout the world; (iv) all trade names, logos, common law trademarks and service marks; trademark and service mark registrations a nd applications therefore and all goodwill associated therewith throughout the world; (v) all databases and data collections and all rights therein throughout the world; (vi) all computer software including all source code, object code, algorithms, display screens, layouts, firmware, development tools, files, records and data, all media on which any of the foregoing is recorded, all Web addresses, sites and domain names; (vii) any similar, corresponding or equivalent rights to any of the foregoing; and (viii) all documentation related to any of the foregoing.

(ii) "**Company Intellectual Property**" shall mean any Intellectual Property that is owned by or exclusively licensed to Company. Without limiting the generality of the foregoing, Company Intellectual Property includes all Intellectual Property owned or licensed by Company related to Company's products excluding any licenses for off the shelf or similar software.

(iii) "**Registered Intellectual Property**" shall mean all United States, international and foreign: (i) patents, patent applications (including provisional applications); (ii) registered trademarks, applications to register trademarks, intent-to-use applications, or other registrations or applications related to trademarks; (iii) registered copyrights and applications for copyright registration; and (iv) any other Company Intellectual Property that is the subject of an application, certificate, filing, registration or other document issued by, filed with, or recorded by, any Governmental Entity.

(b) The Company does not own and has not filed, owned or was otherwise issued prior to the date hereof, any Registered Intellectual Property in any jurisdiction whatsoever. No proceedings or actions before any court, tribunal (including the United States Patent and Trademark Office (the "**PTO**") or equivalent authority anywhere in the world) related to any of the Company Intellectual Property was taken or conducted in the last two years on behalf of the Company or are currently pending.

(c) Section 5.11(c) of the Disclosure Schedule contains a complete and accurate list (by name and version number) of all products and service offerings of the Company ("**Company Products**") that have been distributed or provided in the five (5)-year period preceding the date hereof

(d) Except as set forth in Section 5.11(d) of the Disclosure Schedule, no Company Intellectual Property or Company Product is subject to any proceeding or outstanding decree, order, judgment, contract, license, agreement, or stipulation restricting in any manner the use, transfer, or licensing thereof, or which may affect the validity, use or enforceability of such Company Intellectual Property or Company Product.

(e) In each case in which the Company has acquired any Intellectual Property rights from any Person, the Company has obtained a valid and enforceable assignment sufficient to irrevocably transfer all rights in such Intellectual Property (including the right to seek future damages with respect to such Intellectual Property) to Company, and in accordance with applicable laws and regulations.

(f) The Company Intellectual Property constitutes all the Intellectual Property used in and/or necessary to the conduct of the business of the Company as it currently is conducted, including, without limitation, the design, development, manufacture, use, import and sale of Company Products. The Company owns and has good and exclusive title to, or has a valid transferable license to each item of Company Intellectual Property free and clear of any Liens (excluding non-exclusive licenses and related restrictions granted in the ordinary course). Without limiting the generality of the foregoing the Company owns exclusively, and has good title to, all copyrighted works that are Company Products or which the Company otherwise purports to own.

(g) No Company Products or any technology, software or other Intellectual Property incorporated into any Company Products were developed by or with the assistance of any third party, and (ii) no third party has any claim of ownership or other valid right to use, license, dispose of or otherwise distribute any Company Products or any technology, software or other Intellectual Property incorporated into any Company Products except as set forth in section 5.11(g) of the Disclosure Schedule.

(h) Company has not transferred ownership of, or granted any exclusive license with respect to, any Intellectual Property that is or was Company Intellectual Property, to any third party, or permitted Company's rights in such Company Intellectual Property to lapse or enter the public domain.

(i) Section 5.11(i) of the Disclosure Schedule contains a complete and accurate list of all contracts, licenses and agreements to which Company is a party: (i) with respect to Company Intellectual Property licensed or transferred to any third party (other than end-user licenses in the ordinary course); or (ii) pursuant to which a third party has licensed or transferred any Intellectual Property to Company (other than shrink-wrap licenses available off the shelf).

(j)

All contracts, licenses and agreements relating to either (i) Company Intellectual Property or (ii) Intellectual Property of a third party licensed to Company, are in full force and effect. The consummation of the transactions contemplated by this Agreement will neither violate nor result in the breach, modification, cancellation, termination or suspension of such contracts, licenses and agreements or cause the forfeiture, modification or termination or give right of forfeiture, modification or termination of any Company Intellectual Property or in any material way impair the right of the Company to use, sell, license or dispose of or to bring any action for the infringement of any Company Intellectual Property or portion thereof. The Company is in compliance in all material respects with, and has not materially breached any term of any such contracts, licenses and agr eements and, to the best knowledge of Company and Seller, all other parties to such contracts, licenses and agreements are in compliance in all material respects with, and have not materially breached any term of, such contracts, licenses and agreements. Following the Closing Date, the Company will be permitted to exercise all of the Company's rights under such contracts, licenses and agreements to the same extent the Company would have been able to had the transactions contemplated by this Agreement not occurred and without the payment of any additional amounts or consideration other than ongoing fees, royalties or payments which the Company would otherwise be required to pay. Neither this Agreement nor the transactions contemplated by this Agreement will result in (i) the Company granting to any third party any right to or with respect to any Intellectual Property right owned by, or licensed to, the Company, (ii) the Company being bound by, or subject to, any non-compete or other restriction on the operation or scope of its businesses, or (iii) the Company being obligated to pay any royalties or other material amounts to any third party in excess of those payable by the Company prior to the Closing other than ongoing fees, royalties or payments the Company would otherwise be required to pay prior to the Closing.The operation of the business of the Company as such business currently is conducted, including (i) the Company's technology, design, development, manufacture, distribution, reproduction, marketing or sale of the products or services of the Company (including Company Products), and (ii) the Company's use of any product, device or process, has not and does not infringe or misappropriate the Intellectual Property of any third party, violate any license or agreement with any third party, constitute unfair competition or trade practices under the laws of any jurisdiction or violate any license or agreement between the Company and any third party.

(k) To the Knowledge of the Seller and the Company, the Company and the Seller have not received notice from any third party that the operation of the business of the Company or any act, product or service of the Company, infringes or misappropriates the Intellectual Property of any third party or constitutes unfair competition or trade practices under the laws of any jurisdiction.

(l) There is no pending or, to the Company's and the Seller's Knowledge, threatened (either orally or in writing) claim or litigation contesting the validity, ownership or right to use, sell, license or dispose of any Company Intellectual Property.

(m) To the Knowledge of the Company and the Seller, no person has or is infringing or misappropriating any Company Intellectual Property.

(n) The Company has taken reasonable steps to protect its rights in its confidential information and trade secrets that it wishes to protect or any trade secrets or confidential information of third parties provided to the Company, and, without limiting the foregoing, the Company has and enforces a policy requiring each employee), consultant, agent and contractor (except as set forth in Section 5.11 (n) of the Disclosure Schedule) to execute a proprietary information/confidentiality agreement substantially in the form provided to Purchaser, and, to the Knowledge of the Company and the Seller, all current employees, consultants, and agents and contractors of the Company, currently engaged or that were engaged by Company in the past year, have executed such an agreement.

1.12 Environmental Matters.

(a) For all purposes of and under this Agreement, the following terms shall have the following respective meanings:

(i) "**Environmental and Safety Laws**" shall mean any federal, state or local laws, ordinances, codes, regulations, rules, policies and orders that are intended to assure the protection of the environment, or that classify, regulate, call for the remediation of, require reporting with respect to, or list or define air, water, groundwater, solid waste, hazardous or toxic substances, materials, wastes, pollutants or contaminants, or which are intended to assure the safety of employees, workers or other persons, including the public.

(ii) "**Hazardous Materials**" shall mean any toxic or hazardous substance, material or waste or any pollutant or contaminant, or infectious or radioactive substance or material, including, without limitation, those substances, materials and wastes defined in or regulated under any Environmental and Safety Laws, other than de minimum amounts of materials used by the Company in the ordinary course of business and in compliance with Environmental and Safety Laws.

(iii) "**Property**" shall mean all real property leased or owned by Company, either currently or in the past.

(iv) "**Facilities**" shall mean all buildings and improvements on the Property of Company.

Solely with respect to the period of time during which the Company owned or leased the particular Property and/or Facility and further solely limited as to actions or omissions taken by the Company: (i) No methylene chloride or asbestos is contained in or has been used at or released from the Facilities; (ii) all Hazardous Materials and wastes have been disposed of in accordance with all Environmental and Safety Laws; and (iii) the Company has not received any written notice of any noncompliance of the Facilities or its past or present operations with Environmental and Safety Laws; (iv) no notices, administrative actions or suits are pending or, to the Knowledge of the Company, threatened, against Company relating to a violation of any Environmental and Safety Laws; (v) the Company is not a potentially responsible party under the federal Comprehensive Environ mental Response, Compensation and Liability Act (CERCLA), or state analogous statute, arising out of events occurring prior to the Closing Date; (vi) the Company's uses and activities at the Facilities have at all times complied with all Environmental and Safety Laws, other than for any noncompliance which would not have a Material Adverse Effect on the Company; and (vii) the Company has all the permits and licenses required to be issued under federal, state or local laws regarding Environmental and Safety Laws, and is in full compliance with the terms and conditions of such permits and licenses, other than for any failure to have any such permits or licenses and/or non-compliance which would not have a Material Adverse Effect on the Company.

1.13 Tax Returns and Audits. Except as set forth in Section 5.13 of the Disclosure Schedule:

(i) As of the Closing, the Company will have timely filed all required federal, state, local and foreign returns, estimates, information statements and reports ("**Returns**") relating to any and all Taxes concerning or attributable to Company or its operations and such Returns are true and correct in all material respects and have been completed in all material respects in accordance with applicable law.

(ii) As of the Closing, the Company (A) will have paid all Taxes shown on the Returns and will have withheld with respect to its employees and contract workers all federal and state income taxes, Federal Insurance Contribution Act ("**FICA**"), Federal Unemployment Tax Act ("**FUTA**") and other Taxes required to be withheld, and (B) will have accrued on the Financial Statements all unpaid Taxes attributable to the periods preceding the Balance Sheet Date and will not have incurred any liability for Taxes for the period commencing on the Balance Sheet Date and ending immediately prior to the Closing other than in the ordinary course of business.

(iii) The Company has not been materially delinquent in the payment of any Tax, nor is there any Tax deficiency outstanding, assessed or proposed against the Company attributable to periods preceding the Balance Sheet Date, nor has the Company executed any waiver of any statute of limitations on or extending the period for the assessment or collection of any Tax, which waiver remains in effect.

(iv) No audit or other examination of any Return of the Company is presently in progress, nor has the Company been notified of any request for such an audit or other examination.

(v) The Company has no Liabilities for unpaid federal, state, local and foreign Taxes attributable to periods preceding the Balance Sheet Date which have not been accrued or reserved on the Financial Statements, whether asserted or unasserted, contingent or otherwise, and Company has not incurred any Liability for Taxes since the date of the Financial Statements other than in the ordinary course of business.

(vi) The Company has made or will make available to Purchaser or its legal counsel, copies of all foreign, federal, state and local income and all state and local sales and use Returns for Company filed for all periods since the taxable year ended December 31, 1999.

(vii) There are (and immediately following the Closing there will be) no material Liens on the assets of Company relating to or attributable to Taxes (collectively, "**Tax Liens**") other than Tax Liens for Taxes not yet due and payable.

(viii) The Company and the Seller has no Knowledge of any assertion of any claim relating or attributable to Taxes which, if adversely determined, would result in any material Tax Lien on the assets of the Company.

(ix) The Company is not a party to any Tax sharing, indemnification or allocation agreement nor does Company owe any amount under any such agreement.

(x) The Company is not, and has not been at any time during the period specified in Section 897(c)(1)(A)(ii), a "United States Real Property Holding Corporation" within the meaning of Section 897(c)(2) of the Code.

(xi) No adjustment relating to any Return filed by the Company has been proposed formally or, to the Knowledge of Company and the Seller, informally by any Tax authority to Company or any representative thereof.

(xii) The Company has withheld or collected from each payment made to each of its employees the amount of all Taxes, including, but not limited to, income Taxes, and all other employment related Taxes required to be withheld or collected therefrom, and has made provision for or paid the same to the proper Tax receiving officers or authorized depositaries.

1.14 Employee Benefit Plans

The Company represents and warrants and the Seller represents and warrants to its Knowledge, that:

(a) All employee compensation, incentive, fringe or benefit plans, programs, policies, commitments, contracts or other arrangements (whether or not set forth in a written document and including, without limitation, all "employee benefit plans" within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**")) covering any current or former employee, director or consultant of Company (an "**Employee**," which shall for this purpose mean an Employee of the Company or any Subsidiary of the Company), are listed in Section 5.14(a) of the Disclosure Schedule (the "**Employee Plans**").

(b) The Company has performed in all material respects all obligations required to be performed by it under, is not in default or violation of, and has no knowledge of any default or violation by any other party to each Employee Plan, and each Employee Plan has been maintained and administered in all material respects in compliance with its terms and with the requirements prescribed by any and all statutes, orders, rules and regulations, including but not limited to ERISA and the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), which are applicable to each such Employee Plan. All contributions, reserves or premium payments required to be made or accrued as of the date hereof to any Employee Plan has been timely made or accrued. Each 401(k) plan is intended to be qualified under Section 401(a) of the Code.

(c) Neither the Company nor any of its Subsidiaries has at any time ever maintained, established, sponsored, participated in, or contributed to any plan subject to Title IV of ERISA or Section 412 of the Code. At no time has the Company or any of its Subsidiaries contributed to or been obligated to contribute to any "multiemployer plan," as such term is defined in Section 3(37) of ERISA or to any plan described in Section 413 of the Code.

(d) Neither the Company nor any of its Subsidiaries has, in any material respect, violated any of the health continuation requirements of the Consolidated Omnibus Budget Reconciliation Act, as amended. None of the Employee Plans promises or provides retiree medical benefits to any person except as required by applicable law, and neither the Company nor any of its Subsidiaries has represented, promised or contracted (whether in oral or written form) to provide such retiree benefits to any employee or dependent thereof, except to the extent required by statute.

(e)

Neither the Company nor any of its Subsidiaries is bound by or subject to (and none of its respective assets or properties is bound by or subject to) any arrangement with any labor union. No Employee of the Company or any of its Subsidiaries is represented by any labor union or covered by any collective bargaining agreement and, to the knowledge of the Company, no campaign to establish such representation is in progress. There is no pending or, to the knowledge of the Company and the Seller, threatened labor dispute involving the Company or any of its Subsidiaries and any group of its employees nor has the Company or any of its Subsidiaries experienced any labor interruptions over the past three (3) years, and the Company and its Subsidiaries consider their relationships with their Employees to be good. The Company and its Subsidiaries are in compliance in all material respects w ith all applicable material foreign, federal, state and local laws, rules and regulations respecting employment, employment practices, terms and conditions of employment and wages and hours.

(f) Except as set forth in Section 5.14 of the disclosure schedule neither the execution and delivery of this Agreement, nor the consummation of the transactions contemplated hereby will (either alone or upon the occurrence of any additional or subsequent events) (i) constitute an event under any employment agreement that will or may result in any payment (whether of severance pay or otherwise), forgiveness of indebtedness, distribution, increase in benefits or obligation to fund benefits with respect to any Employee; or (ii) result in any payment or benefit which will or may be made by the Company with respect to any Employee will be characterized as a "parachute payment," within the meaning of Section 280G(b)(2) of the Code.

1.15 Employee Matters

(a) Section 5.15 of the Disclosure Schedule sets forth a true, accurate and complete list of all the Company's directors, officers, and employees, and consultants independent contractors (provided such consultants and contractors received more than $40,000 in fees during 2003), and includes a listing of each of such director's, officer's and employee's compensation terms (including, but not limited to salary, bonuses, stock options and warrants (if any), fringe benefits and accrued vacation). There are 43 employees of the Company who reside or work in New Jersey, and 4 employees who reside or work in New York, Texas, North Carolina and Maryland respectively. Since January 1, 2003, the Company has not employed or retained any employees to provide services outside of the United States (other than U.S. based employees engaged in work-related travel outside of the United Sta tes in the ordinary course of business) . Each of the Company and the Seller represents and warrants to its Knowledge, that the Company is in compliance in all material respects with the terms and conditions of each contract with each Employee. Each of the Company and the Seller represents and warrants to its Knowledge, that the Company is not delinquent in any material payment to any of its employees for any wages, salaries, commissions, bonuses or other compensation for any services performed by any such employee to the date hereof or amounts required to be reimbursed to such directors, officers or employees. Except as indicated in Section 5.15 of the Disclosure Schedule, upon termination of the employment of any employees, the Company will not, by reason of the Transaction or anything done prior to the Closing Date, be liable to any of such directors, officers or employees for severance pay or any other payments (other than accrued salary, vacation or sick pay in accordance with normal policies).

(b) The Purchaser has received true and complete copies of all written (and summaries of oral) current employment, consulting, termination and severance contracts with or for the benefit of, or otherwise relating to, any directors, officers, and employees, and consultants/independent contractors (provided such consultants and contractors received more than $40,000 in fees during 2003) of the Company. None of the execution, delivery or performance of any Transaction Document or the consummation of the transactions contemplated hereby or thereby will result in any obligation to pay any directors, officers, employees, consultants, independent contractors, former directors, officers, employees, consultants or independent contractors of the Company severance pay or termination, retention or other benefits.

(c) No Key Employee has given notice to or received notice from the Company or the Seller that any such Key Employee's employment or service may be terminated or advised the Company or the Seller of an intention to give such notice to, or is expected to receive notice from, the Company that any Key Employee's employment or service may be terminated.

(d) The Company is in compliance in all material respects with all currently applicable laws and regulations respecting employment, discrimination in employment, terms and conditions of employment, wages, hours and occupational safety and health and employment practices, and is not engaged in any unfair labor practice. The Company has withheld all amounts required by law or by agreement to be withheld from the wages, salaries, and other payments to employees, and is not liable for any arrears of wages or any taxes or any penalty for failure to comply with any of the foregoing. The Company is not liable for any payment to any trust or other fund or to any Governmental Entity, with respect to unemployment compensation benefits, social security or other benefits or obligations for employees (other than routine payments to be made in the normal course of business and consistent wit h past practice). Each of the Company and the Seller represents and warrants to its Knowledge, that there are no pending claims against the Company under any workers compensation plan or policy or for long term disability. To the Knowledge of Seller, there are no material controversies pending or threatened, between the Company and any of its employees, which controversies have or could reasonably be expected to result in an action, suit, proceeding, claim, arbitration or investigation before any Governmental Entity. The Company is not a party to any collective bargaining agreement or other labor union contract nor does the Company or Seller have any Knowledge of any activities or proceedings of any labor union or to organize any such employees. To the Company's and Seller's Knowledge, no employees of the Company are in violation of any material term of any employment contract, patent disclosure agreement, enforceable noncompetition agreement, or any enforceable restrictive coven ant to a former employer relating to the right of any such employee to be employed by the Company because of the nature of the business conducted or presently proposed to be conducted by the Company or to the use of trade secrets or proprietary information of others.

1.16 Interested Party Transactions.

The Company is not indebted to any director, officer, employee, stockholder or agent of the Company (except for amounts due as normal salaries and bonuses and in reimbursement of ordinary expenses), and no such person is indebted to the Company, except as set forth on the Disclosure Schedule.

1.17 Insurance

The Company has obtained key man insurance on Moshe Tal for the year 2004, for which the Company is the listed beneficiary, in the amount of $1,000,000. Section 5.17 of the Disclosure Schedule sets forth a complete and accurate list of all insurance policies and surety bonds which the Company maintains (the "**Insurance Policies**"). All premiums due and payable under all such policies and bonds have been paid. The Seller has no Knowledge of any threatened termination of, or material premium increase with respect to, any of such policies.

1.18 Compliance With Laws

Each of the Company and the Seller represents and warrants to its Knowledge, that the Company has complied with, is not in violation of, and has not received any notices of violation with respect to, any federal, state, local or foreign statute, law or regulation with respect to the conduct of its business, or the ownership or operation of its assets or business, except for such violations or failures to comply as could not reasonably be expected to have a Material Adverse Effect on the Company.

1.19 Complete Copies of Materials

All documents delivered or made available to Purchaser by the Company and/or the Seller are the originals or true copies thereof.

1.20 Brokers' and Finders' Fees

The Company has not incurred, nor will it incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

1.21 Products; Customers and Suppliers

(a) All Company Products are free from material defects in design, workmanship and materials. All Company Products are materially in compliance with the specifications or other requirements (including functionality and performance parameters) issued by the Company from time to time. All Company Products are fully integratable with the products, platforms and systems as published by the Company from time to time.

(b) During the 12 month period preceding the date hereof no customer of the Company's Products which individually accounted for more than three percent (3%) of the Company's gross revenues and no supplier of the Company, has canceled or otherwise terminated, or, to the Knowledge of the Company and the Seller, made any threat to the Company or the Seller to cancel or otherwise terminate its relationship with the Company, and to the Knowledge of the Company and the Seller, no such supplier or customer intends to cancel or otherwise terminate its relationship with the Company.

(c) Neither the Company nor the Seller has received any material customer complaints (including, without limitation, from any distributor or business partner) concerning the Company Products, nor has it had any of the Company Products returned by a purchaser thereof, other than minor, nonrecurring warranty problems. Neither the Company nor the Seller, has received any complaints concerning alleged defects in any of the Company Products, which if true, would have a Material Adverse Affect on the Company.

1.22 Contracts.

(a) Each of the Company and the Seller represents and warrants to its Knowledge, that the Company has delivered, disclosed or made available to Purchaser all currently effective material written or material oral agreements, and all written contracts, commitments and other instruments and arrangements to which the Company is a party (the "Contracts"). The Contracts so delivered, disclosed or made available by the Company are listed in Section 5.22 of the Disclosure Schedule.

(b) Except for the Contracts listed in Section 5.22 of the Disclosure Schedule, the Company is not a party to or bound by any material contract, including, without limitation:

(i) any contract with a customer, user, supplier or distributor;

(ii) any contract limiting the freedom of the Company to engage in any line of business or to compete with any other Person, or any confidentiality, secrecy or non-disclosure contract;

(iii)

any contract with any Person with whom the Company or the Seller does not deal at arm's length, any contract entered into not in the ordinary course of business, or any contract with an interested or related party of the Company or Seller;

(iv) any contracts involving exclusivity or other forms of "most favored nation" arrangements.

1.23 No Breach of Contracts

Each of the Company and the Seller represents and warrants to its Knowledge, that the Company has performed all of the obligations required to be performed by it and is entitled to all benefits under, and is not alleged to be in default in respect of, any Contract, the nonperformance of which and/or default of which would have a Material Adverse Effect on the Company. Each of the Contracts is in full force and effect in all material respects and to the Company's and Seller's Knowledge, there exists no material default with respect to the other contracting party.

1.24 Third Party Consents

The Company represents and warrants and the Seller represents and warrants to its Knowledge, that Section 5.24 of the Disclosure Schedule contains a complete and accurate list of all Contracts to which Company is a party that require by their terms a consent of any third party or parties thereto to avoid a breach thereof as a consequence of the consummation of the transactions contemplated hereby, which such breach would result in a Material Adverse Effect to the Company.

1.25 Export Control Laws

To the Knowledge of Seller and the Company, except as set forth in Section 5.25 of the Disclosure Schedule, the Company has conducted its export transactions in accordance with applicable provisions of United States export control laws and regulations, including but not limited to the Export Administration Act and implementing Export Administration Regulations. Without limiting the foregoing, except as set forth in Section 5.25 of the Disclosure Schedule and solely to the extent the failure to obtain such license/approval/consent, and/or claim, action, condition, circumstance would have a Material Adverse Effect on the Company, to the Knowledge of Seller and the Company:

(a) the Company has obtained all export licenses and other approvals required for its exports of products, software and technologies from the United States;

(b) the Company is in compliance with the terms of all applicable export licenses or other approvals;

(c) there are no pending or, to the Company's and Seller's Knowledge, threatened claims against the Company with respect to such export licenses or other approvals;

(d) to the Company's and Seller's Knowledge, there are no actions, conditions or circumstances pertaining to the Company's export transactions that may give rise to any future claims; and

(e) to the Company's and Seller's Knowledge, no consents or approvals for the transfer of export licenses to Purchaser are required, or such consents and approvals can be obtained expeditiously without material cost.

1.26 Solvency

The Company is not insolvent as such term is used in Section 548 of the Bankruptcy Code and the Uniform Fraudulent Transfers Act as adopted in the State of Delaware, and all other applicable fraudulent transfer or fraudulent conveyance laws, statutes, rules or regulations applicable to the Company.

1.27 Securities Law Compliance.

All previous issuances of stock or shares of the Company or agreements to issue stock of the Company have been in complete compliance with all applicable securities laws, and no stockholder or any other party has any right of rescission or other claim against the Company.

1.28 Representations Complete

None of the representations or warranties made by the Company and the Seller herein or in the Disclosure Schedule, or any certificate furnished by the Company or the Seller pursuant to this Agreement, when all such documents are read together in their entirety, contains or will contain on the Closing Date any untrue statement of a material fact, or, in the case of the Disclosure Schedule, omits or will omit on the Closing Date to state any material fact required to be stated therein.

1.29 Disclaimer of Other Representations and Warranties. Except as expressly set forth in Sections 4 and 5, Seller and the Company make no representation or warranty, express or implied, at law or in equity, in respect of the Company or any of its assets, liabilities or operations.

1.30 No Derogation.

None of the aforesaid representations of the Seller and Company will derogate from the force and/or effect of the representations and warranties given by the Purchaser and the Seller's reliance thereon.

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF PURCHASER AND AUDIOCODES

As of the date hereof and as of the Closing Date, except as set forth or otherwise disclosed in a document delivered by Purchaser and AudioCodes to Seller, dated as of the date hereof and specifically referring to the representations and warranties in this Agreement to which such information relates, AudioCodes and Purchaser, hereby jointly and severally represent and warrant to Seller as follows, and acknowledges that Seller is entering into the Transaction in reliance hereon:

2.1 Organization, Standing and Power

AudioCodes is a company duly organized, validly existing and in good standing under the laws of the State of Israel. Purchaser is a company duly organized, validly existing and in good standing under the laws of the State of Delaware. AudioCodes and the Purchaser have the corporate power to own its properties and to carry on its business as now being conducted and as proposed to be conducted and is duly qualified to do business and is in good standing in each jurisdiction in which the failure to be so qualified and in good standing would have a Material Adverse Effect on Purchaser.

2.2 Capital Structure

(a) The capital structure of AudioCodes is as detailed in filings with the Securities and Exchange Commission (the "**SEC**"). Purchaser is a wholly-owned Subsidiary of AudioCodes.

(b) The Purchaser Shares constitute the only classes of equity securities of AudioCodes registered or required to be registered under the U.S. Exchange Act.

(c) The Purchaser Shares issuable to the Seller pursuant to this Agreement shall be, when issued, validly issued, fully paid, nonassessable and free of all Liens and preemptive rights of any shareholders of AudioCodes.

2.3 Authority; Conflicts; Consents

Each of AudioCodes and Purchaser has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby. The execution and delivery of this Agreement, the performance by each of AudioCodes and Purchaser of its obligations hereunder, and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of each of AudioCodes and Purchaser. This Agreement has been duly executed and delivered by each of AudioCodes and Purchaser and constitutes the valid and binding obligation of each of AudioCodes and Purchaser, enforceable against each of AudioCodes and Purchaser in accordance with its terms. The execution and delivery of this Agreement does not, and the performance by each of AudioCodes and Purchaser of its obligations hereunder and the consummat ion of the transactions contemplated hereby will not, conflict with, or result in any violation of, or default under (with or without notice or lapse of time, or both), or give rise to a right of termination, cancellation or acceleration of any obligation or loss of a benefit under (i) any provision of the Articles of Association and corporate documents of each of AudioCodes and Purchaser, as amended and in effect as of the date hereof, or (ii) any material mortgage, indenture, lease, contract or other agreement or instrument, permit, concession, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to each of AudioCodes and Purchaser or its properties or assets. No consent, approval, order or authorization of, or registration, declaration or filing with, any Governmental Entity, is required by or with respect to Purchaser or AudioCodes in connection with the execution and delivery of this Agreement by Purchaser or AudioCodes, the performance by P urchaser or AudioCodes of its obligations hereunder, or the consummation by Purchaser or AudioCodes of the transactions contemplated hereby, except for (i) any filings as may be required under applicable state "blue sky" securities laws and the securities laws, and (ii) such other consents, authorizations, filings, approvals and registrations which, if not obtained or made, would not have a Material Adverse Effect on Purchaser or AudioCodes and would not prevent, materially alter or delay any of the transactions contemplated by this Agreement.

2.4 SEC Reports.

AudioCodes' filings with the SEC, under the U.S. Securities Act of 1933, as amended, and the U.S. Securities Exchange Act of 1934, as amended (the "Securities Acts") complied at the time of filing in all material respects with all applicable requirements of such laws, each law as in effect on the dates such forms reports and documents were filed. Such filings do not, as of the date thereof, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

2.5 Broker's and Finders' Fees

Neither AudioCodes nor Purchaser has incurred, nor will incur, directly or indirectly, any liability for brokerage or finders' fees or agents' commissions or investment bankers' fees or any similar charges in connection with this Agreement or any transaction contemplated hereby.

2.6 Investment Intent.

Purchaser is purchasing the Seller Shares for investment for its own account and not with a view to, or for sale in connection with, any distribution thereof. Purchaser confirms that it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks relating to entering into this Agreement. Purchaser has not been organized for the sole purpose of acquiring Seller Shares.

2.7 No Market for Shares.

Purchaser acknowledges that the Company is a privately held company and that its Shares are not registered or listed for trade on any stock exchange.

2.8 Due Diligence

Notwithstanding the foregoing, Both AudioCodes and Purchaser acknowledges that it has conducted its own due diligence of the Company, has been furnished access to key personnel and certain documents of the Company and has been afforded an opportunity to ask questions of the members of the management of Company.

2.9 No Derogation.

None of the aforesaid representations of the Purchaser or AudioCodes will derogate from the force and/or effect of the representations and warranties given by the Seller or the Company and the Purchaser's and AudioCodes' reliance thereon.

2.10 Representations Complete

None of the representations or warranties made by the Purchaser or AudioCodes herein, or any certificate furnished by the Purchaser or AudioCodes pursuant to this Agreement, when all such documents are read together in their entirety, contains or will contain on the Closing Date any untrue statement of a material fact.

ARTICLE III

CONDUCT PRIOR TO CLOSING

3.1 Conduct of Business of the Company.

During the period commencing with the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, the Company shall, and the Seller shall cause the Company to (except to the extent expressly contemplated by this Agreement or as Purchaser shall otherwise consent in writing, such consents not to be unreasonably withheld) (i) carry on its business in the usual, regular and ordinary course in substantially the same manner as heretofore conducted, (ii) pay all of its debts and Taxes when due, subject to good faith disputes over such debts or Taxes, (iii) pay or perform its other obligations when due, subject to good faith disputes over such obligations, and (iv) use all commercially reasonable efforts consistent with past practice and policies to preserve intact its present business organizations, keep available the serv ices of its Key Employees and preserve its relationships with customers, suppliers, distributors, licensors, licensees, and others having business dealings with it. Each of the Company and the Seller shall promptly notify Purchaser of any event which could reasonably be expected to have a Material Adverse Effect on the Company.

3.2 Restriction on Conduct of Business of the Company

During the period commencing with the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, except as expressly contemplated by this Agreement, the Company shall not do, cause or, to the extent such matter is within the control of the Company, permit any of the following (nor shall the Seller, to the extent such matter is within the control of the Seller, permit the Company or its officers, directors, employees, agents, representatives, or affiliates or cause any Person on behalf of the Seller), without the prior written consent of Purchaser (which shall not be unreasonably withheld):

(a) any amendments to Company's Certificate of Incorporation or the equivalent organizational documents of any of its subsidiaries;

(b) any declaration or payment of any dividends on or any making of any other distributions (whether in cash, stock or property) in respect of any Capital Stock (except as provided in the Disclosure Schedule), or any split, combination or reclassification of any Capital Stock, or any issuance or authorization of the issuance of any other securities in respect of, in lieu of or in substitution for shares of Capital Stock, or any repurchase or other acquisition, directly or indirectly, any shares of Capital Stock;

(c) any entering into of any contract or commitment (i) involving amounts in excess of $10,000, or exceeding an aggregate of $100,000, or (ii) with any competitor of Purchaser, or any violation, amendment or other modification or waiver of any of the terms of any of the foregoing contracts described in clauses (i) or (ii) of this Section, other than in the ordinary course of business and excluding any sales and procurement arrangements in the ordinary course of business;

(d) any issuance, delivery or sale, or any authorization or proposed issuance, delivery or sale of, or purchase or proposed purchase of, any shares of stock or securities convertible into, or subscriptions, rights, warrants or options exercisable for shares of stock, or any entering into of any other agreements or commitments of any kind or character obligating the Company to issue any such shares of stock or other securities convertible into or exercisable for shares of stock;

(e) any transfer to any person or entity of any rights to Company Intellectual Property, other than in the ordinary course of business and in a manner consistent with past practice;

(f) any entering into or amendment of any agreements pursuant to which any other party is granted exclusive marketing or other exclusive rights of any type or scope with respect to any of its products or technology of the Company;

(g) any sale, lease, license or other disposition of or encumbrance on any of the assets or properties of the Company which are material, individually or in the aggregate, to the business of the Company, except for sales of products in the ordinary course of business and in a manner consistent with past practice;

(h) any incurrence by the Company of any indebtedness for borrowed money in excess of $10,000 (other than trade debt incurred in the ordinary course of business), or any guarantee of any such indebtedness, or any issuance or sale of any debt securities or guarantee any debt securities of others;

(i) any entering by the Company into of any operating lease involving $10,000 or more of aggregate payments over the life of the lease;

(j) any payment, discharge or satisfaction by the Company, in an amount in excess of $5,000 in any one case or $10,000 in the aggregate, of any claim, liability or obligation (absolute, accrued, asserted or unasserted, contingent or otherwise) arising other than in the ordinary course of business and in a manner consistent with past practice, other than the payment, discharge or satisfaction of liabilities reflected or reserved against in the Financial Statements;

(k) any making by the Company of any capital expenditures, capital additions or capital improvements, other than the ordinary course of business and in a manner consistent with past practice;

(l) any material reduction in the amount of any insurance coverage provided by existing insurance policies of the Company;

(m)any adoption of any employee benefit or stock purchase or option plan;

(n) any hiring of any new employee of the Company, or any payment of any special bonus or special remuneration to any director or employee of the Company, or any increase the salaries or wage rates of any employees of the Company;

(o) any granting of any severance or termination pay (i) to any director or officer of the Company, or (ii) to any other employee of the Company, other than payments made pursuant to written agreements outstanding on the date hereof;

(p) any commencement of a lawsuit, other than (i) for the routine collection of bills or (ii) in such cases where the Company in good faith determines that failure to commence suit would result in the material impairment of a valuable aspect of its business, provided that the Company consults with Purchaser prior to the filing of such a suit;

(q) any acquisition, or entering into of an agreement to acquire, by merging or consolidating with, or by purchasing a substantial portion of the assets or capital stock of, or by any other manner, any business or any corporation, partnership, association or other business organization or division thereof, or otherwise acquire or agree to acquire any assets which are material, individually or in the aggregate, to the business of the Company;

(r)

any incorporation or other organization of a corporation, limited liability company, general or limited partnership, joint venture, business trust, association or other business enterprise or entity as a subsidiary of the Company;

(s) any making or changing of any material election in respect of Taxes, or any adoption or changing of any accounting method in respect of Taxes, or any filing of any Tax Return, or any amendment to a Tax Return, or any entering into of any closing agreement, settle any claim or assessment in respect of Taxes, or any consenting to any extension or waiver of the limitation period applicable to any claim or assessment in respect of Taxes, other than any filing or amendment of any Tax Return in the ordinary course of business;

(t) any revaluation of any of any assets or properties of the Company, including, without limitation, any writing down of the value of inventory or writing off of notes or accounts receivable, other than in the ordinary course of business and in a manner consistent with past practice; or

(u) any taking, or agreeing in writing or otherwise to take, any of the actions described in Section 7.2(a) hereof through Section 7.2(u) hereof, inclusive, or any action which would make any of the representations or warranties of the Company or the Seller contained in this Agreement to be untrue or incorrect in any material respect, or prevent the Company or the Seller from performing or cause the Company or the Seller not to perform its covenants and obligations hereunder.

3.3 Access to Information

(a) During the period commencing with the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, the Company and Seller shall afford Purchaser and its accountants, counsel and other representatives, reasonable access, during normal business hours, upon reasonable prior notice, to (i) all of the assets, properties, books, contracts, commitments and records of the Company, (ii) meet with such customers and potential customers, distributors, resellers and/or other distribution and/or sales channels of the Company as the Purchaser may reasonably request, and (ii) all other information concerning the business, properties and personnel of the Company as Purchaser may reasonably request.

(b) During the period commencing with the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, each of Purchaser, Seller and the Company shall confer on a regular and frequent basis with one or more representatives of the other party to report operational matters of materiality and the general status of ongoing operations.

(c) During the period commencing with the date of this Agreement and continuing until the earlier of the termination of this Agreement or the Closing, the Company shall provide Purchaser and its accountants, counsel and other representatives reasonable access, during normal business hours, to all of the Tax Returns (referenced in Section 5.13(vi)) and other records and workpapers relating to Taxes of the Company with regard to such Tax Returns, and shall provide the following information to Purchaser and its representatives promptly upon any request therefore: (i) a list of the types of Tax Returns being filed by Seller in each Taxing jurisdiction, including the year of the commencement of the filing of each such type of Tax Return and all closed years with respect to each such type of Tax Return filed in each jurisdiction, (ii) a list of all material Tax elections fi led in each jurisdiction by the Company, and (iii) receipts for any Taxes paid to foreign Tax authorities.

3.4 No Solicitation.

Between the date hereof and the earlier of the termination of this Agreement and the Closing Date, the Company shall not (nor shall the Seller permit the Company or its officers, directors, employees, agents, representatives, or affiliates or cause any Person on behalf of the Seller to) and the Seller on its own behalf shall not, directly or indirectly, take any of the following actions with any person other than Purchaser:

(a) solicit, initiate, entertain or encourage any proposals or offers from, or conduct discussions with or engage in negotiations with any Person relating to any possible acquisition of the Company (whether by way of merger, purchase of shares, purchase of assets or otherwise);

(b) provide information with respect to the Company to any Person, other than Purchaser, relating to, or otherwise cooperate with, facilitate or encourage any effort or attempt by any such person with regard to, any possible acquisition of the Company (whether by way of merger, purchase of shares, purchase of assets or otherwise); or

(c) enter into any agreement with any Person providing for the possible acquisition of the Company (whether by way of merger, purchase of shares, purchase of assets or otherwise).

The Company and the Seller shall each promptly notify the Purchaser in the event it receives any proposal or inquiry from a third party concerning a proposed acquisition of the Company, including the terms and conditions thereof and the identity of the party submitting such proposal.

3.5 Notices of Certain Events

The Company and the Seller shall each promptly notify Purchaser of:

(i) any notice or other communication from any person alleging that the consent of such person is or may be required in connection with the transactions contemplated by this Agreement;

(ii) any notice or other communication from any governmental or regulatory agency or authority in connection with the transactions contemplated by this Agreement; and

(iii) any actions, suits, claims, investigations or proceedings commenced or, to its Knowledge threatened against, relating to or involving or otherwise affecting the Company that, if pending on the date of this Agreement, would have been required to have been disclosed pursuant to this Agreement or that relate to the consummation of the transactions contemplated by this Agreement.

3.6 Confidentiality

The Company and the Seller will hold, and will use its reasonable commercial efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning Purchaser and AudioCodes provided to it.

ARTICLE IV

ADDITIONAL AGREEMENTS

4.1 Release.

For and in consideration of the amounts payable to Seller under the Transaction Documents, effective as of the Closing Date, Seller (on behalf of itself and its heirs, executors, administrators, successors or assigns) hereby releases, acquits and forever discharges the Company and its officers, directors and employees, of and from any and all manner of action, cause of action, demands, Damages and Liabilities, which Seller ever had, now has, or shall have against the Company or any other Person referred to above, arising out of any matters, causes, acts, conduct, claims, circumstances or events occurring or failing to occur or conditions existing at or prior to the Closing, including but not limited to all claims relating to the representations and warranties made by Seller in the Transaction Documents and any claims related to indemnification pursuant to Article IX; except, however, that this release shall not apply to officers, directors and employees that have breached their good faith duties and/or acted fraudulently in performing their duties as employees, officers and directors of the Company, as applicable.

4.2 Public Disclosure; Press Release

Neither Purchaser, Seller nor the Company shall make any statement or disclosure (whether or not in response to an inquiry) regarding the terms of this Agreement and the transactions contemplated hereby without the prior written approval of the other, except (i) as may be required by law, and (b) pursuant to applicable subpoena or other judicial process, provided that such disclosure is limited to that which in the written opinion of legal counsel is required to be disclosed. Purchaser and/or Seller shall be entitled to issue a press release in connection with the transactions contemplated hereby immediately following the Closing, or at any time thereafter, such press release to be subject to the consent of the other party which shall be prompt and not be unreasonably withheld.

4.3 Consents; Cooperation

Each of Purchaser, Seller and the Company shall promptly apply for or otherwise seek, and use its commercially reasonable efforts to obtain, all consents and approvals required to be obtained by it for the consummation of the transactions contemplated hereby.

4.4 Legal Requirements

The Company, the Seller and the Purchaser shall each take all commercially reasonable actions necessary to comply promptly with all legal requirements which may be imposed on it with respect to the consummation of the transactions contemplated by this Agreement, and shall promptly cooperate with and furnish information to the other party hereto necessary in connection with any such requirements imposed upon such other party in respect of the consummation of the transactions contemplated by this Agreement, and shall take all commercially reasonable actions necessary to

obtain (and shall cooperate with the other party hereto in obtaining) any consent, approval, order or authorization of, or any registration, declaration or filing with, any Governmental Entity or other person, required to be obtained or made in connection with the taking of any action contemplated by this Agreement.

4.5 Stock Option Plan.

Purchaser shall not assume or substitute for any obligation or undertaking of Seller and/or Company, without limitation, to grant, issue, exercise or accelerate options or stock purchase rights outstanding under the Company's and/or Seller's Stock Option Plan.

4.6 Employees

Within fifteen (15) days following the Closing Date, the Company shall provide Purchaser with a favorable determination letter (if applicable) issued by the Internal Revenue Service to the effect that the terms of the Company 401(k) plan and its related trust qualify under Section 401(a) and 501(a) of the Code.

4.7 Expenses

Each of the Purchaser and the Seller shall pay its own expenses in connection with this Agreement and the transactions contemplated hereby and thereby.

4.8 No Solicitation

For two years after Closing, Seller and its officers will not, directly or indirectly, engage in any of the following conduct: (a) solicit business which is competitive or reasonably be thought to become competitive with Company's business from any business or organization that was a client of the Company; (b) solicit or recruit for employment any individual who was employed by the Company and/or the Purchaser or Subsidiaries of Purchaser at any time within the one year period prior to Closing or during the year after Closing, or entice or suggest to such individual to terminate his or her employment with the Company or the Purchaser thereof or Subsidiaries of Purchaser .

4.9 Confidentiality

The Seller will hold, and will use its reasonable commercial efforts to cause its officers, directors, employees, accountants, counsel, consultants, advisors and agents to hold, in confidence, unless compelled to disclose by judicial or administrative process or by other requirements of law, all confidential documents and information concerning Company provided to it or otherwise obtained by it.

4.10 Operation of the Company Following Closing

(a) The Purchaser represents that it wishes to continue the business of the Company, including sales, marketing, customer support, collection of receivables and services, in essentially its current form, subject to changes in market conditions or other conditions affecting the Purchaser and/or the Company and/or other relevant circumstances.

(b) As of Closing and until the Second Installment Date, Purchaser shall act in a commercially reasonable manner with respect to the overall management of the Company, including sales, marketing, customer support, collection of receivables and services, subject to the good faith judgment of AudioCodes, Purchaser and the management of the Company.

8.11 Undertaking. AudioCodes hereby absolutely and unconditionally guarantees the full and complete obligations, covenants and agreements of the Purchaser under this Agreement and all other Transaction Documents. AudioCodes and the Purchaser acknowledge and agree that this is an irrevocable guarantee.

ARTICLE V

INDEMNIFICATION

5.1 Survival of Representations and Warranties. The representations and warranties of the Seller and the Company contained in Article V above shall survive the Closing hereunder and continue in full force and effect for a period of two (2) years thereafter, except, however, that (a) the representations and warranties contained in Section 5.2 (Capital Structure; Subsidiaries) shall survive the Closing and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations) and (b) the representations and warranties contained in Sections 5.4 (Financial Statements), 5.6 (Absence of Undisclosed Liabilities) and 5.11 (Intellectual Property) shall survive the Closing and continue in full force and effect for a period of five (5) years thereafter (subject to any applicable statutes of limitations). All of the representations and warranties of the parties con tained in Articles IV and VI above shall survive the Closing and continue in full force and effect forever thereafter (subject to any applicable statutes of limitations).

5.2 Indemnification Subject to the terms of this Article IX, Seller shall indemnify, defend and hold harmless Purchaser and AudioCodes from and against, and pay or reimburse, as the case may be, the Purchaser and AudioCodes for, any and all Damages as actually incurred or suffered by Purchaser or AudioCodes directly or indirectly, based upon, arising out of or otherwise in any way relating to or in respect of :

(a) any breach of any of the representations or warranties contained in Article IV made by the Seller or contained in Article V made by the Company and/or the Seller, on the date of this Agreement or on the Closing Date; or

(b) any breach or violation of any covenant or agreement of Seller and/or the Company contained in any Transaction Document.

Notwithstanding anything above to the contrary, Seller shall not have any obligation to indemnify the Purchaser or AudioCodes from and against any Damages (x) until Purchaser or AudioCodes has suffered Damages by reason of all such breaches by Seller and/or the Company of representations and warranties and/or covenants and agreements herein in excess of $200,000 in the aggregate or thereafter (y) to the extent the Damages Purchaser or AudioCodes has suffered by reason of all such breaches by Seller and the Company exceeds the "Ceiling" (after which point Seller will have no obligation to indemnify Purchaser or AudioCodes from and against further such Damages). For purposes of this Section, the term "Ceiling" shall mean an aggregate sum equal to the lesser of (x) the Total Consideration actually paid by Purchaser (the value of such consideration to be deter mined at the date of Closing and Second Installment Date), or (y) an aggregate amount equal to any portion of the Total Consideration paid in cash, plus the value of any portion of the Total Consideration paid in Purchaser Shares pursuant to the NASDAQ Market System closing price for the ordinary shares of Purchaser after the lapse of ten (10) trading days (not including a Suspension Period as defined in the Registration Rights Agreement) since the date of registration. The limitations contained in this paragraph shall not apply with respect of Damages resulting from an intentional or a fraudulent misrepresentation, guidance or act by Seller.

5.3 Procedures for Indemnification

(a) If a claim or demand is made against Purchaser, AudioCodes or the Company (either referred to in this Article as "**Indemnitee**"), or if an Indemnitee shall otherwise learn of an assertion, by any Person who is not a party to this Agreement (and who is not an Affiliate of a party to this Agreement) (a "**Third Party Claim**") as to which Seller (the "**Indemnifying Party**") may be obligated to provide indemnification pursuant to this Agreement, such Indemnitee will notify the Indemnifying Party in writing, and in reasonable detail, of the Third Party Claim in a prompt manner a reasonable amount of time after becoming aware of such Third Party Claim; *provided, however*, that failure to give any such notification will not affect the indemnification provided hereunder except to the extent the Indemnifying Party shall have demonstrated that it has been actually prejudiced as a result of such failure; *provided, further, however*, that in any event, such notification must be given within the particular survival period noted in Section 9.1 above to be eligible for indemnification.

(b) If a Third Party Claim is made against an Indemnitee, the Indemnifying Party will be entitled to assume the defense thereof (at the expense of the Indemnifying Party) with counsel selected by the Indemnifying Party and reasonably satisfactory to the Indemnitee. Should the Indemnifying Party so elect to assume the defense of a Third Party Claim, the Indemnifying Party will not be liable to the Indemnitee for any legal or other expenses subsequently incurred by the Indemnitee in connection with the defense thereof as long as the Indemnifying Party diligently conducts such defense; provided that, if a conflict of interest exists in respect of such claim, such Indemnitee will have the right to employ separate counsel to represent such Indemnitee and in that event the reasonable fees and expenses of such separate counsel will be paid by such Indemnifying Party. &n bsp;Each Indemnitee will have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Indemnifying Party. The Indemnifying Party will be liable for the reasonable fees and expenses of counsel employed by the Indemnitee for any period during which the Indemnifying Party has failed to assume the defense thereof. The Indemnifying Party will promptly supply to the Indemnitee copies of all correspondence and documents relating to or in connection with such Third Party Claim and keep the Indemnitee fully informed of all developments relating to or in connection with such Third Party Claim (including, without limitation, providing to the Indemnitee on request updates and summaries as to the status thereof). All the Indemnitees will reasonably cooperate with the Indemnifying Party in the defense thereof if requested by the Indemnifying Party (such cooperation to be at the expense, including reasonable legal fees and expens es, of the Indemnifying Party).

(c) Indemnifying Party will not consent to any settlement, compromise or discharge (including the consent to entry of any judgment) of any Third Party Claim without the Indemnitee's prior written consent which will not be unreasonably withheld.

(d) Any claim on account of Damages which does not involve a Third Party Claim shall be asserted by written notice given by the Indemnitee to the Indemnifying Party. The failure by any Indemnitee so to notify the Indemnifying Party will not relieve the Indemnifying Party from any liability which it may have to such Indemnitee under this Agreement, except to the extent that the Indemnifying Party shall have demonstrated that it has been actually prejudiced as a result of such failure.

9.4 Insurance Recovery. In determining the liability of a party for any Damages pursuant to this Article 9, no loss, liability, damage or expense shall be deemed to have been sustained by such party to the extent of any proceeds previously received by such party from any insurance recovery (net of all out-of-pocket costs directly related to such recovery).

9.5 Exclusive Remedy Purchaser, AudioCodes and Seller agree that as regards to any breach of any of the provisions contained in Articles IV, V and VI, this Agreement provides an exclusive remedy with regards to such breach, provided however, that nothing in this Agreement shall preclude the Purchaser and/or the Seller from pursuing any non-monetary remedies,

including without limitation, injunctive relief, declaratory judgments or other equitable remedies.

9.6 Set-off Right. Purchaser shall be entitled to set-off from any amount due to Seller hereunder (including Second Installment) any Damages sustained by Purchaser or AudioCodes and which are indemnifiable hereunder.

ARTICLE VI

CONDITIONS TO THE CLOSING

6.1 Conditions to Obligations of Purchaser

The obligations of Purchaser to consummate and effect the transactions contemplated hereby shall be subject to the satisfaction or fulfillment at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, at the sole discretion of Purchaser:

(a) Deliverables. All of the actions to be taken by the Company and Seller shall have been completed to the satisfaction of Purchaser and all documents and instruments to be delivered by Company or Seller to Purchaser as contemplated in this Agreement shall have been delivered in form and substance satisfactory to the Purchaser;

(b) Representations, Warranties and Covenants. (i) The representations and warranties of Seller and Company contained in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality, which representations and warranties as so qualified shall be true in all respects) on and as of the date of this Agreement and on and as of the Closing as though such representations and warranties were made on and as of such time, (ii) Seller and Company shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it as of the Closing, and (iii) Purchaser shall have received an officer's certificate, executed on behalf of each of Seller and Company, by the Ch ief Executive Officer thereof, certifying as to the accuracy of the matters set forth in clauses (i) and (ii) above;

(c) Governmental and Regulatory Approvals. Seller and its respective subsidiaries (if applicable) shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, necessary for consummation of, or in connection with, the transactions contemplated hereby;

(d) Third Party Consents. Purchaser shall have been furnished with evidence satisfactory to it of the consent or approval of those persons whose consent or approval shall be required in connection with the transactions contemplated hereby under any contracts or arrangements to which the Company is a party;

(e) Due Diligence Review. The legal, technical, intellectual property, business and financial due diligence review shall have been completed by Purchaser to its satisfaction;

(f) Books and Records. All books and records of the Company, including finance, accounting, assets and stock are well recorded on the basis of GAAP and audited financial statements for the calendar year 2003 provided by Messrs Deloitte Touche are prepared and recorded on the basis of US GAAP together with comparison accounts acceptable to Purchaser for prior years;

(g) Discharge of Liabilities. Arrangements satisfactory to Seller, Purchaser and Company regarding the discharge of inter-Company liabilities;

(h) approval by all necessary corporate action on behalf of Seller and Company, if any, of the Transaction;

(i) Execution and delivery of this Agreement and all ancillary documents and instruments by the Seller;

(j) Compliance with all applicable laws;

(k) There shall not have occurred any material adverse change in the financial condition, properties, assets (including intangible assets), Liabilities, business, operations, or results of operations of Company, including without limitation:

(i) No deterioration in the financial condition of Company occurring prior to Closing, in particular but without limitation taking into account the Company's budget for 2004, and / or the detailed revenues forecast for the Company in 2004 as provided by the Company to Purchaser or any deterioration being foreseeable as occurring after Closing, resulting from any potential exposure arising from the execution of the transaction contemplated hereby;

(ii) at the sole discretion of Purchaser, no material adverse change occurring prior to Closing or anticipated as occurring after the Closing or, in the reasonable belief of the Purchaser at or prior to Closing, is foreseeable or likely to occur, in the Company's overall sales forecast and detailed per customer forecast or in the prospects of sales or forecasts by Company;

(l) Purchaser is satisfied at its sole discretion concerning the intentions and/or plans of the Company's customers in the year 2004 and beyond to continue and purchase Company's products and services, the relationships with such customers and the ability of Company to develop such business(es) and/or rely on such business(es);

(m) Arrangements satisfactory to Purchaser exist between the Company and its distribution channels including but not limited to the Company's distributors in China and The Netherlands, which are wholly independent and unrelated third parties;

(n) Seller and AudioCodes shall execute the Registration Rights Agreement.

6.2 Conditions to Obligations of Seller

The obligations of Seller to consummate and effect the transactions contemplated hereby shall be subject to the satisfaction or fulfillment at or prior to the Closing of each of the following conditions, any of which may be waived, in writing, by Seller, at the sole discretion of Seller:

(a) Representations, Warranties and Covenants. (i) The representations and warranties of each of Purchaser and AudioCodes contained in this Agreement shall be true and correct in all material respects (except for such representations and warranties that are qualified by their terms by a reference to materiality, which representations and warranties as so qualified shall be true in all respects) on and as of the date of this Agreement and on and as of the Closing as though such representations and warranties were made on and as of such time, (ii) each of Purchaser and AudioCodes shall have performed and complied in all material respects with all covenants, obligations and conditions of this Agreement required to be performed and complied with by it as of the Closing, and (iii) Seller shall have received an officer's certificate, executed on behalf of each of Purc haser and AudioCodes, by a duly authorized officer thereof, certifying as to the accuracy of the matters set forth in clauses (i) and (ii) above.

(b) Governmental and Regulatory Approvals. Purchaser and its respective subsidiaries (if applicable) shall have timely obtained from each Governmental Entity all approvals, waivers and consents, if any, required for consummation of, or in connection with, the transactions contemplated hereby;

(c) approval by all necessary corporate action on behalf of each of AudioCodes and Purchaser, if any, of the Transaction;

(d) Execution and delivery of this Agreement and all ancillary documents and instruments by the Purchaser and AudioCodes;

(e) Seller and AudioCodes shall execute the Registration Rights Agreement.

(f) Discharge of Liabilities. Arrangements satisfactory to Seller, Purchaser and Company regarding the discharge of inter-Company liabilities;

(g) Compliance with all applicable laws;

ARTICLE VII

TERMINATION

7.1 Termination

At any time prior to the Closing, this Agreement may be terminated:

(a) by mutual consent duly authorized by the Board of Directors of Purchaser and Seller;

(b) by either Purchaser or Seller, if the Closing shall not have occurred on or before July 1, 2004; *provided*, *however*, that a later date may be agreed upon in writing by the Seller and Purchaser, and *provided further*, *however*, that the right to terminate this Agreement pursuant to this Section shall not be available to any party hereto whose action or failure to act has been the cause or resulted in the failure of the transactions contemplated hereby to occur on or before such date and such action or failure to act constitutes a material breach of this Agreement;

(c) by Purchaser, if Seller or Company shall breach in any material respect any representation, warranty or covenant hereunder and such breach shall not have been cured within five (5) Business Days of receipt by Seller of written notice of such breach; *provided*, *however*, that Purchaser's right to terminate this Agreement pursuant to this Section 11.1(c) shall not be available to Purchaser in the event that Purchaser is, at such time, in material breach of its covenants under this Agreement;

(d) by Seller, if Purchaser or AudioCodes shall breach in any material respect any representation, warranty or covenant hereunder and such breach shall not have been cured within 5 (five) Business Days following receipt by Purchaser of written notice of such breach; provided, however, that Seller's right to terminate this Agreement pursuant to this Section 11.1(d) shall not be available to Seller where Seller is, at such time, in material breach of its covenants under this Agreement;

7.2 Purchaser acknowledges that it has been notified of the information expressed in the Disclosure Schedule of this Agreement.

7.3 Effect of Termination

In any event of termination by Purchaser or Seller under subsections 11.1(c) or 11.1(d) above, the (i) the terminating party, its affiliates, directors, officers and shareholders shall be released from any and all obligations or undertaking under this Agreement or any ancillaries hereto except for obligations regarding confidentiality; and (ii) the terminating party shall be entitled by way of exclusive remedy to receive from the other party, immediately upon written demand, an amount equal to all of such terminating party's expenses, including without limitation, legal fees, auditors expenses and all other relevant costs or expenses incurred by terminating party ("Termination Fees"), provided however, that the aggregate amount of such Termination Fees shall not exceed $100,000.

ARTICLE VIII

GENERAL PROVISIONS

8.1 Notices

All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by commercial delivery service, or mailed by registered or certified mail (return receipt requested) or sent via facsimile (with confirmation of receipt) to the parties at the following address (or at such other address for a party as shall be specified by like notice):

(a) if to Purchaser, to:

2890 Zanker Road, Suite 200,
San Jose, California 95134
Fax: +1 408 577 0492

Attn: President

(b) if to Seller, to:

Strawinskylaan 3107
Postal Code 1077ZX
Amsterdam
Fax: +31 204712497
Attn: Bart Van Hedel

(c) if to the Company, to:

Until May 15, 2004:

580 Howard Ave.

Somerset, New Jersey 08873

Fax: +1 732 469 2298
After May 15, 2004:
27 Worlds Fair Drive
Somerset New Jersey

(d) if to AudioCodes, to:
PO Box 255, Ben Gurion Airport 70100 Israel

Fax: +972 3 976 4040

notices@audiocodes.com

Attn: President

8.2 Counterparts

This Agreement may be executed in one or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties hereto and delivered to the other parties hereto, it being understood that all parties hereto need not sign the same counterpart.

8.3 Entire Agreement; Nonassignability; Parties in Interest

This Agreement and the documents and instruments and other agreements specifically referred to herein or delivered pursuant hereto, including the exhibits and schedules hereto (i) constitute the entire agreement among the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, (ii) are not intended to confer upon any other person any rights or remedies hereunder, and (iii) shall not be assigned by operation of law or otherwise except as otherwise specifically provided herein or therein.

8.4 Severability

.

The parties hereby agree that each of the sections herein, including each representation or warranty, is material to the Transaction, and that the breach of any section, covenant, representation or warranty shall constitute a material breach of the Agreement. In the event that any provision of this Agreement, or the application thereof, becomes or is declared by a court of competent jurisdiction to be illegal, void or unenforceable, the remainder of this Agreement will continue in full force and effect and the application of such provision to other persons or circumstances will be interpreted so as reasonably to effect the intent of the parties hereto. The parties further agree to replace such void or unenforceable provision of this Agreement with a valid and enforceable provision that will achieve, to the extent possible, the economic, business and other purposes of such void or unenforceable provision.

8.5 Governing Law and Consent to Jurisdiction|Heading 2,h2,s,2|ZZMPTAG|

This Agreement shall be governed by and construed in accordance with the laws of the State of New York without reference to its principles of conflicts of law. Each party hereby irrevocably submits to the exclusive jurisdiction of the courts of New York and hereby waives any objection based on improper venue or forum non conveniens to the conduct of proceedings in any such court.

8.6 Waiver of Potential Conflicts of Interest. The Seller and the Company acknowledge that Ayal Shenhav & Co., Law Offices, is representing only the Purchaser and AudioCodes in this transaction. Each of the Seller and the Company represents that it has had the opportunity to consult with independent counsel concerning this Agreement.|Heading 2,h2,s,2|ZZMPTAG|

[*Remainder of Page Intentionally Left Blank*]

#

IN WITNESS WHEREOF, the undersigned have executed and delivered, or caused this Stock Purchase Agreement to be executed and delivered by their respective officers thereunto duly authorized, to be effective as of the date first above written.

AUDIOCODES LTD.	**AI TECHNOLOGY N.V.**
By: /s/ SHABTAI ADLERSBERG	By: /s/ STEVE LAVI
Name: Shabtai Adlersberg	Name: Steve Lavi
Title:_____	Title: Managing Director

AUDIOCODES INC.	**AI LOGIX, INC.**
By: /s/ SHABTAI ADLERSBERG	By: /s/ MOSHE TAL
Name: Shabtai Adlersberg	Name: Moshe Tal
Title:_____	Title: CEO

Draft for negotiation purposes October 30, 2002

EXHIBIT A to

STOCK PURCHASE AGREEMENT

by and among

AUDIOCODES LTD.

AI-LOGIX INC.

and

AI TECHNOLOGY N.V.

Dated May 2004

Table of Computation of Second Installment

All capitalized terms used herein and not otherwise defined, shall have the meaning ascribed to them in the Agreement to which this table is an exhibit.

All references to “sales” are intended to refer to Net Sales, made by Company in the year 2004. The term "Net Sales" shall be defined as the net amounts actually received by Company as a result of sales effected by it in the year 2004 after products are shipped and unreserved payment is received for the product price by the end of February 2005, excluding without derogating from the foregoing: payments for shipping charges, letter of credit and banking charges, insurance, sales and withholding or other similar taxes (but not income taxes), payment of third party commissions, product returns, refunds or credits and that no claim against the Company is outstanding concerning such sale. Revenue recognition shall be conducted in accordance with AudioCodes' ordinary policy, US GAAP and SEC interpretations. All sales by Company shall be recorded on the basis of US GAAP accounting for net sales.

1. The Second Installment is payable only if the Net Sales of the Company in 2004 are equal to or higher than $14 million. |Normal|ZZMPTAG|

2. The Total Consideration takes account of three different factors, as follows:|Normal|ZZMPTAG|

2.1. The First Factor – Minimum Payment |Normal|ZZMPTAG|

The minimum Total Consideration Purchaser will pay Seller appears in Table 1, according to the respective level of Net Sales (the "**Minimum Payment**"). Of the Minimum Payment, $10 million is attributable to the First Installment paid at Closing. From Net Sales of $14M and above, the Minimum Payment will equal the Net Sales. To the extent that the Minimum Payment is higher than $10 million then such excess amount, if any, shall be paid as part of the Second Installment.

2.2. The Second Factor – Largest Customers Incentive |Normal|ZZMPTAG|

If Net Sales are between $15 million to $19 million, Seller shall be entitled to an additional payment based on Net Sales to the “Largest Customers” listed in List A below (the "Largest Customer Incentive"). The amount of the Largest Customer Incentive is as set forth in Table 2 below and is non-cumulative. If Net Sales equal or exceed $20 million, no Largest Customer Incentive is payable to Seller. The Largest Customer Incentive shall be paid as part of the Second Installment.

For example, in the event that Net Sales to the Largest Customers (as part of the total amount of Net Sales) are lower than $8.3 million then although the Company’s Net Sales are $16 million, no Largest Customers Incentive is payable and the Total Consideration is equal to the Minimum Payment of $16 million.

2.3. The Third Factor – Maximum Payment |Normal|ZZMPTAG|

2.3.1. In the event that the Minimum Payment is below $20 million and the combination of the Minimum Payment and the Largest Customers Incentive is higher than $20 million, then notwithstanding the method of calculation described in Section 2.2 above, the Total Consideration shall be capped at $20 million.|Normal|ZZMPTAG|

2.3.2. For Net Sales of $15 million the parties agreed on an exception to the Third Factor described in Section 2.3.1, by which the maximum amount of the Largest Customer Incentive is $2 million (rather than $4 million) and thus the Total Consideration for sales of $15 million is capped at $17 million. |Normal|ZZMPTAG|

3. Fractions of $1M in sales of $15.75 million and above in Table 1 and in sales of $9 million and above in table 2 shall be rounded up or down to the nearest million. Fractions of $1M in sales of below $15.75 million in Table 1 and of below $9 million in table 2 shall be rounded down. |Normal|ZZMPTAG|

4. The Second Installment will be calculated by subtracting US$10,000,000 from the Total Consideration. |Normal|ZZMPTAG|

5. Notwithstanding the above, in the event Seller or Company breach any representation, covenant or undertaking specified in the Agreement, then, without derogating from any other remedy to which Purchaser is entitled by law or contract, Purchaser may reduce amount of the Second Installment by the amount of its Damages (subject to Section 9.2(b) of the Agreement). |Normal|ZZMPTAG|

6. Purchaser shall provide Seller, no later than on March 20, 2005, a report detailing the Net Sales and the calculation of the Total Consideration. After delivery of said report, Seller, or an agent chosen by Seller, shall be provided, upon its request, but no later than March 25, 2005, reasonable access to the books and records of the Company for purposes of auditing the Second Installment calculation, subject to the execution of a customary non-disclosure undertaking. Such records shall include all information concerning the calculation of the Net Sales. |Normal|ZZMPTAG|

7. In the event of dispute regarding the amounts due pursuant to calculation of Net Sales (a "Dispute"), each of the Seller and the Purchaser shall appoint before April 15, 2005 a representative to discuss such Dispute (the "Representatives"). The Representatives shall try to reach a mutually agreed upon solution to the Dispute (an "Agreed Solution"). However, if within three (3) weeks from the appointment of such Representatives, no Agreed Solution occurs, then the Seller and Purchaser shall mutually designate an arbitrator to resolve the Dispute ("Arbitrator"). The Arbitrator shall be appointed within three weeks of either Representative's declaration that an Agreed Solution will not occur. In case no timely agreement can be reached on the Arbitrator's appointment, the American Arbitration Association will designate an arbitrator who is an experienced certified public accountant. The arbitration shall take place in accordance with the Commercial Rules of the American Arbitration Association. The determination of the Arbitrator shall be final and binding on Purchaser and Seller. The Arbitrator shall be entitled to examine the books and records of the Company reasonably necessary for the Arbitrator to resolve the Dispute, subject to the execution of a customary non-disclosure undertaking. In addition, the Arbitrator shall determine which party shall bear the costs of arbitration.|Normal|ZZMPTAG|

8. A Dispute shall not affect in any way or form Purchaser's obligation to pay any undisputed portion of the Second Installment, subject to paragraph 5 above.

9. Should the settlement of the Dispute result in an additional payment, this additional payment will be made within three (3) days of the settlement in immediately available funds pursuant to wire instructions provided by Seller to Purchaser as provided in Section 2.4 of this Agreement.

#

Table 1		
Ai Logix Sales in 2004	Maximum Payment	Minimum Payment
$10M or less	$10M	$10M
$11M	$10M	$10M
$12M	$10M	$10M
$13M	$10M	$10M
$14M	$14M	$14M
$15M	$17M	$15M
$16M	$20M	$16M
$17M	$20M	$17M
$18M	$20M	$18M
$19M	$20M	$19M
$20M	$20M	$20M
$21M or more	Ai Logix Sales in 2004	Ai Logix Sales in 2004

Table 2	
Largest Customers Sales	Largest Customers Incentive
$8.3M	0
$9M	$1M
$10M	$2M
$11M	$3M
$12M	$4M

List A - Largest Customers:

1. Witness|Normal|ZZMPTAG|
2. ASC (Germany) |Normal|ZZMPTAG|
3. E-Talk |Normal|ZZMPTAG|
4. Envision |Normal|ZZMPTAG|
5. Dynamic Instruments |Normal|ZZMPTAG|
6. Mercom|Normal|ZZMPTAG|
7. Stencil |Normal|ZZMPTAG|
8. Verint |Normal|ZZMPTAG|
9. Voice Print|Normal|ZZMPTAG|
10. Weston (UK)|Normal|ZZMPTAG|

#

REGISTRATION RIGHTS AGREEMENT
BETWEEN
AUDIOCODES LTD.
AND
AI TECHNOLOGIES N.V.

REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT ("Agreement") is made and entered this 12th day of May, 2004 (the "**Effective Date**") by and between AudioCodes Ltd. (company No. 52-004413-2) a company duly organized under the laws of the State of Israel with registered offices at PO Box 255, Ben Gurion Airport 70100 Israel, Israel ("**AudioCodes**") and AI Technologies N.V., a company duly organized under the laws of The Netherlands with offices at Strawinskylaan 3107, Amsterdam ("**AT**").

WITNESSETH:

WHEREAS AT, AudioCodes, AudioCodes Inc. and Ai Logix, Inc. are parties to a Stock Purchase Agreement executed between the parties hereto, AudioCodes Inc. and Ai Logix, Inc. on the 12th day of May, 2004 (the "**Purchase Agreement**"); and

WHEREAS AudioCodes, at its discretion, may be issuing to AT, and AT may be receiving, shares of AudioCodes pursuant to Section 2.3(b) of the Purchase Agreement ("**AudioCodes Shares**"); and

WHEREAS the parties hereto wish to provide for the procedures for registration of the AudioCodes Shares on a public share exchange,

NOW, THEREFORE, the parties hereby agree as follows:

1. DEFINITIONS

All capitalized terms shall have the meaning given to the term in the Purchase Agreement unless otherwise defined herein.

1.1. **"Affiliate"** of a person or entity shall mean any entity that directly or indirectly controls, is controlled by or is under common control with such person or entity.

1.2. **"Exchange Act"** shall mean the U.S. Securities Exchange Act of 1934, as amended from time to time and the regulations promulgated thereunder.

1.3. **"Holder"** means any person owning Registrable Securities.

1.4. "**NASDAQ**" shall mean the Nasdaq National Market or, in the event that AudioCodes ordinary shares are no longer traded on the Nasdaq National Market, any other U.S. stock exchange on which AudioCodes ordinary shares are then actively listed.

1.5. "**Rule 144"** shall mean Rule 144 promulgated by the SEC under the Securities Act.

1.6. **"SEC"** shall mean the U.S. Securities and Exchange Commission.

1.7. **"Securities Act"** shall mean the U.S. Securities Act of 1933, as amended from time to time and the regulations promulgated thereunder.

2. **Registration of AudioCodes Shares Issued as First Installment or Second Installment.**

The following provisions shall apply *mutatis mutandis* to the respective registration of the AudioCodes Shares, issued, if at all, as the First Installment or the Second Installment or any part thereof (such shares collectively referred to herein as the "**Registrable Securities**").

2.1. AudioCodes shall make best commercial efforts to prepare and file or caused to be prepared and filed with the SEC as soon as practicable, a registration statement (the "**Registration Statement**") on Form F-3 or another appropriate registration statement permitting registration of the Registrable Securities under the Securities Act in order to permit or facilitate the sale and distribution of the Registrable Securities (the **"Shelf"**). AudioCodes will :

2.1.1. in the case of the Registration Statement relating to the First Installment, use best commercial efforts to cause such Registration Statement to become effective under the Securities Act within ninety (90) days after the Closing Date and

2.1.2. in the case of the Registration Statement relating to the Second Installment, use best commercial efforts to cause such Registration Statement to become effective under the Securities Act within ninety (90) days after the Second Installment Date.

2.2. Exceptions. AudioCodes shall not be obligated to effect, or to take any action to effect, any registration pursuant to this Section 2:

2.2.1. During the six (6) month period commencing with the effective date of any registration made by AudioCodes under the Securities Act;

2.2.2. If AudioCodes delivers notice to the Holders within thirty (30) days of the Second Installment Date (as relevant), of its intent to file a registration within sixty (60) days, provided that AudioCodes is actively employing in good faith all reasonable efforts to cause such registration statement to become effective and provided further that, if such a notice is delivered, AudioCodes will use best commercial efforts to cause the Registration Statement to be declared effective under the Securities Act within one hundred eighty days (180) days after the Second Installment Date.

2.3. Information. AT and/or each Holder undertakes to furnish to AudioCodes in writing all the information it reasonably requires regarding AT or such Holder, its Affiliates and the distribution proposed of the Registrable Shares and as shall otherwise be required in connection with the Registration Statement.

2.4. Expenses. AudioCodes shall pay all of its fees, costs and expenses of and incidental to the preparation of the Registration Statement and the public offering in connection therewith, including all (i) filing fees with the SEC, (ii) fees and expenses of compliance with state securities or blue sky laws (including reasonable fees and disbursements of its counsel in connection with blue sky qualifications of the Registrable Securities), (iii) printing expenses, (iv) fees and expenses incurred in connection with the listing of the Registrable Securities, (v) fees and expenses of counsel and independent public accountants for AudioCodes and (vi) the fees and expenses of any additional experts retained by AudioCodes in connection with such registration. AT (or its permitted transferee pursuant to Section 3) shall pay all of its expenses, including expenses of its counsel and any and all discounts or commissions, placement agent or broker fees and commissions and transfer taxes, if any, in connection with the sale of any of the Registrable Securities under any Registration Statement hereunder.

2.5. Registration Procedures. In the case of any Registration Statement filed pursuant to this Agreement, AudioCodes shall, at its expense:

2.5.1. Keep such Registration Statement effective for a period of one (1) year or until all the Registrable Securities covered by the respective Registration Statement are sold, whichever first occurs;

2.5.2. Prepare and file with the SEC such amendments and supplements to such Registration Statement and the prospectus used in connection with such Registration Statement, if any, as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities by such Registration Statement and make such other qualifications as are necessary to comply with applicable blue sky laws with respect to such disposition;

2.5.3. Furnish each Holder such reasonable numbers of copies of a prospectus, including a preliminary prospectus, in conformity with the Securities Act in order to facilitate the disposition of Registrable Securities by such Holder;

2.5.4. Notify each Holder at any time when a prospectus relating to its Registrable Securities is required to be delivered under the Securities Act or the happening of any event as a result of which the prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing;

2.5.5. Cause all such Registrable Securities registered pursuant thereunder to be listed on each securities exchange on which securities issued by AudioCodes of the same class are then listed by AudioCodes; and

2.5.6. Provide a transfer agent and registrar for all Registrable Securities registered pursuant to such Registration Statement and a CUSIP number for all such Registrable Securities, in each case not later than the effective date of such registration.

Following the effectiveness of a Shelf, AudioCodes may suspend at any time the availability of such Shelf and the related prospectus upon and continuing until the discontinuation of (i) the issuance by the SEC of a stop order with respect to such Shelf or the initiation of proceedings with respect to such Shelf under Section 8(d) or, if AudioCodes reasonably believes it appropriate, as a result of an examination under Section 8(e), of the Securities Act, (ii) the occurrence of any event or the existence of any fact as a result of which (a) any Shelf shall contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading or (b) any prospectus shall contain any untrue statement of a material fact or omit to state any material fact required to be stated the rein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading or (iii) the occurrence or existence of any pending material corporate development, including without limitation any such development that may (y) interfere with or affect the negotiation or completion of any material event that is being seriously contemplated by AudioCodes (whether or not a final decision has been made to undertake such transaction at the time the right to suspend is exercised) or (z) involve initial or continuing disclosure obligations that might not be in the best interest of AudioCodes or its shareholders, that in the reasonable good faith discretion of AudioCodes, makes it appropriate to suspend the availability of any Shelf and the related prospectus (each of (i), (ii) and (iii) above is hereinafter referred to as a "**Suspension Period**"); provided that the duration of a Suspension Period under subsections (ii) and (iii) shall not extend beyond thirty (30) days; and, provided further, that a Suspension Period under subsection (iii) shall not occur more than twice in any twelve-month period. Notwithstanding the foregoing, AudioCodes shall use its reasonable efforts to end any Suspension Period as promptly as practicable under the circumstances and, in the case of subsection (iii) above, as soon as, in the reasonable discretion of AudioCodes, such suspension is no longer appropriate. AudioCodes shall be obligated to notify the Holders in writing of the existence of a Suspension Period. Upon receipt of any notice from AudioCodes of a Suspension Period, the Holders shall immediately discontinue any disposition of Registrable Securities until the earlier of (1) the end of the Suspension Period, (2) such time as the Holders (i) are advised in writing by AudioCodes that the use of the applicable Prospectus may be resumed and (ii) have received copies of a supplemental or amended prospectus, if applicable, or (3) such time as the Holders are eligible to dispose of such Registrable Securities pursuant to an exemption from the registration requirements of the Securities Act.

3. **Assignment of Registration Rights.**

The rights to cause AudioCodes to register Registrable Securities pursuant to this Agreement may not be assigned except as hereinafter provided. Such rights may be assigned (but only with all related obligations) by a Holder to a transferee or assignee of such Registrable Securities with respect to such transferred Registrable Securities, who, ***(i)*** is a stockholder of AT; or ***(ii)*** is a family member or trust for the benefit of any individual transferor or assignor (provided that with respect to shares being transferred under paragraphs (*i*) or (*ii*) above – such shares are not entitled to be sold under Rule 144 of the Securities Act); provided: ***(a)*** AudioCodes is, before such transfer, furnished with written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned; (b) AudioCodes receives an opinion of counsel selected by the transferor, the form and substance of which opinion shall be reasonably satisfactory to AudioCodes, to the effect that such transfer does not require registration under the Securities Act; and *(c)* such transferee or assignee agrees in writing to be bound by and subject to the terms and conditions of this Agreement, including without limitation, the representations of Section 4.

4. **Representations, Warranties and Covenants of AT**

AT represents and warrants to AudioCodes, as follows:

4.1. AT has all necessary corporate power, authority and capacity to enter into this Agreement and to carry out its obligations under this Agreement. The execution, delivery and performance by AT of this Agreement and other documents to which it is a signatory in connection with the matters referred to herein have been duly authorized by all necessary action, and constitute legal, valid and binding obligations of AT, enforceable against AT in accordance with their respective terms subject to the provisions of any applicable bankruptcy, insolvency, reorganization, moratorium and similar laws of general application affecting enforcement of creditors' rights generally;

4.2. AT understands that any of the AudioCodes Shares to be issued in accordance with this Agreement are characterized as "restricted securities" under the Untied States federal securities laws inasmuch as they are being acquired from AudioCodes in a transaction not involving a public offering and that under such laws and applicable regulations such shares may be resold without registration under the Securities Act, only in certain limited circumstances. In this connection, AT represents that it is familiar with SEC Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act.

4.3. It is understood that the certificates evidencing the AudioCodes Shares to be issued in accordance with the provisions of the Purchase Agreement, if at all, shall bear the following legends (which legend will be removed upon registration of such shares in accordance herewith):

"These securities have not been registered under the Securities Act of 1933, as amended. They may not be sold, offered for sale, pledged or hypothecated in the absence of a registration statement in effect with respect to the securities under such Act or evidence satisfactory to AudioCodes that such registration is not required or unless sold pursuant to Rule 144 of such Act".

4.4. AT hereby acknowledges and confirms that it has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks related to the AudioCodes Shares, and that the AudioCodes Shares may increase or decrease in value at any time, for any reason and AT shall have no claim against AudioCodes for any such increase or decrease in value after the Closing Date (with respect to the First Installment) and after the Second Installment Date (with respect to the Second Installment).

4.5. AT is acquiring the AudioCodes Shares for its own account and not with a view to, or for sale in connection with, directly or indirectly, any distribution thereof that would require registration under the Securities Act or applicable state securities laws or would otherwise violate the Securities Act or such state securities laws.

4.6. AT is an "accredited investor" as defined in Regulation D under the Securities Act.

4.7. AT and its attorneys, accountants, investment and financial advisors, if any, have been provided access to such information about AudioCodes as it or its advisors, if any, have requested.

5. **Representations, Warranties and Covenants of AudioCodes**

5.1 AudioCodes hereby represents and warrants that it has all necessary corporate power, authority and capacity to enter into this Agreement and to carry out its obligations under this Agreement; the execution, delivery and performance by AudioCodes of this Agreement and other documents to which it is a signatory in connection with the matters referred to herein and the consummation of the transactions contemplated hereunder and thereunder have been duly authorized by all necessary corporate action of AudioCodes and constitute legal, valid and binding obligations of AudioCodes, enforceable against AudioCodes in accordance with their respective terms subject to the provisions of any applicable bankruptcy, insolvency, reorganization, moratorium and similar laws of general application affecting enforcement of creditors' rights generally.

5.2. Reports Under the Exchange Act. With a view to making available to the Holder the benefits of Rule 144 and any other rule or regulation of the SEC that may at any time permit the Holders to sell securities of AudioCodes to the public without registration or pursuant to a registration on Form F-3, AudioCodes agrees to:

5.2.1 Make and keep public information available, as those terms are understood and defined in Rule 144, at all times after ninety (90) days after the effective date of the Shelf;

5.2.2 File with the SEC in a timely manner all reports and other documents required of AudioCodes under the Securities Act and the Exchange Act; and

5.2.3. Furnish to each Holder, so long as such Holder owns any Registrable Securities, upon request (i) a written statement by AudioCodes that it has complied with the reporting requirements of Rule 144 (at any time after ninety (90) days after the effective date of the Shelf), and the Exchange Act (at any time it is subject to such reporting requirements), or that it qualifies as a registrant whose securities may be resold by a selling shareholder pursuant to Form F-3 (at any time after it so qualifies), and (ii) a copy of the most recent annual report of AudioCodes and such other reports and documents filed by AudioCodes with the SEC.

6. **Indemnification**.

6.1. AudioCodes will indemnify and hold harmless each Holder, and each person, if any, who controls such Holder within the meaning of the Securities Act or the Exchange Act, including all directors and officers of such person, against any and all losses, claims, damages, or liabilities (joint or several) to which they shall become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"): (a) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (b) ;the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (c) any violation or alleged violation by AudioCodes of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law; and AudioCodes will pay to each such Holder, controlling person any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action, as such expenses are incurred; provided, however, that the indemnity agreement contained in this Section 6.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability, or action if such settlement is effected without the consent of AudioCodes, which consent shall not be unreasonably withheld, nor shall AudioCodes be liable to any such Holder or controlling person for any loss, claim, damage, liability, or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished by any such Holder or controlling person or in connection with the use by a Holder of an outdated or defective prospectus after AudioCodes has notified such Holder in writing of the suspension of the use of such prospectus as provided herein

6.2. Each Holder will indemnify and hold harmless AudioCodes, each of its directors, each of its officers who has signed the registration statement, each person, if any, who controls AudioCodes within the meaning of the Securities Act, any other Holder selling securities in such registration statement and any controlling person of any such Holder, severally but not jointly, against any losses, claims, damages, or liabilities (joint or several) to which any of the foregoing persons may become subject, under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Hold er expressly for use in the Registration Statement; and each such Holder will pay any legal or other expenses reasonably incurred by any person intended to be indemnified pursuant to this Section 6.2, in connection with investigating or defending any such loss, claim, damage, liability, or action; provided, however, that the indemnity agreement contained in this Section 6.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld.

6.3. Promptly after receipt by an indemnified party under this Section 6 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with one counsel mutually satisfactory to the parties; provided, however, that an indemnified party (together with all other indemnified parties which may be represented without conflict by one counsel) shall have the right to retain one separate counsel, with the fees and expenses to be paid by the ind emnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action shall not relieve such indemnifying party of any liability to the indemnified party under this Section 6 unless the failure to deliver notice is materially prejudicial to its ability to defend such action.

6.4. If the indemnification provided for in this Section 6 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage, or expense referred to therein, then the indemnifying party, in lieu of indemnifying such indemnified party hereunder, shall contribute to the amount paid or payable by such indemnified party as a result of such loss, liability, claim, damage, or expense in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the statements or omissions that resulted in such loss, liability, claim, damage, or expense as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information, and opportunity to correct or prevent such statement or omission.

6.5. Notwithstanding the provisions of this Section 6, no Holder shall be required to pay any amount under this Section 6 (whether in indemnification or contribution) in excess of the amount by which the net proceeds of the relevant offering (before deducting expenses) received by such Holder exceeds the amount of any damages which such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

6.6. The obligations of AudioCodes and Holders under this Section 6 shall survive the completion of any offering of Registrable Securities in a registration statement under this Agreement.

6.7. The foregoing indemnity agreement with respect to any preliminary prospectus, shall not inure to the benefit of any indemnified person if a copy of the prospectus as then amended or supplemented, eliminating or remedying the untrue statement, omission, or other violation, was furnished to the Holder in question, within the time required under the Securities Act.

7. **Term**

The right of any Holder to include Registrable Securities in any registration hereunder shall terminate upon the first to occur of ***(i)*** with regard to any such Holder, the date when all the Registrable Securities beneficially owned or subject to Rule 144 aggregation by such Holder may be sold under Rule 144 during any 6-month period; or ***(ii)*** one (1) year following the Effective Date.

8. **Effects of Termination**

Sections 6 and 10 shall survive termination of this Agreement and shall remain in full force and effect thereafter.

9. **Representations and Warranties**.

On the Second Installment Date, AT shall deliver a certificate of a duly authorized officer of AT certifying that the representations and warranties set forth in Section 4 are true and correct in all respects.

10. **Miscellaneous**

10.1. Except as otherwise specifically stated herein, the General Provisions of Article XII of the Purchase Agreement shall apply to this Agreement.

10.2. Following the issuance of any AudioCodes Shares hereunder, such AudioCodes Shares may only be transferred pursuant to an effective registration statement under the Securities Act or pursuant to an available exemption from the requirements of the Securities Act, and in compliance with any applicable state securities laws. In connection with any transfer of AudioCodes Shares other than pursuant to an effective registration statement, except as otherwise set forth herein, AudioCodes may require the transferor to provide it with an opinion of counsel selected by the transferor, the form and substance of which opinion shall be reasonably satisfactory to AudioCodes, to the effect that such transfer does not require registration under the Securities Act. AudioCodes may assign its rights and/or obligations under this Agreement upon providing AT with written no tice to that effect to any successor entity (through merger, sale or all or substantially all of its assets, or any similar transaction).

10.3. This Agreement, together with the Purchase Agreement, contains and sets forth the entire agreement and understanding between the parties with respect to the subject matter contained herein, and such supersedes all prior discussions, agreements, representations and understandings in this regard. This Agreement shall not be modified except by an instrument in writing signed by both parties.

10.4. Neither party shall be in default if failure to perform any obligation hereunder is caused solely by supervening conditions beyond that party's control, including acts of God, war, civil commotion, strikes, labor disputes, and governmental demands or requirements.

10.5. Any and all notices or other information to be provided by one party to another shall be in writing and shall be deemed sufficiently given when sent by prepaid registered or certified first-class mail, facsimile transmission, or hand delivery at the address first above listed, or any other address designated by a party or Holder to AudioCodes. Notices shall be deemed to have been received five (5) Business Days after mailing if sent by mail, and the following Business Day if sent by facsimile transmission or delivered by hand.

IN WITNESS WHEREOF, the duly authorized representatives of AudioCodes and AT have executed this Agreement as of the date stated below.

/s/ SHABTAI ADLERSBERG
AUDIOCODES LTD.
By: Shabtai Adlersberg
Title: CEO

/S/ S. LAVI
AI TECHNOLOGIES N.V.
By: S. Lavi
Title: Managing Director

 Date: May 12, 2004

Exhibit 10.26

This OEM PURCHASE AND SALE AGREEMENT No. 011449, including exhibits, (Agreement) is entered into on April 28, 2003, (Effective Date) between Nortel Networks Limited, a Canada corporation with offices located at
8200 Dixie Road, Suite 100, Brampton, Ontario, Canada L6T 5P6 (Nortel Networks) and AudioCodes Ltd., an Israeli corporation with offices located at 4 HaHoresh Street, 56470 Yehud, Israel (Seller).

Definitions

Acceptance means Seller's product has successfully completed Nortel Networks' product acceptance program as set out in Exhibit D.

Affiliate means one or more of the following (a) a Nortel Manufacturing Licensee; (b) a Joint Venture; or (c) an entity of which Nortel Networks Inc. or Nortel Networks Limited owns between 20% and 50% of the voting securities or other control mechanism.

Blanket Purchase Order means an order for Products without a Delivery Date, issued by Nortel Networks or a purchasing Subsidiary or an Affiliate under this Agreement that is a valid order for Products only to the extent Releases are subsequently issued for specific quantities of the Products.

Changes and Change Order will have the meaning set out in Article 5 of this Agreement.

Confidential Information means information disclosed by Nortel Networks or Seller to the other party that is designated at the time of disclosure as confidential (or like designation), is disclosed in circumstances of confidence, or would be understood by Nortel Networks and Seller, exercising reasonable business judgment, to be confidential.

Current UAS Product will have the meaning set out in Section 1 of Exhibit A-1.

Delivery Date means the P.O. or Release date for delivering to the FCA delivery location or to Seller's dock (currently located at Yehud, Israel as of the Effective Date), as determined by Seller.

Epidemic Failure will have the meaning set out in Subsection 11.2 of this Agreement.

Exhibits are any attachments incorporated in this Agreement and identified as "Exhibits".

Firmware means machine-executable code resident in devices forming part of the Hardware.

FCA means *freight carrier alongside*, as set out under the International Chamber of Commerce document, *INCOTERMS 2000*.

Field-Replaceable Unit (FRU) means replacement parts, sub-assemblies, circuit cards, modules and other electronic and mechanical assemblies that may be replaced at an end-user location..

Hardware means the hardware and Firmware components, including FRU's, of the Products.

Infringement Claim Liabilities will have the meaning set out in Section 18.1 of this Agreement.

Joint Venture means a business enterprise with a limited scope and duration between a party and a third party.

New UAS Product will have the meaning set out in Exhibit A-1.

Nortel Manufacturing Licensee means a third party that has a written agreement with Nortel Networks allowing the third party to (a) manufacture or integrate Products and/or (b) lease, sell, sublicense or distribute Products, using Nortel Networks' or the licensee's brand name.

Prices means the prices and rates for the Products and services set out in Exhibits A and C.

Product means Seller's Hardware and Software products, listed in Exhibit A, that have achieved Acceptance. *Product* includes related Product Documentation.

Product Documentation will have the meaning set out in Article 15 of this Agreement.

Product Liabilities will have the meaning set out in Section 18.1 of this Agreement.

Product Warranty Period will have the meaning set out in Section 11.1 of this Agreement.

Proprietary Items has the meaning set out in Section 6.5 of this Agreement.

Purchase Order or P.O. means any order issued by Nortel Networks or a purchasing Subsidiary or an Affiliate under this Agreement for the purchase of Products or Repair Services.

Release means a written or verbal communication (confirmed in writing within 2 days), requesting a Delivery Date for a quantity of Products or Repair Services under a Blanket Purchase Order.

Repair Period means a period of ten (10) business days, applicable only to quantities not to exceed 50 units received over a period of 30 consecutive calendar days at Seller's repair facility in Israel or any other location designated by Seller for repair or replacement by Seller of a Product. The Repair Period will commence on the date that Seller receives the defective Product.

R*epair Services* means Hardware and Software repair and technical assistance services described in Article 12, Exhibit C, Section 3 and Exhibits G and H of this Agreement.

Repair Services Pool means a stock of FRU's that will be maintained by Seller during the Term at a location to be agreed upon in writing by the parties to enable Seller to meet its warranty commitments. The Repair Services Pool may consist of new FRU's or previously used FRU's, refurbished to conform to the Specifications. The size of the Repair Services Pool will be agreed upon in writing by the parties; provided, the Repair Services Pool will be sufficient to provide Nortel Networks with FRU replacement Product within ten (10) business days of (as applicable) (a) Nortel Networks' request for a replacement, (b) Seller's failure to repair by the end of the Repair Period, or (c) the parties' agreeing that the Product is Uneconomical To Repair.

Return Charge means the re-stocking charge, if any, for each returned Product as set out in Exhibit A.

Seller Affiliate means one or more of the following (a) a Seller Manufacturing Licensee; (b) a Joint Venture; or (c) an entity of which Seller owns between 20% and 50% of the voting securities or other control mechanism.

Seller Subsidiary shall mean an entity that directly or indirectly (a) controls or is controlled by Seller by fifty percent (50%) or more of the voting stock, shares or voting power, or (b) is under common control with Seller by more than fifty percent (50%) of the voting stock, shares or voting power of the entity.

Seller Manufacturing Licensee means a third party that has a written agreement with Seller allowing the third party to (a) manufacture or integrate Products and/or (b) lease, sell, sublicense or distribute Products, using Seller's or other brand name previously used or agreed by Nortel Networks.

Software means software programs (in machine-readable object code) that provide basic logic, operating and user-related application instructions and network management information for use with the Products.

Specifications means the specifications in Exhibit B (Part I), Acceptance test specifications and specifications for installation and testing Products in the field.

Subsidiar*y* means an entity that directly or indirectly (a) controls or is controlled by Nortel Networks Inc. or Nortel Networks Limited by fifty percent (50%) or more of the voting stock, shares or voting power, or (b) is under common control with Seller or Nortel Networks Inc. or Nortel Networks Limited by more than fifty percent (50%) of the voting stock, shares or voting power of the entity and Seller or Nortel Networks Inc. or Nortel Networks Limited.

Tax means all non State of Israel foreign, federal, state, provincial, local taxes (e.g., sales, use, excise, value-added, goods and services) and all other taxes arising with respect to Nortel Networks' purchases and Seller's sales under this Agreement, except withholding tax.

Uneconomical To Repair (UTR) means that (a) a Product is beyond repair due to physical damage; (b) a Product cannot be changed, modified, or upgraded from the current release of the Product to the next release acceptable to Nortel Networks; (c) in response to a requested Product repair Seller characterizes the request as "no fault found" for the third consecutive time; or, (d) a Product has already been through the repair process three (3) times; or, (e) a Product has exceeded the limit placed on the number of repairs a Product may undergo, as mutually agreed in writing by the parties.

1 Scope

1.1 In addition to Nortel Networks' purchasing under this Agreement, Nortel Networks may notify Seller in writing that the Subsidiary or Affiliate named in the notice may purchase under this Agreement. This Agreement will apply to all purchases of Products by the named Subsidiaries and Affiliates, as if each were "Nortel Networks" and a signatory to this Agreement. Each purchase by a Subsidiary or Affiliate will create contractual rights and obligations under this Agreement solely between the purchasing Subsidiary or Affiliate and Seller. In addition to Seller selling under this Agreement, Seller may notify Nortel Networks in writing that the Seller Subsidiary or Seller Affiliate named in the notice may sell under this Agreement. This Agreement will apply to all sales of Products by the named Subsidiaries and Affiliates, as if each were Seller and a signatory to this Agreement. Each sale by a Sel ler Subsidiary or Seller Affiliate will create contractual rights and obligations under this Agreement solely between the selling Seller Subsidiary or Seller Affiliate and Nortel Networks, its Affiliates and Subsidiaries, provided however that AudioCodes Ltd shall act as guarantor for all of the obligations of the Seller Affiliate and Seller Subsidiary.

1.2 Subject to any other written agreement to the contrary, either party may research, develop, manufacture or market products or systems similar to the Products

2. Term – This Agreement will take effect on the Effective Date and continue in effect unless a party gives 60 days advance termination notice to the other party (Term), provided however that in any event the term of this Agreement shall not be any shorter than thirty-six (36) months.

2.1 *Termination and Continuation of Rights* - The termination right in this Article 2 is in addition to, and not in lieu of, any other rights of the terminating party at law or under this Agreement.

2.1.1 If either party terminates this Agreement, (a) either party's obligations to the other party will continue after termination of this Agreement, and (b) Nortel Networks will be allowed (i) to obtain Product support and maintenance from Seller for paid-for Products, and (ii) to provide the support and maintenance to Nortel Networks' customers and their end-user customers. Seller will provide Nortel Networks with sufficient training for Nortel Networks to carry out the post-termination support and maintenance subject to any support and maintenance agreement in force between the parties at that time, as provided in the Exhibits.

0.1.1 If Nortel Networks terminates this Agreement, Nortel Networks may issue non-cancelable Purchase Orders any time during the 180-day period after the date of termination, as long as Nortel Networks takes delivery of the Products ordered within 365 days of the date of termination. If Seller terminates this Agreement, Nortel Networks may issue Purchase Orders in accordance with Sections 7 and 8 of this Agreement at any time during the 180-day period after the date of termination, provided the Delivery Date is within 365 days of the date of termination.

0.1.2 All obligations and liabilities intended to survive the termination of the Agreement will be effective after termination.

1. **Grant of Rights** - Seller grants to Nortel Networks the non-exclusive worldwide right to: (a) distribute, copy, have copied, license and sub-license the Software only in conjunction with the Hardware; and (b) distribute, sell and resell the Hardware. However, the grant of rights for Software will apply only to the initial Software version loaded on and used with the Hardware when no previous version of the Software has been used with the same Hardware ("Initial Software"), which Nortel Networks may sub-license the Software to end-users pursuant to terms and conditions consistent with those in Exhibit L. Nortel may only license Software (not including maintenance releases for the Initial Software) to upgrade or update the Initial Software if it does so under a separate Software maintenance and support agreement agreed to in writing with Seller.

4. Acceptance or Rejection of Products

4.1 Unless otherwise agreed in writing by the parties, Acceptance testing shall be conducted in accordance with Exhibit D. Nortel Networks will notify Seller of Acceptance within 3 business days of a product's achieving Acceptance. However, whether or not Products undergo Acceptance, they will be deemed to have successfully achieved Acceptance unless Nortel Networks gives Seller notice of rejection within 15 business days after delivery. If delivery is at Nortel Networks' customer's installation site, the 15 days will run from the earlier of (a) successful completion of installation and testing of the Products, or (b) 15 business days after delivery to Nortel Networks' customer's site.

4.2 If Products do not conform to the related P.O. or Release, Nortel Networks may give Seller a detailed notice describing the nonconformity and without further obligation (a) reject all or part of the Products, (b) cancel all or part of the Purchase Order, (c) and return the Products at Seller's expense for a full refund of the purchase Price. Nortel Networks' Acceptance of or payment for all or

part of the Products under a P.O. or Release will not be a waiver of Nortel Networks' right to reject such Products. Products may only be rejected and returned to Seller under this Agreement if they are in their original packing and unused except for Products purchased specifically for Acceptance testing.

4.3 *Return of Products* - With respect to Products set out in Exhibit A as of the Effective Date, Nortel Networks will have the right to return up to **[*]**% of the total price for Products (i.e. price of product excluding taxes and shipping) delivered to Nortel Networks in a calendar quarter, without paying a Return Charge, if it is returned to Seller within thirty (30) days of the end of the relevant calendar quarter. The cost of return of Products and risk of loss shall be borne by Nortel Networks. Notwithstanding the above, the parties can mutually agree to modify this section by line of business. Products returned shall be new, unused and in their original packaging.

4.3.1 If Nortel Networks returns Products to Seller as part of the **[*]**% referred to in Section 4.3 above, and if Nortel Networks has already paid Seller for the Products, Nortel Networks will have the right to request in writing that Seller (a) issue a credit memo to Nortel Networks' for the amount paid for the returned Products; or, (b) within 60 days of Nortel Networks' written request remit the amount paid by Nortel Networks for the Products. Seller will comply with Nortel Networks' request. However, if Nortel Networks has not paid Seller for the Products returned to Seller, then Seller will cancel any invoice sent by Seller for the Products and Seller will re-invoice Nortel Networks only for the Return Charge for the returned Products.

5. Engineering Changes - Seller will notify Nortel Networks of all proposed changes that affect processes or form, fit, function, performance or Prices of Products (Changes). The process for making a Change involving form, fit, function or performance is set out in Exhibit E. Notwithstanding the preceding, if requested by Nortel Networks, Seller must make the unchanged Product available for purchase until the first changed Products ordered have undergone Acceptance, unless unable to do so for safety reasons or court order.

6. Certification, Quality Control and Supply Management Requirements

6.1 *Certification* - Seller will obtain and maintain certification under ISO 9002 and each successive numbered ISO standard (e.g., ISO 9000:2000) released during the Term (Standard). Seller will provide Nortel Networks with written notice that it is in compliance with the Standard, updated as applicable. On receiving notice of Standard non-compliance, Seller will notify Nortel Networks about the details of the non-conformance and the plan (e.g., timelines and goals) submitted to the ISO registrars to comply with the Standard. Within 12 months after the execution of this Agreement, Seller will provide Nortel Networks with an up-to-date plan for obtaining TL 9000 certification (i.e., TL9000 certification for manufacturing and operations, but excluding research and development) that includes a target date for achieving TL 9000 certification. With respect to industry certific ations other than the Standard and TL9000, upon written request by Nortel Networks and discussion of the parties, the notice and discussion including a commercial purpose for obtaining an industry certification that is acceptable to Seller, Seller will obtain the applicable certification.

6.2 *Quality Control and Reliability Requirements*

6.2.1 All Products must comply with the Specifications. If Nortel Networks requests changes to the Specifications (e.g., changes in quality and reliability target metrics), Seller agrees to evaluate the request for the changes in Specifications and provide, in a timely manner and at no cost to Nortel Networks, a proposal which contains the timeframe for implementation and pricing or other related charges if any.

6.2.2 Seller will test and inspect Products prior to shipment, using testing and inspection procedures approved in writing by both parties. Seller will keep detailed inspection records, including serial number tracking records to the place of scheduled delivery, and make them available to Nortel Networks upon request.

1.1.1 On Nortel Networks' request, Seller will provide Nortel Networks with a monthly report covering the items set out in Exhibit F. The report will be in a form acceptable to Nortel Networks.

1.1.2 Within 7 calendar days of Seller forming an opinion on such fact, Seller will notify Nortel Networks of a (a) material defect in design or manufacturing of Products directly affecting service, (b) material and service affecting malfunction of Products, (c) material and service affecting failure of the Products to conform to the Specifications, and (d) Product being used in combination with other product(s) or services, which have previously been stated by Seller to be compatible or interoperable with Products, causing or having the potential to cause a material service affecting disruption in related end-user services. Seller will remedy (a) through (c) and (d) (to the extent the use is not contrary to the design Specifications) under the warranties set out Article 11, to the extent the Product is still within the warranty period.

6.4 *Inspection Rights* - Nortel Networks may inspect Seller's facilities or Products during the facilities' regular business hours at a mutually convenient time determined in advance. Nortel Networks will give reasonable advance notice of any inspection. However, Nortel Networks must give at least 15 days advance notice to inspect a manufacturing facility. At its expense, Seller will provide whatever is reasonably required by Nortel Networks to perform its inspection. Nortel Networks may perform a quality assurance inspection of Seller's manufacturing, if Nortel Networks does not unreasonably interfere with Seller's normal day-to-day operations. While Seller cannot guarantee that inspections will be permitted at third party sub-contractor sites, Seller will use its best efforts to facilitate such inspections.

7. Ordering

7.1 Nortel Networks will use Blanket Purchase Orders and Releases and Purchase Orders to purchase under this Agreement. At its discretion Nortel Networks may issue Blanket Purchase Orders, Releases and Purchase Orders by any electronic means for which Seller has the capability (e.g., fax or e-mail). As applicable, the additional ordering terms and processes to be agreed upon at a future date by the parties, based on the principles set out in Exhibit M, attached to and incorporated in this Agreement, will apply for Products ordered under either the Demand-Pull Program or Vendor Managed Inventory Program generally described in Exhibit M.

7.2 Blanket Purchase Order, Release or P.O. terms and conditions will be for administrative purposes only and invalid to the extent they conflict with this Agreement.

7.3 Nortel Networks' issuance of a Blanket Purchase Order is not a purchase of Products or commitment to purchase any quantity of the Products identified in the Blanket Purchase Order. Seller will only ship or deliver Products to Nortel Networks under a Blanket Purchase Order in response to Releases issued under the Blanket Purchase Order.

7.4 Seller will accept Blanket Purchase Orders and Releases or P.O.s, if the orders or Releases comply with this Agreement. Seller will acknowledge acceptance of the orders and Releases in writing (e.g., e-mail, fax web or html response) within 3 business days of its receipt of the order or Release unless stated otherwise in Exhibit A. Nortel Networks or the purchasing Subsidiary or Affiliate may not cancel at its convenience any part of a P.O., Blanket Purchase Order or Release less than 30 calendar days prior to the original scheduled Delivery Date for the relevant P.O., Blanket Purchase Order or Release (or part thereof) being cancelled. During the period that is more than 30 calendar days but less than 61 calendar days prior to the intended original scheduled Delivery Date, Nortel Networks may cancel up to **[*]**of the relevant P.O., Blanket Purchase Order or Release to be cancelled without charge. Upon 61 calendar days advance notice of any intended original scheduled Delivery Date Nortel Networks may cancel **[*]** of the relevant P.O., Blanket Purchase Order or Release without charge.

7.5 *Country of Origin Information* – On the Purchase Order or Release acknowledgment, invoice, and the shipment advise notice Seller will identify the country from which Products are shipped and the Country of Origin as defined in Exhibit B, including no charge items and samples.

7.5.1 On or before the date of receipt of a Purchase Order, but in no event sooner than ninety (90) days in advance of Seller's changing the Country of Origin, Seller will notify Nortel Networks of any changes in the County of Origin of applicable Products being shipped to Nortel Networks or Nortel Networks' customer.

7.5.2 Seller will be solely responsible for all costs, including fines and penalties, related to seizures resulting from incorrect or incomplete marking through the fault of Seller of any Product or its packaging, as described in Parts II and III of Exhibit B.

8. Delivery

8.1 *Delivery Date* – The Delivery Date for Products ordered under the Demand-Pull Program or Vendor Managed Inventory Program will be as set out in Exhibit M. The Delivery Date for Products not ordered under Exhibit M will be no more than **[*]** weeks after receipt of Purchase Order unless stated otherwise in Exhibit A.

8.1.1 Seller shall deliver the goods in accordance with Incoterms 2000 FCA terms. If Nortel Networks provides Seller with Nortel Networks' and/or end-customer's delivery routing instructions or guides, Seller will deliver Products in full compliance with these instructions or guides. To the extent the routing instructions or guides add to or conflict in any way with the terms and conditions for delivery under this Agreement, the terms and conditions of this Agreement shall apply unless otherwise agreed to by the parties.

8.2 *Packaging* - Seller will package the Products (including FRU's) as described in Parts II and III of Exhibit B. In addition Nortel Networks may reasonably request in writing modifications to the packaging (e.g., change the size and external markings). Seller will make reasonable efforts to package as a single unit all FRU components provided as replacements under Exhibit C.

8.3 *Delivery Delay* - Seller will notify Nortel Networks of any anticipated delay in meeting the Delivery Date. Nortel Networks may cancel the affected Release or Purchase Order (a) if a Delivery Date delay of over **[*]** calendar days occurs, or (b) if Nortel Networks' customer cancels an order within **[*]** calendar days after the Delivery Date, as a result of a delivery delay by Seller. Nortel Networks will have no liability for the cancellation and the cancellation will not affect Nortel Networks' other remedies under this Agreement.

8.3.1 *Force Majeure* - Neither party will be liable for any delay in performance or for non-performance due to the occurrence of any contingency beyond its reasonable control, including but not limited to acts of God, acts of civil or military authority, terror, strikes, fires, floods, earthquakes, epidemics, quarantine restrictions, war, riots, civil disobedience, embargo, rebellions, delays in transportation, governmental requirements and inability to obtain necessary labor, materials, permits, transport or manufacturing facilities ("Force Majeure"). In the event of a delay caused by a Force Majeure, the date of delivery shall be extended for a period equal to the time lost by reason of the delay; provided however, if Seller gives notice to Nortel Networks of a Force Majeure delay and the delay is greater than 30 days, Nortel Networks will have the right to cancel the applicable Purchase Order without liability or f urther obligation under the Purchase Order. In the event of a shortage of Products as a result of a Force Majeure delay, the available Products shall be allocated by Seller in such a manner as it in its sole discretion determines to be equitable; provided, Seller delivers the Products allocated to Nortel Networks on the applicable Delivery Date. However, if Seller cannot deliver the allocation on the applicable Delivery Date, Nortel Networks' may cancel the affected Purchase Order(s) as described. If Seller can deliver the allocation on the Delivery Date, but cannot deliver all Products ordered, Nortel Networks may cancel the Purchase Order with respect to the undelivered Products.

8.3.2 *Liquidated Damages* -. Except in the case of a Force Majeure delay as described in section 8.3.1 above, Seller will pay liquidated damages to Nortel Networks, if the Delivery Date delay of more than **[*]** consecutive days occurs for reasons within Seller's reasonable control. For each further **[*]** consecutive calendar days of delay after the **[*]** consecutive calendar days of delay, Seller will pay Nortel Networks **[*]**% of the price of the delayed part of the relevant P.O. or Release, up to a maximum of **[*]**%. If a Delivery Date of less than the standard lead time provided under this Agreement was given, then for the purposes of this section, the Delivery Date shall be deemed to be calculated from when such Delivery Date would have occurred under standard lead times under this Agreement. Liquidated damages will not be paid in the event that Nortel Networks was unwilling to a ccept partial shipment or in the event that Nortel Networks is in default of any other provision under this Agreement. Payment of liquidated damages under this section shall be made at Seller's sole option either in the form of a credit against future purchases or as set off against any amounts payable or to be paid by Nortel Networks to Seller

8.4 *Rescheduling Delivery Date*–At no additional charge Nortel Networks may reschedule each Delivery Date in accordance with the applicable Product rescheduling schedule in Exhibit A. Notwithstanding the preceding, Nortel Networks may defer once per Purchase Order (reschedule) all or part of the Products ordered under any Purchase Order for as long as sixty (60) days beyond the scheduled delivery date, provided notice of such deferral is given to Seller at least thirty (30) days prior to the scheduled delivery date. If Products rescheduled under this section are subsequently canceled, cancellation shall be based on the original scheduled delivery date

9. Prices and Payments

9.1 Subject to Section 9.3, the Prices will (a) apply to all purchases under this Agreement, (b) be reviewed by the parties on a quarterly basis, (c) include shipping FCA Seller's designated plant, and (d) include packing. The Prices will be exclusive of all applicable Taxes. Any Tax to be collected by Seller shall appear as a separate line item in Seller's invoice to the extent permitted by law. Nortel Networks will not be responsible for any stamp taxes or taxes imposed upon Seller's net income, net worth, gross receipts, corporate existence or franchise. Seller will timely remit all the described Taxes to the proper taxing authorities. If Nortel Networks or a purchasing Subsidiary or Affiliate provides Seller with a tax exemption certificate, Seller will not invoice for the related Taxes. Seller will reimburse Nortel Networks to the extent Taxes paid by Nortel Networks are recovered b y Seller from the taxing or governmental authority. To the extent that Taxes may only be refunded to Nortel Networks, Seller agrees to cooperate reasonably with Nortel Networks' obtaining a refund or reimbursement of the Taxes. During the Term, Nortel Networks will make reasonable efforts to give Seller advance notice of the identity of Nortel Networks entities that will be making volume purchases under the Agreement. Further, at Seller's request, Nortel

Networks will assist the Seller in minimizing the Seller's withholding tax; provided, the requested assistance is commercially reasonable and does not unduly prejudice Nortel Networks' own tax position. If Nortel Networks is required by law to withhold any tax with respect to a payment to Seller, Nortel Networks will (i) withhold the appropriate amount from the payment, (ii) pay the withheld amount to the applicable authority, as required by law, and (iii) furnish to Seller certified copies of tax receipts and any other documentation reasona bly requested by Seller as proof of Nortel Networks' payment of the withholding tax.

9.2 *Low Price-* With respect to New UAS Products, during the first **[*]** years of the Term, the Prices will be the same as Seller's lowest OEM customer for each applicable UAS Product without regard to quantity. Notwithstanding the preceding, after Nortel Networks has paid Seller $**[*]** for Products under this Agreement and at least $**[*]** in the calendar year preceding the relevant purchase order, the Prices for all Products will be the same as Seller's lowest OEM customer price for similar quantities of the same or similar kind of Products and Repair Services sold under similar terms. For making a comparison with OEM customer purchases Seller will aggregate all purchases made by Nortel Networks and its Subsidiaries and Affiliates during a calendar year, including Current and New UAS Products.

9.3 *Price Reductions* – Within **[*]** (**[*]**) months of Seller offering an end-user customer or OEM customer better prices than Nortel Networks, as determined under Section 9.2, Seller must notify Nortel Networks about the more favorable prices. In such case Seller and Nortel Networks will enter into an amendment of Exhibit A of this Agreement to include the more favorable prices for future purchases. Nortel Networks will receive a retroactive refund equal to the total difference between the more favorable prices offered by Seller to the third parties and the higher Prices paid by Nortel Networks for Products purchased under this Agreement.

9.4 *Payment* – Seller will invoice Nortel Networks at Nortel Networks, Attn: Accounts Payable Dept., P.O. Box 90510, Nashville, Tennessee 37208-0510 or such other address as the Nortel Networks purchasing entity may designate in writing to Seller. Seller shall invoice Nortel Networks upon the Delivery Date. Nortel Networks will pay Seller within 45 days of Nortel Networks' receipt of invoices.

9.5 All Prices and payments will be in U.S. currency unless otherwise agreed in signed writing by the parties.

9.6 *Audit* – Provided Nortel Networks has met the volume limitations set out in Section 9, Nortel Networks may audit Seller's invoices and other reasonably relevant materials for the relevant year to determine whether Seller has complied with Section 9.2. The audit will be conducted during Seller's normal business hours and Seller shall provide reasonable co-operation. No more than one audit will be conducted each calendar year. The audit shall be conducted by an independent certified public accounting firm chosen by Nortel Networks and consented to by Seller, which consent shall not be unreasonably withheld, under a mutually agreed upon nondisclosure agreement. Nortel Networks shall be responsible for all costs associated with the audit. However, Seller shall be responsible for reasonable costs associated with the audit, if the audit reveals the existence of (a) for Current and New UAS Products for the first three (3) years of this Agreement a Seller price for a product that is lower than Seller's Price to Nortel Networks for the same type of Current or New UAS Product, or (b) for all other circumstances, Seller's price is more than **[*]** percent (**[*]** %) lower than the applicable Price. In any event, any pricing found by the auditor to be in violation of Section 9.2 will be adjusted in the same manner as that for adjusting Prices due to Seller lowering prices, as described in Section 9.3.

10. Title and Risk of Loss - Title to (excluding Software title) and risk of loss of the Products will pass to Nortel Networks upon delivery under Article 8 (Delivery). Seller shall retain risk of loss for warranty replacement Products until delivery to Nortel Networks' designated destination.

11. Warranty

11.1 Unless otherwise agreed by separate Exhibit, Seller warrants that for the longer of **[*]** months from the Delivery Date (Product Warranty Period), the Hardware and the Software will be free from material defects in materials and workmanship and will conform to the Specifications.

11.1.1 Further, Seller warrants for the life of Products that (a) the Products were new and free and clear of all security interests or other liens and other encumbrance when sold; (b) the Products (i) are safe for use as described in Seller's documentation, user manuals and datasheets (ii) are non-toxic and present no abnormal hazards to persons or their environment in their normal state, and (iii) must be disposed of in accordance with the applicable governmental laws and regulations that govern the disposal of commercial electronic equipment in the country where the Products are being disposed; (c) Seller owns all of the rights necessary for Nortel Networks to sell the Product; and, (d) the Products will have no material design defects.

0.0.1 If Seller breaches the warranties under this Section 11.1, Seller will provide at its expense, as described in Exhibits G and H, (a) the Repair Services described in Article 12 within the Repair Period and (b) replacement Hardware and Software. If Seller does not or cannot provide Repair Services within the Repair Period, Seller will replace the applicable Product from the Repair Services Pool. Warranty replacement Hardware and Software must (a) be functionally equal to or better than the replaced units, (b) be backward compatible, and (c) meet the Specifications.

11.1.3 Seller must correct warranty breaches under this Section 11.1 within **[*]** days of (a) return of the relevant Product to Seller under the RMA procedure or (b) notice from Nortel Networks, whichever applies under the circumstances, or Nortel Networks may return the affected Products for a refund.

11.2 *Epidemic Failure Warranty* –"Epidemic Failure" means that more than **[*]**% of the total installed base of at least **[*]** units of the same type of Products has experienced the same type of failure to conform to the applicable Specifications, and such failure materially affects Product functionality. Seller warrants that the Products will not experience Epidemic Failure for a period equal to **[*]** times the length of the applicable Product Warranty Period (Epidemic Failure Warranty). Unless otherwise agreed in writing by the parties, if an Epidemic Failure occurs, upon notice from Nortel Networks Seller will (a) at its expense, remove from the field and Seller's and Nortel Networks' storage locations all units of the Product under Epidemic Failure Warranty (Covered Products); (b) refund payments made by Nortel Networks for Covered Products; (c) cancel all invoic es for the Product; and, (d) at its expense, provide a workaround (if possible) until a replacement Product is available. In addition, Nortel Networks may cancel all outstanding P.O.s, Blanket Orders and Releases for the Products without further obligation. Notwithstanding (a) – (d) above if the Epidemic Failure can be cured by a software correction only, then Seller shall provide such correction without a recall. Such software correction must be acceptable to Nortel Networks and Nortel Networks shall not unreasonably withhold its approval.

11.3 *Repair and Replacement Warranty* - Seller warrants that Product warranty repairs and replacements will be free from material defects in materials and workmanship and will conform to the Specifications for the longer of (a) the remainder of the Product Warranty Period, or (b) **[*]** months from shipment to Nortel Networks of a replacement or repaired Product. Seller warrants out-of-warranty repairs and replacements for **[*]** months from the Delivery Date. Shipping expenses for return of Products for repair and replacement to Seller shall be borne by Nortel Networks and the expense of shipment of repaired Products or replacements to Nortel Networks will be borne by Seller. Risk of loss shall be borne by the party paying for shipment.

11.4 If Seller refuses or materially fails to comply with its obligations under section 11.3 of this Agreement, Nortel Networks may contract with third parties to repair or replace the particular defective Hardware and Software. Seller will reimburse Nortel Networks for all reasonable charges for third party repair and replacement, provided that such charges do not exceed Seller's then-current repair price to Nortel Networks. Nortel Networks will look to the third party to warrant its repair or replacement.

11.5 The remedies in this Article 11 are in addition to the other remedies under this Agreement.

11.6 The warranties in this Article 11 will not cover (a) items normally consumed in operation (e.g., lamps and fuses), and (b) defects caused by mishandling, misuse, neglect or improper testing or repair by Nortel Networks, its customers or anyone on their behalf, except for Seller.

11.8 *Seller warrants Products only as set out in this Agreement and disclaims all other warranties implied by law, custom or otherwise.*

12. Repair Services - If Seller breaches a warranty, at no additional charge it will provide Repair Services to Nortel Networks in accordance with Sections 1 and 2 of Exhibit G and Exhibit H. After the Product Warranty Period, Seller will provide the Repair Services to Nortel Networks during the Repair Period for the charges described in Article 3 of Exhibit C.

13. Discontinued Product – Seller will not discontinue a Product (i.e., "manufacture discontinue") without advance written notice of **[*]** months to Nortel Networks. Seller will accept all correct Releases and Purchase Orders issued during the **[*]** months.

14. Technical Support - The parties will perform their respective duties as set forth in Exhibits C, G and H. Seller will provide technical support at the rates in Section 1 of Exhibit C.

15. Documentation - At no charge, Seller will develop Product documentation (Product Documentation). Product Documentation will comply with the Specifications set out in Exhibit I and Nortel Networks' then-current branding requirements. Nortel Networks may use, copy, modify and translate Seller's promotional and end-user materials and Product Documentation in connection with the sale or support of the Product. Nortel Networks will keep Seller's copyright markings and notices intact.

16. Confidential Information –Each party will use reasonable care in holding the other's Confidential Information in confidence and not disclose it to anyone except the party's employees. However, a party may also disclose the Confidential Information to third parties (e.g., Subsidiaries, Affiliates and subcontractors) who have a need to know for purposes of carrying out this Agreement and have agreed in writing in advance to be bound by the confidentiality terms substantially similar to those of this Agreement.

16.1 *Exceptions* - Information is not protected if (a) a recipient can demonstrate through written documentation that it was already known; (b) it becomes known or generally available to the public (other than by act of the recipient) after its disclosure; (c) it is disclosed or made available in writing to the recipient by a third party having a bona fide right to do so and without similar confidentiality obligations; (d) it is independently developed by recipient, as demonstrated by its business records; or (e) it is required to be disclosed by subpoena, by law, or other process of law. The recipient will notify the disclosing party promptly of a subpoena or other process of law requiring disclosure.

16.2 *Release of Information* - Only by prior written consent may either party (a) advertise, make public statements or publish information concerning this Agreement or a P.O. or the relationship between Nortel Networks and Seller, or (b) use the name or trademark of a party with respect to any advertising, promotion, publicity, or representation that a party may make in connection with its business, services, or product lines. Seller and Nortel Networks will cooperate to create the language of any information release permitted under this Agreement.

17. Hazardous Materials

17.1 As required by law or government regulation in North America, the European Union, China, Australia or Brazil, prior to shipment, Seller will notify Nortel Networks about hazardous and toxic materials in Products. Any notification given by Seller will be updated annually. Upon Nortel Networks' request, in addition to the lists and updates, Seller will inform Nortel Networks whether Products contain materials that Nortel Networks may identify in its request.

17.2 Product recalls due to hazardous or toxic material content or quantity will be at Seller's expense. Nortel Networks will cooperate with Seller to minimize Seller's recall related expenses. If a recall occurs, Seller must provide Nortel Networks with a workaround. The workaround must be Seller's (a) removing the offending hazardous or toxic material and substituting a non-offending material, or (b) removing the prohibited excess of hazardous or toxic material, or (c) substituting a functionally equivalent product that does not contain the offending hazardous or toxic material. Seller will indemnify Nortel Networks and its customers in accordance with Article 18 below for their use, sale or distribution of offending Products.

17.3 As regards any jurisdiction or territory not specified in section 17.1 above, Seller's obligation shall be limited to a period of **[*]** years from the Delivery Date. In addition Seller's obligation to compensate Nortel Networks shall be limited to selling Nortel Networks a workaround or substitute products at the cost to Seller of such products.

18. Indemnity

0.1 Indemnification - Seller will indemnify and hold harmless Nortel Networks and its Subsidiaries and Affiliates (including their employees, officers and directors) from fines, penalties, losses, costs, damages, injuries, claims, expenses or liabilities (a) resulting from injury or death of a person or damage or loss of property during performance of this Agreement, (b) caused by the Product (Product Liabilities), or (c) resulting from infringement of third party rights in a Product (Infringement Claim Liabilities). The fines, penalties, losses, costs, damages, injuries, claims or liabilities resulting from Section 18.1(a) through (c) will be known collectively as *Liabilities.*

18.2 *Responsibilities of Indemnifying Party* - At its expense Seller will defend against or settle Liabilities and pay related costs and attorneys' fees. Seller will have sole control of the settlement or defense of Liabilities, but Nortel Networks or the indemnified Subsidiary or Affiliate may participate in the defense or settlement at its own expense. Seller will give notice to Nortel Networks of Liabilities. Notwithstanding anything to the contrary in Article 18, Seller has no obligation to indemnify Nortel Networks to the extent Liabilities result from: (a) injury or death to a person or damage to property caused by parties, or for reasons, outside of Seller's control; (b) product liability resulting from Nortel Networks' modification or use of a Product in a manner other than in accordance with the applicable Specifications; (c) the Product infringing the intellectual property rights of a third party where, bu t for such Product conforming to a design, specification or

written instruction provided by and required by Nortel Networks, the Product would not have infringed; (d) a combination of products infringing the third party intellectual property rights, when Nortel Networks or its customers combined a Product with non-Seller products and, but for the combination, the Product would not have otherwise infringed the rights of the third party; or (e) any New UAS Product incorporating Nortel Networks technology (including, without limitation, the Technology [as defined in the parties' Technology Licensing Agreement] therein, as provided by Nortel Networks to Seller for incorporation and use therein and as incorporated and used therein) infringing the intellectual property rights of a third party where, but for the use and incorporation of such technology in such New UAS Product, the New UAS Product would not have infringed, but (i) solely to the extent that such technology is used and incorporated in such New UA S Product, and (ii) only if such technology (A) has not been changed or modified (except solely to the extent Nortel Networks has expressly agreed in writing to the specific change or modification), and (B) has been incorporated and used only in the manner for which it was provided and in accordance with the legal terms providing the right to incorporate and use the same.

18.3 *Injunction* - If Nortel Networks is enjoined from using Products due to an Infringement Claim Liability caused by Seller, Seller at its expense must immediately commence work and make best efforts to provide Nortel Networks with a workaround. The workaround will be Seller's (a) obtaining the right for Nortel Networks and its Subsidiaries and Affiliates to use the Product as provided under this Agreement, (b) substituting a functionally equivalent product that does not infringe, or (c) modifying the offending Product so that it no longer infringes.

18.4 The obligations under this Article 18 will survive the termination of this Agreement.

19. Damages – Neither party will be liable for any unforseeable, incidental or consequential damages or for any loss of revenues, loss of profits, loss of goodwill or other forms of economic loss, even if the party or its authorized representative has been advised of the possibility of the type of damages and notwithstanding any failure of the essential purpose of any limited remedy. However, this Article 19 will not apply to either party's obligation to indemnify the other party under this Agreement , a party's infringement of the other party's intellectual property rights, a party's liability for liquidated damages under this Agreement or breach of Article 16 (Confidential Information).

20. Insurance

0.1 During the Term and for 5 years after, Seller will maintain:

0.1.1 A comprehensive general liability insurance policy that (a) includes third party liability coverage, protecting Nortel Networks and its Subsidiaries and Affiliates from property damage or personal injury caused by Seller, (b) has a minimum combined single limit of 5 million U.S. dollars, (c) provides worldwide coverage, and (d) indicates on its face that it is primary insurance.

20.1.2 Employer's liability insurance with a minimum liability limit of $1,000,000.00.

20.1.3 Workers' compensation, with the statutory requirement for coverage. (In the United States, Seller must carry statutory workers' compensation coverage whether or not state law allows Seller to elect not to carry coverage.)

20.2 The comprehensive general liability and employer's liability policies will name Nortel Networks and its Subsidiaries and Affiliates as additional insured parties. Seller cannot cancel or change a policy without at least 30 days advance written notice to Nortel Networks.

20.3 Within 10 days after the Effective Date, Seller will furnish Nortel Networks with a certificate of insurance and evidence of the required, paid-up coverage. The insurance policy will be in addition to Seller's indemnity under Article 18.

20.4 Nortel Networks may request Seller to increase its coverage, if Nortel Networks reasonably believes that Seller's coverage is inadequate.

21. Notices - Notices will be given in writing by (a) fax, (b) courier service or (c) electronic mail (e-mail). Courier service notice is effective on the earlier of 5 days from being deposited for delivery or the date on the mail or courier receipt. Fax and electronic mail notice are effective when the sender receives confirmation that the fax was sent or electronic mail received. A party will send notice to the delivery address or electronic mail address or fax number of the persons described below.

SELLER:

AudioCodes Ltd
4 HaHoresh Street
56470, Yehud, Israel
Attention: General Counsel
Fax: +97235394044
e-mail address: notices@audiocodes.com

NORTEL NETWORKS:

Nortel Networks Inc.
2221 Lakeside Blvd.
Richardson, Texas 75082-4399
Attention: Counsel, Supply Management Solutions
Fax: 972-685-3504
e-mail address: hnaboshe@nortelnetworks.com

Nortel Networks Inc.
Supply Chain Operations
Davis Drive
Mail Stop 808 01 F10
Dept 3091
Research Triangle Park,
North Carolina 27709
Attention: Ken Parham
Fax: 919-997-8645
kparham@nortelnetworks.com

22. Governing Law - The laws of the State of New York, except for conflict of laws rules, will govern the Agreement. Application of the U.N. Convention on Contracts for the International Sale of Goods is specifically excluded from this Agreement.

23. General

23.1 *Severability* – If any provision of this Agreement is determined to be legally unenforceable or invalid, the remaining provisions will continue in effect. The parties will substitute a provision that most closely approximates the economic effect and intent of the invalid provision.

23.2 *Preferential Trade Agreement – Procedures* - Seller will support Nortel Networks' qualifying Products for preferential trade treatment as set forth in Exhibit J.

23.3 *Debarment Certificate* - Seller may be required by law to provide Nortel Networks with a certificate about the Products, based on the then-current version of the form set forth in Exhibit K. Seller and its Products and services will conform to all applicable laws and governmental orders and regulations in effect at the time of shipment of Products or the performance of services.

23.4 *Assignment* - Neither party will assign or transfer this Agreement, or its rights or obligations, without the prior written consent of the other party. Consent will not be unreasonably withheld or delayed. However, either party may assign or subcontract its rights or obligations under this Agreement to a Subsidiary without Seller's consent or to a person or entity to which the assigning party has seceded all or substantially all of its business and assets to which this Agreement relates.

23.5 *Waiver* –Unless waived and agreed in writing by the parties, no action or inaction by a party under this Agreement will constitute a waiver of a party's (a) rights or obligations under this Agreement, or (b) breach of this Agreement.

23.6 *Independent Contractors* - Under this Agreement Seller is an independent contractor. This Agreement does not create a joint venture, partnership, principal-agent or employment relationship between Seller and Nortel Networks.

23.7 *Incorporation of Exhibits* -All exhibits attached to this Agreement are also incorporated in this Agreement.

23.8 *English* – All written communication concerning this Agreement or amendments or restatements of this Agreement will be in the English language.

23.9 *Multiple Counterparts* – This Agreement may be executed by the parties in multiple counterparts, each of which will be deemed an original and all of which will be one and the same document.

23.10 *Entire Agreement* – This Agreement is the entire subject matter agreement of Nortel Networks and Seller in relation to the subject matter of the Agreement as of the Effective Date and supercedes any prior discussions or negotiations concerning the subject matter of this Agreement.

AUDIOCODES LTD.

By: _____
(Signature)
Name: _____
(Print)
Title: _____

Date: _____

NORTEL NETWORKS LIMITED

By:
(Signature)
Name:
(Print)
Title:

Date:

#

EXHIBIT A
PRICES, DISCOUNTS AND DELIVERY

By written agreement the parties will add Products for sale under the Agreement, incorporating the added Products in this Exhibit A in sequentially numbered exhibits (i.e., A-1, A-2, A-3 and so forth).

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

EXHIBIT A-1
CURRENT AND NEW UAS PRODUCTS
PRICES, DISCOUNTS AND DELIVERY

1. **Current UAS Products** - As required by Nortel Networks, Nortel Networks' Manufacturing Licensee Solectron Corporation will issue Purchase Orders to Seller for the following universal audio server products ("Current UAS Products"):

Product Code	Alternate Code	Product Line	Product Title
NTAR02JC	A0814973	OEM PLATFORM	AG4000C TELEPHONY PROCESSING 16 DSP QUAD T1 CPCI C
NTAR02JD	A0814974	OEM PLATFORM	AG4000C TELEPHONY PROCESSING 16 DSP QUAD E1 CPCI C
NTAR02JE	A0814975	OEM PLATFORM	AG4000C UNIVERSAL REAR I/O CARD
NTAR02JF	A0814976	OEM PLATFORM	CG6000C 32 DSP IP TELEPHONY CPCI CARD
NTAR02JG	A0814977	OEM PLATFORM	CG6000C CARD REAR I/O MODULE
NTAR02JH	A0814978	OEM PLATFORM	BX4000C ATM CARD (no longer used) Repair and Return only
NTAR02JY	A0822049	OEM PLATFORM	CPX8216T COMMON BRIDGE/HSC
NTAR02KU	A0828190	OEM PLATFORM	40X SCSI CD-ROM DRIVE
NTAR02NV*	A0877807	OEM PLATFORM	CPV5370, 700MHZ, PENTIUM III, WITH PMC155-K
NTAR02NX*	A0877809	OEM PLATFORM	CPTM-04-F TRANSITION MODULE + PIM155-K SCSI PIM
NTAR02NY	A0887740	OEM PLATFORM	PA200 ATM CARD
NTAR02NZ	A0887742	OEM PLATFORM	PA200 REAR I/O CARD
NTAR10BM	A0872890	OEM PLATFORM	SAM16 HOT SWAP DISK ASSY
NTAR42FH	A0828187	OEM PLATFORM	EXTERNAL SCSI CABLE
NTAR42FJ	A0828188	OEM PLATFORM	INTERNAL 2 DROP SCSI CABLE
NTRX5157	B0259883	OEM PLATFORM	UAS06 COMMON PACKFILL KIT
NTRX51BC	B0256334	DMS-100	POWER SUPPLY AND FAN UNIT (DC)
NTRX51BF	B0256308	DMS-100	FAN UNIT, SAM
NTRX51CD	B0258458	OEM PLATFORM	SAM16 ALARM PANEL ASSEMBLY
NTRX51CX	B0257753	OEM PLATFORM	SAM16 CHASSIS KIT
NTRX51HV	B0261585	OEM PLATFORM	SAM16 CHASSIS EXPANSION KIT(PTE2000)
NTRX51KM	B0261915	OEM PLATFORM	DC-AC INVERTER FOR PTE2000 CABINET
NTRX51KN	B0262033	OEM PLATFORM	DC-AC INVERTER MOUNTING KIT FOR PTE2000 CABINET
NTRX51KQ	B0262035	OEM PLATFORM	KVM SWITCH MOUNTING KIT FOR PTE2000 CABINET
NTRX51CB			SAM16 Chassis Assembly
A0837701			Data Storage Floppy
A0871560			DC Distribution Panel
P0938707			UAS Domain Ident. Label
A0838010			DC Distribution Panel
A0828397			Air Filter
NTVW25AA	A0894850	IMS	SAM16 Chassis for IMS AC Power with 5370 Host Card - AC Sam16 chassis
NTVW02KA	A0501406	IMS	Keyboard/Monitor Kit, AC
NTVW00AC	A0505118	IMS	KVM Switch, 8 Channel Multi-Platform, AC
NTVW02LA	A0991214	IMS	CG6000 PRI Conference Server Kit
NTVW01CA	A0991211	IMS	SAM16 Chassis for IMS DC Power with 5370 Host Card
NTVW02HA	A0895132	IMS	KVM Switch, 8 Channel Multi-Platform, DC

* For purposes of this Exhibit A, P.O.s for items NTAR02NV and NTAR02NX will not be considered universal audio server product P.O.s, unless the items are ordered as part of NTRX5157.

1.1 **Current UAS Products Price** - The Price of the Current UAS Products, as purchased by Solectron Corporation, will be calculated as follows:

- Price to be paid by Solectron Corporation = Seller's Cost of Goods
- Nortel Networks will pay directly to Seller a Current UAS Product mark-up equal to the dollar amount resulting from the following calculation: [Seller's Cost of Goods / (1-GPM*)] – Seller's Cost of Goods

*GPM (i.e., gross product margin) equals **[*]** for purposes of this Exhibit A-1

1.2 **Terms and conditions for Purchase of Current UAS Products –** The parties agree that the terms and conditions set out in Attachment 1, attached to and incorporated in this Exhibit A-1will supplement the terms and conditions of the Agreement; provided, however, (a) any conflict between Attachment 1 and the Agreement will be resolved in favor of Attachment 1, and (b) the revisions in Attachment 1 will apply solely to Solectron Corporation's purchasing Current UAS Products under this Agreement.

1.3 **Specifications for Current UAS Products** -

Specifications applicable to Current UAS Products sold by Seller under this Agreement are contained in the following documents:

- UAS Product Document (NTP: 297-5071-315) - Overviews, FDs, OAM information for UAS product (last updated: January 17, 2003)
- UAS Software Architecture Document (NTP: 297-5071-801) - Functional description of the software architecture of the UAS product (last updated: January 17, 2003)
- UAS OAM&P Document (NTP: 297-5071-037) - Discussion of the OAM aspects of the UAS product (last updated: January 17, 2003)
- APS Design Document (NTP: 297-5071-309) - Design description, use cases, test case information for the Audio Provisioning Server component (last updated: January 17, 2003)
- UAS Design Document (NTP: 297-5071-310) - Design description and use cases information for the UAS Application Server component (last updated: January 17, 2003)
- UAS Software Qualification Document (NTP: 297-5071-314) - Unit and Integration test case plan information for the UAS Application Server component (last updated: January 17, 2003)

Notwithstanding the preceding, for the avoidance of doubt, Nortel Networks will be responsible for licensing the third party software included in the Specifications.

1.4 **Current UAS Support Terms –-** For purposes of this Section 1.4, Current UAS Products include universal audio server products installed in Nortel Networks' customers' networks prior to the Effective Date (the "Installed Base"). **[*]** charge to Nortel Networks or its customers (a) Seller will cooperate with Nortel Networks to determine whether a defect in a Current UAS Product is software related or hardware related, and (b) Seller will provide the Software technical support set out in Exhibit H for Current UAS Products. Seller's providing support under sub-part (b) is conditioned upon Nortel Networks first licensing its IMS client software to Seller for each IMS software version in Nortel Networks' customers' installed base as of the Effective Date, which license will be in a separate licensing agreement between the parties, as described in Section 2.3(d) of the parties' Technology License Agreement, and at no charge to Seller. Notwithstanding

the preceding, with respect to Current UAS Products, Nortel Networks agrees to rely on the warranty and non-warranty repair (including retrofits) obligations it obtained from the original supplier of the equipment and/or its suppliers' vendors and will deal directly with the supplier and/or vendor rather than with Seller with respect to Current UAS Products.

1.5 **Manufacture Discontinue of Current UAS Products –** During the first **[*]** months of the Term, Seller will not give notice of manufacture discontinue for Current UAS Products under Section 13 of the Agreement, as such UAS Products are then constituted (e.g., Specifications and design), without Seller making an equivalent replacement Product(s) available for purchase by Nortel Networks.

2. **New UAS Products –**

2.1 **Price** - The prices under the matrixes in Section 2.2 below will be the prices ("Prices") for the UAS Products listed in each matrix ("New UAS Products"), based on, as applicable (a) the year of the Term in which Nortel Networks purchases the applicable New UAS Product, (b) the discount, if any, applied against Seller's OEM base price; and, (c) any price reduction percentage (e.g., "CR" percentage) that effects an additional discount, but only for that year of the Term.

2.1.1 *Future Cost Reductions* -With respect to Year **[*]** and Year **[*]** from the Effective Date, except where a cost reduction is not indicated (e.g. call control and indemnification options), the parties will agree in writing in advance upon the applicable cost reduction to be applied; provided, however, unless stated otherwise in the written agreement, the reduction will not be less than **[*]** percent (**[*]**%) or more than **[*]** percent (**[*]**%).

2.1.2 *Waiver of Indemnification* - However, no discounts or cost reductions will apply to the pricing element designated as "Vocoder Indemnification" in Subsection 2.2.1 below, except that Seller agrees that it will lower the G.723.1 indemnification Price by **[*]** percent (**[*]**%) for the third year and fourth year of the Term. Seller agrees that for each of the G.729A and G.723.1 vocoder Products for which Nortel Networks issues a P.O., Seller will invoice Nortel Networks for the applicable indemnification Price, until Nortel Networks waives in writing the indemnification protection for which Seller is obligated under Section 18 of the Agreement with respect to a vocoder Product. Seller's failure to invoice Nortel Networks for the indemnification Price before it receives a written waiver from Nortel Networks will not affect a waiver of Seller's indemnification obligation . Once Nortel Networks has waived the indemnification Price for a vocoder Product, all units of that Product purchased after the date of the waiver will no longer have Section 18 indemnification protection (i.e., Nortel Networks must retain the protection for all future purchases or waive protection for all future purchases).

2.2 **Price Matrixes**

2.2.1 **IP Media 2000 Pricing for CS2K IP Applications**

_____
[*] Confidential

#

2.2.2 **IP Media 2000 Pricing for PT-IP Application within CS2K**

_____
[*] Confidential

#

1.1.1 IP Media 2000 Pricing for CS2K ATM Applications

_____
[*] Confidential

#

2.2.4 IP Media 2000 Pricing for IMS Conferencing Applications

_____
[*] Confidential

2.2.5 Mediant 2000 Pricing SIP to PRI Gateway Applications

_____
[*] Confidential

#

2.2.6 EMS Base Prices and Discounts

2.3 Availability – If Seller is in material breach of the parties' separate development agreement, Seller agrees to provide Nortel Networks with a solution using AudioCodes **[*]**boards that provide materially equivalent functionality for the same prices as the applicable New UAS Product, based on the following model configurations, as applicable:

	AUDC Ports	Year Two		Year Three*
IMS Products			1-May-04	1-May-05
SIP to PRI GW - E1	960		$**[*]**	$**[*]**
SIP to PRI GW - T1	1152		$**[*]**	$**[*]**
IMS Conferencing	240		$**[*]**	$**[*]**
IP Products		SN06.2	1-May-04	1-May-05
Small IP	720	$**[*]**		$**[*]**
Large IP - UAW	960	$**[*]**		$**[*]**
PT - IP (Announce)	480	$**[*]**		$**[*]**
ATM Products		SN07	-	1-May-05
PT - AAL2 (Announce)	240	$**[*]**		$**[*]**
ATM LI - UA	240	$**[*]**		$**[*]**

*Note that Year 3 pricing for IMS Products in the preceding matrix is based on an assumed year-over-year cost reduction assumption. However, the assumption is made by way of example. The parties will agree in writing in advance upon the actual cost reduction to be applied for all New UAS Products for year 4 and following years; provided, however, the reduction will not be less than **[*]** percent (**[*]**%) or more than **[*]** percent (**[*]**%).

3. **Lab Hardware** – In coordination with implementation of the development agreement between the parties, at Nortel Networks' request at no charge to Nortel Networks, Seller will provide Nortel Networks with up to **[*]** units New UAS Products, chosen at Nortel Networks' discretion, ("Lab Units") during the first **[*]** months of the Term for use by Nortel Networks. Beginning in the second **[*]** months period of the Term and each **[*]** months period thereafter during the Term, at Seller's cost without mark-up of any kind and at Nortel Networks request, Seller will provide Nortel Networks with up to **[*]** Lab Units per year for Nortel Networks' use.

4. **Vendor Managed Inventory** - The parties agree that the vendor managed inventory terms and conditions set out in Attachment 2, attached to and incorporated in this Exhibit A-1, will apply to all purchases of New UAS Products during the Term.

5. **UAS Escrow –** Within **[*]** days after execution of this Agreement, Seller and Nortel Networks will execute the Depositor Acceptance Form and Amendment, attached to and incorporated in this Exhibit A-1 as Attachment 3. Nortel Networks will ensure that its escrow agent DSI Technology Escrow Services, Inc. ("DSI") also executes the Depositor Acceptance Form and Amendment, thereby implementing the terms and conditions of the Master Escrow Agreement dated February 1, 2003 between DSI and Nortel Networks Limited ("Escrow Agreement"). Within **[*]** days of the date of Nortel Networks' notification to Seller of Nortel Networks' Acceptance a New UAS Product, the parties will agree upon the designs and manufacturing templates Seller will deposit with DSI ("UAS Escrow Materials") and Seller will deposit such UAS Escrow Materials. Nortel Networks will pay all fees incurred u nder the Escrow Agreement with respect to UAS Escrow Materials with the exception of any fees resulting from Seller's breach of the Escrow Agreement.

5.1 **Intent of Parties** - The parties agree that the only purpose of accessing the UAS Escrow Materials held under the Escrow Agreement is to allow Nortel Networks to manufacture universal audio server products under the manufacturing license granted under Section 8.3 and the UAS Escrow Materials released to Nortel Networks shall be considered Confidential Information of Seller and shall not be used to create any other or new products or for any other purpose. Nothing in this section is intended to affect the other provisions of this Agreement, or grant Nortel Networks additional rights to those expressly granted to it under this Agreement.

5.2 **Escrow Materials** – The UAS Escrow Materials shall be kept current by Seller by making updates to the UAS Escrow Materials at least once per year (if such updates are made) for the shorter of the first **[*]** years of the Term or the period of time until the applicable New UAS Product has been discontinued by Seller. New materials deposited in escrow shall supplement previous materials deposited in escrow in relation to the relevant New UAS Product.

5.3 **Manufacturing License Grant.** Subject to the conditions precedent listed in Section 8.2, during the sole supply period described in the purchase and sale agreement between the parties, Seller grants Nortel Networks a non-exclusive royalty bearing personal license to utilize the UAS Escrow Materials deposited with DSI to manufacture and sell the UAS Product.

5.4 **Royalties.** Nortel Networks shall pay Seller a royalty for each unit of product manufactured by Nortel Networks using the UAS Escrow Materials under the license granted to it pursuant to this Agreement. Royalties shall be reported to Seller and payable on the 15 of April, July, October and January for the universal audio server product units manufactured by Nortel Networks ("Licensed Products") in the calendar quarters just ended prior to the due payment date (i.e., end of March, June, September, December)("Quarterly Period"). The royalty will be calculated as follows: [Nortel Networks' Material Cost / **[*]**]–Nortel Networks' Material Cost. "Nortel Networks Material Cost" is the price paid by Nortel Networks to its third party manufacturer of Licensed Products, exclusive of taxes. Together with each payment of royalties by Nortel Networks to Seller, or within **[*]** da ys after the last day of each Quarterly Period if no payment of royalties is due, Nortel Networks will furnish to Seller a written statement, in a form acceptable to Seller, certified by an authorized official of Nortel Networks, setting forth (a) on a country-by-country basis, the total quantities of all Licensed Products sold, distributed, or otherwise disposed of, for the Quarterly Period for which royalties are being paid; and, (b) the amount of royalties due and payable for that Quarterly Period. If no royalties are due and payable for a Quarterly Period covered by this Agreement, then such statement shall specify that "no royalties are due and payable".

5.4.1 *Record* – For a period of 48 months following the payment of royalties, at its own expense Nortel Networks will keep and retain accurate account records in accordance with GAAP setting out at least (a) the quantity, Nortel Networks' material cost, and date such products and services were sold, distributed or otherwise disposed of; and (b) all other information reasonably necessary to accurately and completely calculate the royalties due to Nortel Networks from such sales and distributions.

5.5 **Audit Right.** On at least ten (10) days advance written notice, Seller shall have the right upon reasonable notice to Nortel Networks to audit all invoices for universal audio server products and reasonably relevant materials for the relevant calendar quarter to determine whether Nortel Networks has complied with Section 5.4. Seller will not conduct an audit more than twice per calendar year. The audit shall be conducted by an independent certified public accounting firm chosen by Seller and consented to by Nortel Networks, which consent shall not be unreasonably withheld, under a mutually agreed upon nondisclosure agreement. Seller shall be responsible for all costs associated with the audit. Nortel Networks will pay to Seller any royalty payment shortfall discovered during the audit (i.e., any difference between the royalty paid and the royalty actually due under the formula s et out in Section 5.4). If -a shortfall is found during an audit and the amount of the shortfall is **[*]**% or more of the royalty that should have been paid for the applicable calendar quarter under the formula described in Section 5.4, in addition to paying the shortfall, Nortel Networks will pay the reasonable costs associated with the audit.

5.6 **Ownership of Rights**. With the exception of Nortel Networks' intellectual property rights (if any) included in New UAS Products, Seller and/or its licensors shall continue to own all rights including but not limited to all intellectual property rights in the materials deposited in escrow and released to Nortel Networks (if at all).

5.7 **Nortel Networks Responsibility.** With the exception of Seller's indemnifying Nortel Networks against third party claims for intellectual property rights infringement, as set out in Section 18 (et seq) of this Agreement, Nortel Networks acknowledges that any Products manufactured by Nortel Networks are done at its sole risk and expense. Subject to the indemnification exception, escrow materials provided to Nortel Networks from the escrow agent are provided to Nortel Networks on "as is" basis and without warranty of any kind whatsoever. Licensed Products universal audio server products manufactured under license shall clearly state that they are manufactured by Nortel Networks. Except to the extent third party claims for infringement of intellectual rights arise from Nortel Networks' use of the escrow materials, Nortel Networks shall indemnify and hold harmless Seller's directors, officers and employees form any and all claims from any sort relating to any such products manufactured by Nortel Networks.

#

ATTACHMENT 1
TO EXHIBIT A-1

TERMS AND CONDITIONS APPLICABLE TO PURCHASE OF CURRENT UAS PRODUCTS

1. References to numbered sections shall be to section numbers in the Agreement, unless otherwise stated. Capitalized terms shall have the same meaning given to such terms in the Agreement unless otherwise defined in this Attachment 1.
2. **Seller Acceptance and Rejection of Products** - The Current UAS Product will be deemed Accepted without reservation by Nortel Networks. It is deemed to be in full compliance with any and all Specifications, functionality and other requirements of the Product. Each and every delivery to be effected of the Current UAS Product shall be deemed to be Accepted by Nortel Networks upon its delivery.
3. **Return of Products** –Nortel Networks will not return any Current UAS Products to the Seller and, therefore, no reporting under the Agreement will be necessary in that regard (i.e., a "no returns" report is not necessary).
4. **Engineering Changes** – Seller shall not be obliged to effect any hardware engineering changes to the Current UAS Product for any reason, except as detailed in the development agreement between Nortel Networks and Seller or otherwise agreed in writing by the parties. Seller will be responsible for supporting Software engineering changes in the Current UAS Product.
5. **Certification, Quality Control** – In relation to the Current UAS Product, Seller agrees to maintain the t certifications on UAS Products in effect as of the Effective Date; provided, however, Nortel Networks will reasonably cooperate with Seller to transfer or assign to Seller any such certifications. If Nortel Networks is not allowed by law or regulations to affect an assignment or transfer, at Seller's expense Nortel Networks will reasonably cooperate in Seller's obtaining the certifications in its own name.
6. **Ordering** –. Seller shall have no liability to Nortel Networks in relation to the availability, supply, country of origin, delivery, packaging, shipment, delivery delay or rescheduling of deliveries of the Current UAS Product to Nortel Networks.
7. **Liquidated Damages** – Seller will not be responsible under Subsection 8.3.2 for liquidated damages for late delivery of Current UAS Products to either Solectron Corporation or Nortel Networks.
8. **Payment** – For Current UAS Products Nortel Networks will pay Seller within **[*]** days of the date of Seller's invoice.

9. **Low Price** – Seller will not be obligated to provide pricing based on Sections 9.2 and 9.3 of the Agreement. In that regard purchases of Current UAS Products will not count towards the low price threshold in Section 9.2.
10. **Documentation** – Seller will update or modify the documentation provided to it by Nortel Networks, as needed, in relation to the Current UAS Product.
11. **Confidential Information -**
12. **Hazardous Materials** – Section 17 of the Agreement will not apply in relation to the Current UAS Product. Rather, Nortel Networks will indemnify Seller (including Seller Subsidiaries and Affiliates and their employees, officers and directors) from fines, penalties, losses, costs, damages, injuries, claims, expenses or liabilities resulting from product recalls or injury or death of a person or damage or loss of property during performance of this Agreement due to a hazardous material in a Current UAS Product.
13. **Indemnity** – The terms of Section 18 will apply to Current UAS Products, except that, for purposes of Current UAS Products only, the indemnifying party will be Nortel Networks and the indemnified party will be Seller.
14. **Damages** – With respect to Current UAS Products, except for Nortel Networks indemnification obligations and the parties' confidentiality obligations, neither party shall be liable for any unforeseeable, incidental or consequential damages or for any loss of revenues, loss of profits, loss of goodwill or other forms of economic loss, even if the party or its authorized representative has been advised of the possibility of the type of damages and notwithstanding any failure of the essential purpose of any limited remedy.
15. **Insurance -** This section shall apply in relation to the Current UAS Product as if Seller was defined as Nortel Networks and Nortel Networks was defined as Seller; provided, however, Nortel Networks may be self-insured with respect to any aspect of the insurance requirements.
16. **General -** – Section 23 will apply to Current UAS Product purchases with the exception of Sections 23.2, 23.3, 23.7.

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

ATTACHMENT 2
TO EXHIBIT A-1

VENDOR MANGAGED INVENTORY – NEW UAS PRODUCTS

1. **Definitions:** In addition to all capitalized terms having the same meaning as those set out in the Agreement, the following definitions will apply:

"3PL" means a third party logistics provider with whom the Seller will contract with for the provision of warehousing services for the New UAS Products Seller expects to sell to Nortel Networks when the Nortel Networks issues a Demand-Pull Trigger.
"**Carrying Charge**" means the U.S. dollar amount resulting from multiplying Seller's materials cost for unused Excess Inventory times a percentage equal to the LIBOR Rate plus two percent (2%)**.**
"Demand-Pull Trigger" means a Purchase Order or Release that is only sent by electronic or other written recorded means from Nortel Networks to the 3PL as the agent for Seller to deliver New UAS Products, setting out the number of units ordered, the Delivery Date, the shipping location and the delivery location.
"Electronic Means" means any form of electronic communication, including e-mail, Electronic Data Interchange ("EDI"), Internet Web based, fax, but excluding telephone.
"Excess Inventory" will have the meaning set out in Section 4.
"Forecast" means Nortel Networks' projected requirement for the New UAS Products for each of the next **[*]** weeks, including the week in which the projection is given to Seller.
"Hub" means a storage facility or warehouse, owned and/or managed by the 3PL, within close proximity of the System house set out in Schedule A, in which the Seller warehouses New UAS Products prior to delivery to the Nortel Networks.
"Lead-time" means the six (6) week period prior to the Delivery Date for New UAS Products.
"LIBOR Rate" means the rate appearing on Telerate as the London Interbank, offered rate for deposits in U.S. dollars for an interest period of 1 year and effective as of the date of Day 91, as described in Section 4 below.
"Safety Stock" means the number of units of New UAS Products that Seller must have on hand in the Hub.

2. **Forecasts –**Nortel Networks will provide Seller with a weekly Forecast by Electronic Means. The Seller shall advise Nortel Networks if the Seller does not receive a Forecast within **[*]** calendar days of the previous Forecast. Seller will not be obligated to meet a Forecast for a Delivery Date, if Nortel Networks changes the Forecast for the Delivery Date less than **[*]** weeks in advance of the Delivery Date. A Forecast is not a binding commitment to purchase Products, except to the extent described in Section 2.1 below.

1.1 Commitment to Issue Demand-Pull Trigger - Nortel Networks agrees to issue a Purchase Order or Release to Seller or 3PL as the agent for the Seller, for the New UAS Products projected for the first week of the Forecast (i.e., the week following the week in which the Forecast is provided to Seller).

3. **Replenishing Safety Stock –** Seller agrees to maintain Safety Stock week-to-week during the Term, at a level equal to **[*]**% of the average number of units of New UAS Products projected for weeks 2, 3, 4, 5, and 6 of each Forecast. For example:
   - Assume an existing Safety Stock of **[*]** units as of the date of an applicable Forecast
   - The projections for weeks 1, 2, 3, 4, 5, and 6 are: week 1= **[*]** units, week 2 = **[*]** units, week 3 = **[*]** units, week 4 = **[*]** units, week 5 = **[*]** units, and week 6 = **[*]** units.
   - Under Section 2.1 Nortel Networks will issue a Purchase Order for **[*]** units for week 1.
   - The total number of units that Seller would have to maintain in Safety Stock is calculated as **[*]**% of the average forecast for weeks 2 through 6. So, beginning in week 2 the Safety Stock would be equal to: (**[*]**) / **[*]** = **[*]** units of Safety Stock.
   - With respect to Nortel Networks' Purchase Order for **[*]** units in week 1, as required under Section 2.1 above, the Safety Stock would be reduced from **[*]** to **[*]** units.
   - To maintain the Safety Stock at the **[*]** unit level, based on the **[*]** unit order, Seller would be required to replenish the Safety Stock with **[*]** units.

4. **Liability for Excess Inventory -** Seller will use Safety Stock on a "first-in, first-out" basis to satisfy Nortel Networks Purchase Orders for New UAS Products. Seller will carry unused Safety Stock at no additional cost to Nortel Networks for a period not to exceed **[*]** days from the date the Safety Stock is delivered to the Hub. To the extent that Nortel Networks has not consumed unused Safety Stock by the end of the **[*]** day period, the Safety Stock will be classified as "Excess Inventory" and a Carrying Charge will begin accruing accrue for Excess Inventory beginning on the **[*]** day ("**[*]**"). The Carrying Charge for Excess Inventory will continue to accrue for Excess Inventory until the earlier of (a) Nortel Networks' purchasing all of the Excess Inventory from Seller, (b) the **[*]** day after the date the Carrying Charge began accruin g, or (c) the effective date of Nortel Networks' cancellation of the VMI program set out herein.

0.1 Invoicing for Carrying Charges and Excess Inventory - Seller will invoice Nortel Networks for Carrying Charges on a monthly basis (prorated as applicable). If applicable, as of the date of either sub-part (b) or (c) of Section 4 above, Seller will invoice Nortel Networks for **[*]**of the cost of materials for any remaining Excess Inventory.

1. **Cancellation of VMI Program** – Nortel Networks may cancel the VMI program set out in this Attachment 2 upon written notice to that effect to Seller. Upon cancellation Nortel Networks will have no further liability or obligation hereunder except (a) to the extent it is obligated for outstanding Demand-Pull Triggers under the general terms of the Agreement, and (b) for the cost of materials for Excess Inventory.

6. **Ordering –** In addition to ordering under Section 2.1 above, Nortel Networks may from time-to-time issue Demand-Pull Trigger instructions to the Seller, or 3PL as the agent for the Seller, for purposes of ordering New UAS Products.

7. **Hub Operation -** The parties will agree in writing on the Hub and the 3PL responsible for managing the Hub for Seller. Nortel Networks may at any time make a reasonable request to Seller to replace a3PL in which case the parties will agree in writing on the new 3PL and, if applicable, new Hub. In the event of a 3PL change, Seller will be responsible for ensuring that stocks of New UAS Products and operation of the Hub is transferred to the new 3PL without any loss or disruption in service to Nortel Networks in a time period acceptable to Nortel Networks. Upon Nortel Networks' request and at no charge to Nortel Networks, Seller will conduct a Safety Stock check or other similar activity to be undertaken in the Hub and report the results to Nortel Networks.

8. **Delivery and Invoicing -**Seller will make its FCA delivery on New UAS Products within one (1) business day after Nortel Networks issues a Demand-Pull Trigger to Seller. Seller will ensure that the 3PL is responsible for providing Seller with notification by Electronic Means within one (1) business day of shipping New UAS Products to Nortel Networks.

#

ATTACHMENT 3
TO EXHIBIT A-1

DEPOSITOR ACCEPTANCE FORM AND AMENDMENT
Account Number _____

AudioCodes Ltd. ("Depositor"), Nortel Networks Inc. (the "Preferred Beneficiary") and DSI Technology Escrow Services, Inc. ("DSI"), hereby acknowledge that AudioCodes Ltd. is the Depositor referred to in the Master Escrow Agreement ("Agreement") effective February 1, 2003 with DSI as the escrow agent and Nortel Networks Limited as the Preferred Beneficiary. In addition to DSI and the Preferred Beneficiary by its signature below, Depositor hereby agrees to be bound by all provisions of such Agreement; provided, however, the parties agree that for the limited purposes of AudioCodes Ltd.'s Deposit Materials under this Agreement the Agreement is amended as follows:

1. For purposes of this Depositor acceptance form references to "License Agreement" in the Agreement will include OEM Purchase and Sale Agreement No. 011449 between Nortel Networks Inc. and AudioCodes Ltd.

2. The first paragraph of Section 2.6 is deleted in its entirety and replaced with the following:

"Preferred Beneficiary shall have the right, at Preferred Beneficiary's expense, to cause a verification of any Deposit Materials. Preferred Beneficiary shall notify Depositor and DSI of Preferred Beneficiary's request for verification. Depositor shall have the right to be present at the verification. A "verification" determines, in different levels of detail, the accuracy, completeness, sufficiency and quality of the Deposit Materials. Preferred Beneficiary shall have the right to verify that the binary executable versions of any Deposit Materials (including those derived from any Deposit Materials) are complete and operate in accordance with their specifications and documentation. If verification is requested by Preferred Beneficiary before Depositor delivers the Deposit Materials to DSI, at Depositor's expense Depositor must verify the Deposit Materials for Preferred Beneficiary in Depositor's lab in North Carolina with Preferred Beneficiary's technical representatives present during verification. However, if Depositor's lab is not available or is not sufficient for performing verification, the parties will agree on an alternate lab location and expenses related to the verification in the alternate location will be equally shared by the parties . If Preferred Beneficiary requests a verification after the Deposit Materials have been delivered to DSI, then only DSI, or at DSI's election an independent person or company selected and supervised by DSI, may perform the verification."

3. The first sentence of Section 4.1 is deleted in its entirety and replaced with the following:

"Depositor hereby transfers to DSI the title to the media upon which the proprietary technology and materials are written or stored, which title will revert back to Depositor if this Agreement is terminated under Section 6.4; provided, under this Agreement Depositor is entitled to the return of the media on which the Deposit Materials are written and/or stored and requests the return under Section 6.4."

4. For purposes of governing AudioCodes Ltd.'s Deposit Materials Section 5.1 (Release Conditions) of the Agreement is deleted in its entirety and is replaced with the following:

"5.1 Release Conditions. As used in this Agreement, "Release Condition" shall mean the following:

a. Seller (i) files for voluntary dissolution in bankruptcy; (ii) files a petition for voluntary reorganization in bankruptcy (e.g., Chapter 11 in the U.S.), which is then converted to involuntary proceedings for dissolution based on a petition by a member of the creditor's committee representing the creditors in the voluntary proceeding (or its equivalent in non-U.S. jurisdictions) and such proceedings are not dismissed within 90 days; or (iii) is declared insolvent under applicable bankruptcy/insolvency laws or other similar laws; or

crow Agreement with a copy to Seller, requesting a release of the Escrow Materials, that includes a description of the specific failures or refusals); or,

c. Seller ceases to carry on normal business operations. For purposes of sub-part c, a merger, reorganization or other permitted assign under any written agreement between the Preferred Beneficiary and AudioCodes Ltd. will not trigger a release of the Escrow Material as long as the resulting reorganized entity, assignee or merged entity carries on normal business operations (i.e., the manufacture and sale of UAS Products to the Preferred Beneficiary)."

5. For purposes of Section 6. 1 the term of the escrow arrangement for New UAS Products will not be 1 year, automatically renewable, but, rather, will be the first 3 years of the Term of the License Agreement, as "New UAS Products" and "Term" are defined under the License Agreement. The described 3 year period will a fixed term for the escrow for New UAS Products and will not renew automatically.

DSI will not be required to inquire into the truth or evaluate merit of any statement or representation contained in any notice or document. DSI shall not be responsible for failure to act as a result of causes beyond the reasonable control of DSI.

Notices and communications to Depositor should be addressed to:	Notices and Invoices to Preferred Beneficiary concerning this escrow arrangement should be addressed to:
Depositor Company Name: AudioCodes Ltd. Address: 4 HaHoresh Street, 56470 Yehud, Israel Designated Contact: Telephone: Facsimile: E-Mail: Verification Contact (required):	Preferred Beneficiary: Nortel Networks Inc. Address: 221 Lakeside Blvd., Richardson, Texas 75082 Designated Contact: Telephone: Facsimile: E-Mail: Verification Contact (required): P.O.#, if required: _____
	Requests to change the designated contact should be given in writing by the designated contact or an authorized employee.
Contracts, Deposit Materials and notices to DSI should be addressed to: DSI Technology Escrow Services, Inc. Contract Administration 9265 Sky Park Court, Suite 202 San Diego, CA 92123 Telephone: (858) 499-1600 Facsimile: (858) 694-1919 E-Mail: clientservices@dsiescrow.com Date: _____	Invoice inquiries and fee remittances to DSI should be addressed to: DSI Technology Escrow Services, Inc. P.O. Box. 27131 New York, NY 10087-7131 Wire Information: Routing # 021000021 Acct# 323285228 Bank Address: JP Morgan Chase Bank 280 Park Avenue New York, NY 10017 Funds Transfer Phone# (866) 223-0359

#

AudioCodes Ltd. - Depositor	Nortel Networks Inc. – Preferred Beneficiary
By:	By:
Print Name:	Print Name:
Title:	Title:
Date:	Date:

DSI Technology Escrow Services, Inc.

By:
Print Name:
Title:
Date:

#

EXHIBIT A-2
TP-610, MEDIANT2000 AND EMS PRODUCTS
PRICES, DISCOUNTS AND DELIVERY

1. Pricing – The prices set out in Sections 1.1 through 1.3 below for the described Products will apply under this Exhibit A-2 ("Prices"). With respect to any pricing designated as "TBD," as necessary, the parties will agree in writing on the applicable Price and the time period during which it will be effective.

(a) The **[*]** percent (**[*]**%) discount applicable under the subsections below will apply as of the Effective Date. The **[*]** percent (**[*]**%) discount indicated in the pricing matrixes in this Section 1 will replace the **[*]** percent (**[*]**%) one year after the effective date, but the **[*]** percent (**[*]**%) discount will not apply until Nortel Networks has purchased a total of $**[*]** million in Products (exclusive of support packages) from Seller under the Agreement. Notwithstanding the preceding, Seller grants Nortel Networks a **[*]** percent (**[*]**%) discount, applicable as of the Effective Date, for SIP based Mediant 2000 16 Span (1 T1/E1) and 1 Span (T1/E1) Products. The **[*]** percent (**[*]**%) discount indicated in the pricing matrixes in this Section 1 will replace the **[*]** percent (**[*]**%), but the **[*]** percent (**[*]**%) discount will not apply until Nortel Networks has purchased a total of $**[*]** million in Products (exclusive of support packages) from Seller under the Agreement.

(b) *Future Cost Reductions* - With respect to Years **[*]** (**[*]**) and **[*]** (**[*]**) from the effective date, except where a cost reduction is not indicated (e.g. call control and indemnification options), the parties will agree in writing in advance upon the applicable cost reduction to be applied; provided, however, unless stated otherwise in the written agreement, the reduction will not be less than **[*]** percent (**[*]**%) or more than **[*]** percent (**[*]**%).

(c) *Waiver of Indemnification* - However, no discounts or cost reductions will apply to the pricing element related to vocoder indemnification in the matrixes below, except that Seller agrees that it will lower the G.723.1 indemnification Price by **[*]** percent (**[*]**%) for the third an fourth year of the Term. Seller agrees that for each of the G.729A and G.723.1 vocoder Products purchased by Nortel Networks Seller will invoice Nortel Networks for the applicable indemnification Price, until Nortel Networks waives in writing the indemnification protection for which Seller is obligated under Section 18 of the Agreement with respect to a vocoder Product. Seller's failure to invoice Nortel Networks for the indemnification Price before it receives a written waiver from Nortel Networks will not affect a waiver of Seller's indemnification obligation. Once Nortel Networks ha s waived the indemnification Price for a vocoder Product, all units of that Product purchased after the date of the waiver will no longer have Section 18 indemnification protection (i.e., Nortel Networks must retain the protection for all future purchases or waive protection for all future purchases).

#

1.1 Mediant 2000 Base Prices and Volume Discounts

1.2 TP-610 Base Prices and Discounts

_____
* Confidential

#

1.3 EMS Base Prices and Discounts

2. Lead Times – The Purchase Order lead times set out below will apply to Products under this Exhibit A-2 and will apply to the Product part numbers/descriptions exclusive to this Exhibit A-2. So, the Product types governed under this Exhibit A-2 may or may not have the same lead times as the same type of Products governed under Exhibit A-1.

- TP-610 Products lead time– **[*]** weeks
- Mediant 2000 Products lead time– **[*]** weeks

3. User Manuals – The user manuals applicable to the Products Under this Exhibit A-2 are as follows:

#

Product	User Manual Reference	Documentation Status
TP-610	TrunkPackÒ TP-610 User's Manual Version 4.0 Beta 1 Catalog Number: LTRT-00637	Published
Mediant 2000	Mediantä 2000 Gateway User's Manual (MGCP-MEGACO) Version 4.0 Beta 1 Catalog Number LTRT –00698	Published
	Mediantä 2000 VoIP SIP Gateway User's Manual- Version 4.0 Beta 1 Catalog Number: LTRT-00688	Published
AudioCoded EMS	AudioCodedä Element Management System (EMT) User's Manual – Version 2.0 Beta Document Number LTRT-01010	To be provided 1Q/2003

_____
* Confidential

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

EXHIBIT B

PRODUCT SPECIFICATIONS, MARKING AND LABELING

References to telecommunications standards in this Exhibit B will include amendments and replacements of the standards, as they occur from time to time during the Term.

PART I: SPECIFICATIONS

1. *Document Identification:* On a Product by Product basis the parties will identify and agree in writing on the documentation that contains the Specifications for the Product and incorporate the Specification documentation in this Part I of Exhibit B by reference.

2. *Certification* -As needed, Seller will obtain the design certifications listed below for new or modified designs after production release; provided, however, Seller will not be responsible for obtaining certification for BETA Products shipped to Nortel Networks before certification is obtained. The Nortel Networks Acceptance Program in Exhibit D of this Agreement will still apply. At Seller's expense Nortel Networks and Seller will make joint submissions to the certifying regulatory bodies. However, Nortel Networks will be responsible for any costs in excess of those for a solo submission. The parties will notify each other about design changes that might invalidate a certification. The exposure will be included in the Change Notification process whether or not the changed or modified design will be in a production release.

2.1 Seller will obtain the following certifications and any other certifications required by law in **[*], [*] or [*]** and such other countries as agreed upon in writing by the parties.

CEMark
UK Type Approval
UL / CSA / EN safety
FCC part 15

PART II: PRODUCT MARKING AND LABELING

A. MARKING - Subject to the country of original marking requirements set out in Section III below, all Products will be marked as follows:

1. Serial number: bar-coded serial number will be placed on the Product
2. Manufacturing date stamp: Seller will use the SN on the Product to track the date of shipment.
3. All Product marking under this Agreement will conform to Nortel Networks corporate standard 5014.00 for Serialization Codes for Nortel Networks Products and the Telecommunication Industry Forum standards (e.g., UCC EAN, Dunn & Bradstreet and Telcordia) product serialization and traceability standards. In that regard Nortel Networks will provide Seller with its applicable corporate standard information.
4. Seller's PEC code and Nortel Networks' PEC code, as provided by Nortel Networks, will be on the Product
5. Repair date stamp: Telcordia GR-78-CORE, 1997, Issue 01. Nortel Networks will provide Seller with the applicable location code for Seller's repair location(s) and ink specifications for stamping products.
6. Seller will pack and mark/label the Products using the following standards:

a) Nortel Networks Corporate Standard CS152.50 on distribution packing.

b) Telcordia GR-CORE-1421 1995, Issue 02 and TR-NWT-000063;

c) Nortel Networks Corporate Standard 157.0 ESD and Telcordia TR-NWT-870 1991, Issue 01on ESD protection.

d) Nortel Networks' then-current quality system procedures, as implemented under Section 6 of the Agreement, and as it applies to Products in commercial service (e.g., quality procedures would not apply to products in use in beta testing or product trials). Nortel Networks will notify Seller of any changes in Nortel Networks' quality system procedures. Nortel Networks and Seller will discuss the changes in the notice and any additional cost Seller would incur to comply with the changes within 90 days of the date of the notice. Upon Nortel Networks' request and agreement to pay additional costs, if any, related to implementing the changes, Seller will implement the changes within 90 days of the date of notice; provided, however, absent an agreement, Seller will not be obligated to make the changes. Notwithstanding the preceding, Seller agrees to obtain industry standards certification s, as requested by Nortel Networks under Section 6.1of the Agreement, without additional charge to Nortel Networks; provided, Seller has agreed that a commercial purpose exists for Seller to obtain certification. With respect to changes in industry standards under which Seller is certified, at no additional charge to Nortel Networks, Seller will implement the changes in the time period prescribed by the applicable standards governing body for implementing the change.

e) Telcordia's GR-CORE-14211995, Issue 02, TR-NWT-000063 and TR-NWT-870, 1991, Issue 01; American Society for Testing & Materials-ASTM D-4196 Performance Testing Of Shipping Containers and Systems; and, Telecordia (Bellcore) GR 63-Core Network Equipment Building Systems (NEBS) requirements: Physical Protection.

f) Labeling - Electronic Industries and Association Specification EIA-556B (Outer shipping container Bar Code Label Standard); and, Telecommunications Industry Forum 93-002 Implementation Guide to Packaging and Labeling.

If Seller approves of modifications requested by Nortel Networks, Seller will modify the packing boxes' size and external markings (including branding).

B. LABEL REQUIREMENTS – Product labels must include the following:

Once the unit is repaired (a) the CPC prefix would change from "A0" (e.g., AO23456) to "AR" (i.e., the example would change to AR23456), (b) the repair date would be stamped under the manufacture date.

III COUNTRY OF ORIGIN PRODUCT AND PACKAGING MARKING

1. Product Marking for Country of Origin - All Products supplied to Nortel Networks or its customers must be marked in accordance with the applicable World Trade Organization and country-specific marking regulations.
2. Product Packaging with Country of Origin - The Product packaging must be marked in accordance with the World Trade Organization and country specific governmental marking regulations. The country of origin shown on the packaging must agree with the Product marking. If the Product packaging contains composite items, each item must be marked, and the packaging must include a statement that lists the country of origin of the items contained in the packaging.
3. Container Marking - If a container is packed with product of different origins, Seller agrees to mark the container with a marking statement that lists all the countries of origin of the items packed within the container or with the statement confirming "multiple origins contained". If Seller is required to reuse containers, the container itself must be marked with the containers origin.

#

EXHIBIT C

REPAIRS AND TECHNICAL ASSISTANCE RATES

1. Technical Support Rates – Seller's charges for providing Technical Support Services for Products will be as determined below under Section 1.1 for remote services and Section 1.2 for on-site services. For purposes of this Section 1, "Years of Support" is a period of time specified in the matrix below that begins with Product Acceptance of each major Software release used in conjunction with a Product.

1.1 *Remote Technical Services* – At Nortel Networks' request Seller will provide Nortel Networks with remote technical support services, as described in Section 3 of Exhibit H to this Agreement, under (a) Seller's Standard Support Package (b) Seller's Enhanced Support Package, or (c) Seller's Standard Support Package with 24X7 support ("24x7 Support Package").

1.1.1 *Support Package Charges* – Seller's basic charges for the support packages described in Section 1.1 will be calculated at the end of each calendar quarter during the Term. As of the last day of the calendar quarter, for each support package and each Product group (e.g., Mediant products) (and in the case of 24X7 Support Package in each control protocol) supported under a package, Seller will calculate the total Price of all Products in the Product group (and, if applicable, each control protocol under each Product group) purchased by Nortel Networks since the Effective Date ("Product Group Cumulative Volume").

(a) *Standard and Enhanced* - For the Standard support Program and the Enhanced Support Program Seller will apply the Product Group Cumulative Volume to the matrix in Subsection 1.1.2 below to determine the percentage to be used in calculating the technical support charges that will apply retroactively for the calendar quarter just ending. Seller will divide the resulting effective annual dollar charge by 4 to calculate the quarterly charge to invoice. For example, as of the end of the third quarter of the second year of the Term, if Nortel Networks' Product Group Cumulative Volume for Mediant Product supported under the Standard Support Package were $ **[*]** and the Product Group Cumulative Volume for Mediant Products supported under the Enhanced Support Package were $**[*]** million, then the applicable percentages to be used would be **[*]**% and **[*]**% respectively. Applying the percentag es in the examples, the basic charges Seller would invoice Nortel Networks for the quarter would be $**[*]** for the Standard Support Package and $**[*]** for the Enhanced Support Package (i.e., the effective annual charge divided by **[*]**).

(b) *24X7 Support Package* - For the 24X7 Support Package only, Nortel Networks agrees that the applicable support charges will be determined by applying the Product Group Cumulative Volume on a per control protocol basis (i.e., a separate calculation for each of MEGACO, SIP and TGCP/MGCP). In that regard if the Product Group Cumulative Volume for one protocol for Mediant Products were $**[*]** million then Seller would invoice Nortel Networks for $**[*]** for the calendar quarter just ending (i.e., the effective annual charge divided by 4), based on the "greater than" requirement in the applicable matrix column in Subsection 1.1.2.

1.1.2 *Determining Remote Technical Support Charges* -

Product Group Cumulative Volume per Support Package	**Less than $[*]**	**$[*] through $[*]**	**$[*]through $[*]**	**$[*]or more**
Standard Support Program	**[*]**%	**[*]**%	**[*]**%	**[*]**%
Enhanced Support Program	**[*]**%	**[*]**%	**[*]**%	**[*]**%
Product Group Cumulative Volume (per Control Protocol) per Support Package	**Less than $[*]**	**$[*]through $[*]**	**$[*]through $[*]**	**$[*]or more**
24x7 Support Package	$**[*]** per control protocol	$**[*]** per control protocol	**[*]**% or $**[*]** per control protocol (whichever is higher)	**[*]**% or $**[*]** per control protocol (whichever is higher)

1.1.3 *Cumulative Total Support Program Charge* – Notwithstanding Subsection 1.1.1 above, during the Term, if the total of all Product Group Cumulative Totals for a support package exceeds $ **[*]** million, and until the total of all Product Group Cumulative Totals for the same support package equals $**[*]** million, Nortel Networks will not be obligated to pay (i) more than $**[*]** in support charges in each future calendar quarter for Standard Support Package; or, (ii) more than $**[*]** in total support charges for all control protocols in each future calendar quarter for the 24X7 Support Package. When the total of all Product Group Cumulative Totals for each of the Standard and 24X7 Support Packages equals $**[*]** million or more, the parties will agree on the applicable percentage to be used to calculate future support charges for the applicable support package. No maximum quarterly payment will apply to the Enhanced Support Program with respect to the package purchases exceeding $**[*]** million, unless otherwise agreed in writing by the parties.

1.2 *On-Site Technical Services* – During the term of this Agreement, Seller's labor rates for providing on-site technical service for its Products, as described in Section 3.9 in Exhibit H, will be U.S.$**[*]** per hour with a minimum 3 hours chargeable per on-site visit . With respect to on-site repair travel and living expenses for Seller's personnel who are requested to travel from Seller location to a Nortel Networks specified location, Seller will invoice Nortel Networks for such travel and living expenses provided that (a) the expenses are usual, customary, and reasonable and

without mark-up of any kind (i.e., as invoiced by Seller's third party provider or usual for travel related expenses), (b) do not exceed the Nortel Networks' standard employee allowances for such travel. When it requests on-site services, Nortel Networks will confirm in writing for Seller what Nortel Networks then-current, applicable standard allowances for travel and living expenses are for the location involved, for example, CONUS per diem rates might apply to services provided in the U.S.

2. FCA Repair Locations

AudioCodes Ltd.
Attention: RMA Department
4 HaHoresh Street
Yehud 56470
Israel

Tel: +972-3-539-4000

3. Out of Warranty Replacement Service and Repairs

3.1 *Replacement Service* – At Nortel Networks' request, Seller will deliver replacement Products, including FRU's, after the expiration of the applicable Warranty Period. Nortel Networks will pay freight expenses on the returned Product. Seller will pay the freight expenses for the shipment of replacement Product.

1.1 *No Fault Found* – Charges for no-fault-found in Products submitted under Section 2.6 of Exhibit G of this Agreement will be as defined in 3.3 below.

3.3 *Out of Warranty Repair Services Rates*

After the Product Warranty Period, provided a Product is not UTR (as defined in Exhibit G, Section 2.8), Seller will repair a Product based on the following matrix, and, if not included in the matrix, for a price to be agreed upon in writing by the parties. If a Product is UTR, then Nortel Networks may request Seller to replace the Product at the FRU prices set out below. If replacement prices are not included in the matrix, then Seller will replace Products for a price to be agreed upon in writing by the parties. For units that have the same price in the FRU New Price column and FRU Repair Price Fee column, the implication is that the unit is not repairable.

Nortel PEC Number	**Vendor Order #**	**Vendor FRU Description**	**FRU New Price**	**FRU Repair Fee**	**NFF Fee**
START OF TP610 FRUs -					
	TP-610A128XXHFU-0	TP610 128 Channels, Rear I/O, No Trunks	$ **[*]**	$**[*]**	$**[*]**
	TP610A192XXHFU-0	TP610 192 Channels, Rear I/O, No Trunks	$**[*]**	$**[*]**	$**[*]**
	TER/TP610A/No Spans/RJ-ETH	Transition Module	$**[*]**	$**[*]**	$**[*]**
START OF MEDIANT 2000 FRUs -					
	Mediant2000/16Span/IP	VoIP Gateway with sixteen spans Ethernet connection to IP	**[*]**	$**[*]**	$**[*]**
	Mediant2000/4Span/IP	VoIP Gateway with four spans Ethernet connection to IP	**[*]**	$**[*]**	$**[*]**
	Mediant2000/2Span/IP	VoIP Gateway with two spans Ethernet connection to IP	**[*]**	$**[*]**	$**[*]**
	Mediant2000/1Span/IP	VoIP Gateway with single spans Ethernet connection to IP	**[*]**	$**[*]**	$**[*]**
	HW/SUN2060/CPU	SUN CPU 2060 with on board disk	$**[*]**	$**[*]**	$**[*]**
	HW/MOT5373/CPU	Motorola CPU 5375 with on board disk	$**[*]**	$**[*]**	$**[*]**
	TELX-16A	Dual Telco connector to 16XRJ-48 adaptor	$**[*]**	$**[*]**	**[*]**

3.4 *Emergency Advance Exchange Charge*

If Nortel Networks requests that Seller ship repaired Products or replacement Products directly to Nortel Networks' customer, Seller will do so at Nortel's expense, but Seller will only charge Nortel Networks for its actual cost for shipping the Products (i.e., shipping price invoiced by its third party vendor, without mark-up).

4. Training Fees

Seller's training fee rate for providing Nortel Networks and its customers with Technical Training, as described in Section 1.1 in Exhibit H, for its Products is U.S. $**[*]** per day, including all applicable training materials for up to 12 participants. Travel and living for Seller's trainers who are requested to travel from Seller location to a Nortel Networks specified location will be paid by Nortel Networks provided that (a) the expenses are usual, customary, and reasonable and without mark-up of any kind (e.g., as invoiced by Seller's third party provider), (b) do not exceed Nortel Networks' allowances for such travel for its own employees. When it requests on-site services, Nortel Networks will confirm in writing for Seller what Nortel Networks then-current, applicable standard allowances for travel and living expenses are for the location involved, for example, CONUS per diem rates might apply to services provided in the U.S.

#

EXHIBIT D

ACCEPTANCE PROGRAM

Nortel Networks may put a sample of each Seller product through its evaluation, qualification and acceptance program (Acceptance Program) to verify that the Seller product meets the Specifications. Seller will provide Nortel Networks with (a) products for the Acceptance Program, and (b) any reasonable support required by Nortel Networks. At least one of each new Seller product design and each mechanically different product design will go through the Acceptance Program. Nortel Networks will make reasonable efforts to avoid testing design factors that a Seller product may have in common with previously accepted Products.

1. **Product Acceptance Dates** –The parties will agree in writing on the Acceptance Test Program (ATP) and scheduled Acceptance date for each Seller product (Acceptance Date).

1.1 Prior to shipments of Products that will be placed in commercial service by a customer of Nortel Networks, Nortel Networks and Seller must complete Product Acceptance test of the Products or agree there will be no test program conducted with respect to the Products. Notwithstanding the preceding, with respect to Mediant and TP-610 Products, shipments of Products being placed in commercial service are deemed to be shipments of: a) greater than **[*]** units of Mediant 2000 and b) greater than **[*]** units of TP-610 Products. If Nortel Networks and Seller agree to waive the Acceptance Test Program, the Product will be deemed to have met Acceptance.

2. **Failure to Comply with Specifications** – If a Seller product fails the Acceptance Program, Nortel Networks will notify Seller, identifying the problem. Upon receipt of the notice, Seller will, at its expense, correct the problem by the Acceptance Date. However, Nortel Networks is not obligated to accept a Product until Nortel Networks has verified to its satisfaction that the problem is resolved.

2.1 *Recover Expenses* – If a Seller product cannot pass the Acceptance Program by the Acceptance Date, Seller will refund to Nortel Networks the Price of the Product purchased by for the specific Acceptance Test Program for the failed product. If the Seller has a functionally equivalent product, at its expense Seller will also provide Nortel Networks with a functionally equivalent product until the original Seller product successfully undergoes the Acceptance Test Program. When the original Seller product successfully passes the Acceptance Program, at its expense, Seller will replace the functionally equivalent products with Products at its expense.

3. **Acceptance Report** – Upon Acceptance Seller will provide Nortel Networks with a written report with the Product details, as requested by Nortel Networks (e.g., Product part number and current Product revision level).

#

EXHIBIT E

CHANGES

1. All Changes to products under this Agreement as a result of a product/process change notice (PCN) will be made in compliance with JEDEC standards including JESD46 and JESD48, as may be amended or replaced during the Term of this Agreement, including the following:

1.1 Seller will notify Nortel Networks of all product changes in accordance with the PCN process for all changes that affect form, fit and functions.

1.2 *Timeframes for Notifications* – **[*]** days

1.3 *Product Change Notice* (*PCN) Content*-
At a minimum a PCN will contain the following data:
* - Notification Number (normally a PCN number) for traceability
* - Reason for the change
* - Description of the change
* - Sufficient information to allow for proper assessment of the change
* - Timeframe in which the change will take effect
* - Complete list of supplier's component impacted
* - How changed product can be identified
+ - Nortel identifying codes (i.e. CPC and ENGCODE) for items on the Nortel Database
+ - Identifying codes for those items used by Nortel that are still using `acquired' company codes
(e.g. STC's 13 digit code, Bay Networks' part id, etc.)
* - Supplier contact to answer questions about the change
* - Final date (not to exceed 15 days) for any feedback from Nortel indicating acceptance/acknowledgment of the change
* - LTB (last time buy) date
* - LTD (last time delivery) date
* - Any conditions that are being put on the change (LTQ [last time quota], etc.).

Notes:
Items identified with an "*" are deemed mandatory
Items identified with an "+" are deemed necessary for the Nortel user locations to help in the resolution of the PCN. For additional detail reference Nortel Networks CS1528 change order process and CS1529 product change notice process,
It is absolutely necessary for suppliers to identify explicitly the master list of impacted parts. This requirement is the only method that will enable Nortel to assess the total impact of a change and know what the exposure is and not just the exposure for items that were purchased by Nortel in some defined timeframe.

Seller will notify Nortel Networks' System Engineering and Quality Control Departments about a Change involving form, fit, function or performance (only if performance is degraded) within 14 working days after Seller's authorizing it. The changes to which Paragraph 1 and Paragraph 3 refers will be as defined in what is tested in the Acceptance Procedure. The changes to which this paragraph refers will not include new Software revisions (either major on minor),as these new revisions are documented using a standard release notes, and as unlike HW modifications Nortel has the freedom to decide whether to use these new versions or stick with previous versions. Seller will use the form attached to and incorporated in this Exhibit E as Attachment 1 to notify Nortel Networks (Change Notice). The Change Notice will (a) comply with the requirements of JESD46-B for Mediant 2000 or Telcordia GR-209 for TP-610 Product, if applicable as stated in Exhibit E Section 3, (b) detail the reason for the Change, (c) describe the effect on the Product, (d) describe the effect if the Change is not implemented, (e) identify the planned implementation date, and (f) describe Seller's plan for providing changed Products to Nortel Networks and its customers.

1.4 If Nortel Networks has not responded to a Change Notice within **[*]** business days of receipt, Seller may implement the Change.

2. Within **[*]** days of receipt of Nortel Networks' request for further justification for a Change, Seller will respond in writing with additional evidence or rely on the information included in the Change Notice. If Nortel Networks disagrees with the evidence given, the parties will have **[*]**days from the date of the Change Notice to resolve the disagreement. If not resolved at the end of the **[*]**days, Nortel Networks' reasonable resolution of the disagreement will be the final resolution. `

3. At its expense Seller will make Class A or AC changes required by GR-209 (i.e., redesign and retrofit) to eliminate material, service affecting defects in Products. Seller will install the Class A or AC change at its expense in all installed and stocked Products through the retrofit program that Nortel Networks negotiates with its customers, based on an implementation plan agreed upon in writing in advance by the parties. Seller will implement the retrofit in no more than **[*]** days from the day of receiving the change notice. During its customer retrofit negotiations, Nortel Networks will use reasonable efforts to minimize Seller's retrofit costs. The retrofit remedy will be in addition to any other remedies under the agreement.

3.1 On Seller's request, Nortel Networks will give Seller Nortel Networks' (a) Product Engineering Code, (b) Product release number, (c) CLEI Product code for each retrofitted Product and (d) any other information regarding the defect or failure deemed relevant by the Seller. On Nortel Networks' request, the information will be stamped on the Products or in the case of the TP1610

may need to be tagged, not stamped due to space restrictions on the Products.

4. Within **[*]** business days of Acceptance of a changed Product, Seller will update the Acceptance report described in Exhibit D.

5. At any time Seller updates a Product to a new release, the Product will be stamped with a product code that clearly identifies product version and identifies the new release separately, next to the serial number, for purposes of distinguishing it from previous releases of the Product.

#

ATTACHMENT 1
to Exhibit E

Product Change Notice

Background Data

Product:	PCN No.:
Current Product Version Config. :	New Product Version Config. :
Reference: ECR/ECO #	

PCN Data

Change description:
Affecting: Fit Form Function
Type of change: Hardware Software Firmware
Reason for the change:
Compatibility:
Effective:
Does preliminary customer approval required? No Yes
Comments:
Contact person:

Approvals

Title	Name	Signature	Date
Product Manager			
V.P. Product Management			
V.P. Customer Support			

Distribution:

FAEs: _____
Sales: _____
B.C.s: _____

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

EXHIBIT F

MONTHLY REPORTS

Unless otherwise agreed by the parties, Seller will only be obligated to provide the reports described in this Exhibit F to the Nortel Networks points of contact in that regard, as identified from time to time by Nortel Networks to Seller.

1. **Monthly Reports: Repaired Products -** By the 21st day of each month during the Term Seller will provide a Repair Failure Analysis Report and a Unit Failure Analysis Report to Nortel Networks' designated repair, quality control and product brand managers.

All occurrences of Product failure in the field, analysis results, corrective actions and implementation plans will be included in the monthly report, including:
(a) Number of Products delivered and number of Products returned in the previous month.
(b) Number of Products delivered and number of Products returned year to date.
(c) Number of Products delivered and number of Products returned to date.
(d) Number of replacement devices provided in the current month and the same on a cumulative basis.
(e) Post Repair Information for Products sent for repair by Nortel Networks based on compiling Product information from Seller's repair reports on a defect-by defect basis (e.g., information for each specific defect noted during the previous month, including number of replacements, cumulative time since delivery [in months])
(f) Trend chart using a time of replacement rate value (RpR)
(g) Actual mean-time-between-failure (MTBF) measurement: The actual annualized MTBF will be calculated from the cumulative replacement rate recorded monthly.
(h) On Time service level for (i) repair and return, (ii) retrofit, (iii) fast cycle failure analysis (FCFA), and (iv) return material authorization (RMA).

2. **Minimum Field Baseline Report** - On the 21st day of each month after the date the Products pass the Acceptance Program, Seller will provide to Nortel Networks' designated repair, quality control and product brand managers a Minimum Field Baseline Report with the minimum applicable release level number for the in-service operation of the Products and the release level of

new Products shipped during the previous month. For each Hardware and Software release the report will detail the (a) the contents of the release, (b) backward and forward compatibility, (c) ability to upgrade the release, (d) any other information reasonably requested by Nortel Networks.

3. **General Business Report -** On the 21st day of each month after the date the Products pass the Acceptance Program, Seller will provide to Nortel Networks' designated repair, quality control and product brand managers a General Business Report. On a per PEC basis, the report will detail the

(a) Number of Products delivered to Nortel Networks in the previous month.
(b) Total business in dollars delivered to Nortel Networks in the previous month.
(c) Number of Products delivered year to date to Nortel Networks.
(d) Total business in dollars delivered year to date to Nortel Networks.
(e) Number of Products delivered to date to Nortel Networks.
(f) Total business in dollars delivered to date to Nortel Networks.
(g) Total number of shipments that were missed or delivered short by Seller in the previous month.
(h) Price in effect in the previous and current months.
(i) Prices paid for Nortel Networks proprietary components in the last month.
(j) Total number of problem resolution system (PRS reports) and customer service requests (CSR) raised in the previous month on the Products and a summary of each problem.
(k) Total number of calls received from the Nortel Networks Customer Service center in the previous month.
(l) Scorecard metrics, consisting of:
  (i) Delivery performance – percentage of Product delivered on time to Nortel Networks for the month
  (ii) Cost reduction performance –actual cost vs. cost reduction targets
  (iii)TL9000 return rates

- DOA/ELF return rates First year return rates
- Long term return rates

4. Repair Failure Analysis Report

For Products being repaired Seller will track each Product by its PEC and unique serial number throughout the repair process. Seller will maintain and provide to Nortel Networks at Nortel Networks request repair failure analysis data in the form of an electronic file (e.g. Word or Excel file), partially including, but not limited to, the information set out in the matrix below. At a minimum Seller will provide the failure repair data described in the EDI fields listed under "Field Name" in the matrix set out in and in the manner required under the terms of Attachment 1, attached to and incorporated in this Exhibit F, including any updates and amendments that may be communicated during the Term to Seller by Nortel Networks. However, Seller will not be obligated to provide the information in the EDI format before the expiration of 90 days from the Effective Date.

#

ATTACHMENT 1

TO EXHIBIT F

ELECTRONIC DATA SPECIFICATIONS
SELLER FAILURE DATA

20 DATA ELEMENT SPECIFICATION

- All fields are variable length with the delimiter being "|". Most fields are 100 characters. However, when repair data loads into QDM, the vendor field and part number field merge for a combined total of 100 characters. Currently, if more than 100 characters are entered between the vendor and part number fields, data is lost.
- File is an ASCII, Word or other electronic text file.
- The repair data file that each Contractor submits should be called **"I_repair_(your contractor name)_datetime.dat" (e.g.: I_repair_Contractor_200005101330.dat). Which translates to I_repair_Contractor_May 10, 2000 1:30pm = YYYYMMDDHHMM.**
- Ensure that the repair failure data is an accurate first-hand account of the technician who witnessed the actual data as it was generated the test/debug repair process within the parameters of the 20 data fields set forth in this procedure.
- **Do not skip fields**. Each line item must have 20 data fields. If a field is "not applicable" or "not available" do not leave the field blank, either enter **"NA"** or add a **"|"** to act as a placeholder.
- Post file on your FTP site. Provide Nortel Networks with FTP Address, Username, Password and File Path.

The 20 Data Fields are:

#	Field Name	Data Type	Required	Reject
1	RA_NO	Character (R******-*) or (R*********)	Yes	Yes
2	RA_LINE_NO	Character	Yes	Yes
3	MODEL_ RECEIVED	Character	Yes	No
4	SERIAL_NO	Character	Yes	No
5	INCOMING_REV_NO	Character	Yes	No
6	INCOMING_AGENT_REV	Character	If Applicable	No
7	RECEIVE_DATE	Date (DD-MON-YYYY)	Yes	No
8	REPAIR_DATE	Date (DD-MON-YYYY)	Yes	No
9	MODEL_ REPAIRED	Character	Yes	No
10	TEST_RESULTS	Character	Conditional	No
11	TEST_STAGE_FAILURE	Character	Conditional	No
12	PROBLEM_CODE	Character	Yes	Yes
13	REPAIR_LOCATION	Character	Conditional	No
14	COMPONENT_PART_NO	Character	Conditional	No
15	COMPONENT_MANUFACTURER	Character	Conditional	No
16	COMPONENT_DATE_CODE	Character	Conditional	No
17	OUTGOING_REV_NO	Character	Yes	No
18	REPAIR_FACILITY	Character	Yes	No
19	SCRAP_CODE	Character	Conditional	No
20	COMMENTS	Character	No	No

NOTE: Conditional fields are dependant upon the entry of a problem code.
PROCESS Detail Information for reporting 20 data fields:

Field 1. **RA_NO**: RMA Number of the returned part (e.g.: R123456-1 or R123456789 or RA12345678 (the A can be any letter A-Z).
- RMA information must be exact to be accepted by QDM.
- RA numbers cannot be prefixed with a zero (can not be –01)

Field 2. **RA_LINE_NO**: Line Number of Nortel Networks RMA.
- If Clarify RA (R123456-1), Line Number usually is a default of (-1)
- Regular D1 10 digit RMAs can have over 100 line items.
- Each line item listed for a D1 RMA indicates a specific piece of material and serial number. RMA information must be exact in the repair data report. If not, the data feed will be rejected.
- RA line items cannot be prefixed with a zero (can not be –01)

Field 3. **MODEL_ RECEIVED**: Nortel Networks model number or part number of unit received. (Such as: DM1401062, AG1004001, 114368-64, etc.).
- Model number or Part Number along with the Serial Number listed on the D1 RMA must match exactly. If not, the data feed will be rejected.

Field 4. **SERIAL_NOs**: Full Serial Number(s) of the received part(s). (e.g.: JBS222022). (need mechanism to supply more than a single SN but rather a quantity and multiple serial numbers)
- The Model number or Part Number along with the Serial Number listed on the D1 RMA must match exactly. If not, the data feed will be rejected.

Field 5. **INCOMING_REV_NO**: Functional Numeric Hardware Revision.
- Revision Register of received part listed on Assembly level BOM.
- Can also be alphanumeric.
- Or, if not present on Assy BOM, use the Sub-assembly level Mother Board BOM revision.

Field 6. **INCOMING_AGENT_REV**: Revision level of the Operating Software / Agent Code of the received part, if applicable.

Field 7. **RECEIVE_DATE**: Date part was received at repair vendor.
- Must be in this format: (10-MAY-2002)

Field 8. **REPAIR_DATE**: Date repair was completed.
- Must be in this format (10-MAY-2002). This date must be equal to or greater than the receive date.

Field 9. **MODEL_ REPAIRED**: Nortel Networks model number or part number of unit repaired. (Such as: DM1401062, AG1004001, 114368-64 etc…).
- Model number or Part Number along with the Serial Number listed on the D1 RMA must match exactly to what was transmitted on the EDI 864 feed.

Field 10. **TEST_RESULTS**: Specific description of the step of the test that the part failed during the repair test process (e.g.: PPX Floating 1 RX Address Bit Test, No lights at Boot up, Power Supply failure).
Note: This is the actual failed test or results observed from the test stage failure noted in field 11.

Field 11. **TEST_STAGE_FAILURE**: The stage in the repair process where the part failed.
- If material fails at multiple stages, use more than one code in this field such as: FUNCTIONAL TEST / BURN-IN or INCOMING INSPECTION / FUNCTIONAL TEST etc….
Required if the Problem Code listed in item # 12 is: DEFECTIVE, MULTIPLE, SOLDER, BARE BD, DAMAGED, INSTALL WR.

Approved Test Stage Failure codes:

Description	Code
Incoming Inspection: At receipt, fails for condition of packaging or material. Or, for incorrect PEC code (model number) or incorrect RMA number.	INCINSP
Cosmetics: Fails due to cosmetic damage such as; scratches, dents, burns, overall appearance of the unit.	COSMETIC
Pre-Test: Fails Self test without any update to hardware, firmware or configuration. Parameters were not reset to "default" prior to conducting initial testing. This may limit the initial testing to power-up and self-test depending on the specific pre-test procedure written for the part being tested.	PRETEST
Power-Up: Failed to turn-on/ boot-up when power switch was engaged. Check voltage level outputs, fan operation.	POWERUP
Internal Diags: Fails memory test, various I/Os tests, loop back tests, internal communication between PC Boards and devices (flash cards, EPROM's, ASICs etc.).	INTDIAGS
Functional Test: Fails functional test when testing unit for functional defects during standard test process.	FUNCTEST
Environmental Stress Test Specialized test required on some products in repair. Test unit fails under various stress conditions such as hot or cold, voltage margining, load, etc.	ESS
System Test: Configured unit failed in a customer like environment by running traffic or exerciser.	SYSTEST
Burn-In: Configured unit failed in a customer like environment after an extended amount of time, as dictated by test procedure.	BURNIN
Hi-Pot: Failed Test for incorrect or improper grounding or voltage thresholds as dictated by design engineering and safety agency requirements.	HIPOT
Final Inspection: Quality inspection of a finished unit against established Nortel Networks procedures and documentation to ensure that it is correct.	FINLINSP

Field 12. **PROBLEM_CODE**: Problem Code which categorizes root cause of the repair. The parties will work together to align additional problem categories and codes.

#

Description	Code

BARE BD – Bare Board Defect (e.g.: etch open & short, delamination, warpage, burning, charring, board edge broken off, etc.).	BAREBD
Physical damage due to handling (e.g. broken connectors, sockets, flash card holders, components, etc.).	DAMAGED
DEFECTIVE – Functional failure of a component or sub-assy (e.g. I.C, Eprom, Capacitor, resistor, battery, power supply, missing component, switch settings incorrect, hard drive, fan assy, etc.).	DEFCTVE
SOFTWARE CORRUPTED: Fail: Action during set up, installation, or operation that caused the data to be corrupted. Improper power shut down, corrupted file transfer, improper software download, power failure during transfer, wrong file loaded, wrong version installed.	SWCORRPT
HARD DRIVE CORRUPT- Failure: Corrupted by improper shut down, power failure, virus, operating software crash.	HWCORRPT
Guilt by Association: To be used when multiple PC boards or units are returned from a single event/customer, and only one piece of material is found to be defective. The balance of the material, if no defects are found, is to be coded GBA.	GBA
INSTALL WR – Installed Wrong: A component was installed wrong or an EC was applied incorrectly prior to the current repair activity at the 3rd Party repair vendor.	INSTWR
NO FAULT – No Fault Found: Applies to return material, where inspection or test has been performed, but a problem was not found, and a functional EC Upgrade to hardware or software was not implemented. NOTE: Please do not use No Fault when a functional EC has been installed. (See DEFECTIVE-UPGRADE or NFF-UPGRADE)	NOFAULT
DEFECTIVE-UPGRADE – Must be used if a functional EC Upgrade is installed which fixes a failed printed circuit board or complete unit.	DEFUPGRD
NFF-UPGRADE— Must be used if a printed circuit board or unit tests with no fault but a functional EC Upgrade is installed.	NFFUPGRD
PURGE/ECO/TSB/CSB - Must be used when required by a Nortel Purge or Deviation to perform any rework or repair on a product that is not covered by an EC at the time of repair. NOTE: Material processed due to Nortel Networks Purge or Deviation cannot be coded as NO FAULT	PETB
Missing Solder	MISSSLDR
Solder Short	SLDRSHRT
Solder Open	SLDROPEN
Pin Holes	PINHOLES
Cold Solder	COLDSLDR
Solder Balls	SLDRBALL
Solder Spikes	SLDRSPKS
Solder Flood	SLDRFLD
Excessive Solder	EXCSLDR
For material that is moved into MRB for subsequent review by a Nortel Technical Support Engineer.	SCRAP

NOTE: Material processed due to Nortel Networks Purge or Deviation cannot be coded as NO FAULT. Use COMMENTS (field #20) to note the Purge or Deviation number that you are implementing.

Field 13. **REPAIR_LOCATION**: Reference designator (e.g.: U12, P/S) that indicates the board location of the failed component that caused the original failure specified in the TEST_RESULTS field.
Required if Problem Code is: DEFECTIVE, MULTIPLE, SOLDER, BARE BD, DAMAGED, INSTALL WR.

- **Note**: When multiple entries are made in Field 13, 14, 15 and 16, they must be corresponding and separated by commas. (e.g. U7, T2, R204)

Note: Not Required if Problem Code is: NO FAULT, NFF-UPGRADE.

Field 14. **COMPONENT_PART_NO**: The Nortel Networks part number of the failed component specified in the REPAIR_LOCATION field. Note: Seller will provide component part numbers to Nortel Networks for board-level parts but not electronic components on the board.
Required if Problem Code is: DEFECTIVE, MULTIPLE, DAMAGED.

- **Note**: When multiple entries are made in Field 13, 14, 15 and 16, they must be corresponding and separated by commas. (e.g.: 112412, 101231, 100496)

Note: Not Required if Problem Code is: NO FAULT, NFF-UPGRADE.

Field 15. **COMPONENT_MANUFACTURER**: Manufacturer (e.g.: AMD, LSI) of the failed component specified in the REPAIR_LOCATION field.
Required if Problem Code is: DEFECTIVE, MULTIPLE, DAMAGED.

- **Note**: When multiple entries are made in Field 13, 14, 15 and 16, they must be corresponding and separated by commas. (e.g.: AMD, Level 1, N/A)

Note: Not Required if Problem Code: NO FAULT, NFF-UPGRADE.

Field 16. **COMPONENT_DATE_CODE**: Date code (e.g.: 9912, 9834) of the failed component specified in the REPAIR_LOCATION field.
Required if Problem Code: DEFECTIVE, MULTIPLE, DAMAGED

- Mfg date code is usually a four-digit number containing the year of manufacture and the week of manufacture.
- Leading zeros should be included in the date code (e.g.: 0015)
- **Note**: When multiple entries are made in Field 13, 14, 15 and 16, they must be corresponding and separated by commas. (e.g.: 9905, 0104, N/A)

Note: Not Required if Problem Code: NO FAULT, NFF-UPGRADE.

Field 17. **OUTGOING_REV_NO**: Functional Numeric Hardware Revision:

- Revision register of the returned part after repair and EC update has been completed. Listed on the Assy level BOM.
- Can be alphanumeric.
- Or, if not present on Assy BOM, use the Sub-assembly level Mother Board BOM revision.

Field 18. **REPAIR_FACILITY**: Name of repair facility completing repair.

Field 19. **SCRAP_CODE**: Code A through H based on definitions below. (Seller needs copy of this document to determine the values)

Scrap Code A - Nortel Networks Directed Excess/Obsolete Stock

Scrap Code B - Nortel Networks Directed Purged Stock
Scrap Code C - Third Time Returned as No Fault Found with no other work done
Scrap Code D - Physical Damage
Scrap Code E - Uneconomical to Repair
Scrap Code F - Unable to Repair
Scrap Code G – Prototype or Pilot Unit
Scrap Code H – Unable to obtain repair part

Field 20. **COMMENTS**: Miscellaneous information such as Purge, Deviation numbers and descriptions. This is a free form text data field. If the unit / board has a Manufacturing Date Code, please enter it in this field. Enter in this field any further explanations that cannot be placed in one of the other 19 data fields.

#

EXHIBIT G

HARDWARE WARRANTY AND POST WARRANTY SUPPORT

References to Telcordia or Nortel Networks proprietary telecommunications standards in this Exhibit G will include amendments and replacements of the standards, as they occur from time to time during the Term.

1. REPAIR PROCEDURE

1.1 If Nortel Networks has purchased the 24X7 Support Package described in Exhibit H for a given Product, Seller will give Nortel Networks a return material authorization (RMA) number within **[*]** of receipt of Nortel Networks' notice of a defective Hardware (component of the Product) and will notify Nortel Networks about the FCA repair location to which Nortel Networks will ship defective Hardware. If Nortel Networks does not purchase the 24X7 Support Package described in Exhibit H, Seller will provide Nortel Networks with an RMA number within **[*]** business days of receipt of notice. Nortel Networks will mark the return shipping package with the RMA number. The parties will agree in writing on a procedure for return of Hardware for repair. The agreed procedure will be attached to and incorporated into this Exhibit G as Attachment 1.

1.2 Nortel Networks will ship RMA Hardware to Seller, freight prepaid and reasonably insured. Nortel Networks will prepare export documentation, showing Nortel Networks' ownership of the RMA Hardware and complying with the preferential trade requirements in Section 23.2 (Preferential Trade Agreement - Procedures) of the Agreement. The following information with Hardware returned to Seller for Repair Services:

(a) Nortel Networks' name and complete address;
(b) quantities and model numbers of Hardware being delivered for repair;
(c) the nature of the defect or failure, if known;
(d) Purchase Order number under which repairs are to be made, if Hardware is no longer under warranty;
(e) name(s) and telephone number(s) of Nortel Networks' point of contact concerning the Repair Services requested;
(f) ship-to address or Nortel Networks' location for return of repaired or replacement Hardware; and,
(g) whether or not returned Hardware are under warranty.

1.3 Seller will date stamp each repaired and returned Hardware with the repair date and type of repair "pre fix" as per Telcordia GR-209 and the Specifications for the TP-610 Product (and for the Mediant 2000 Products, as per JESD46-B). Hardware repaired by Seller will be stamped as per Telcordia GR-78-CORE at a readily visible location on the unit. Board level Products may have such stamps placed on accompanying documentation instead.

1.4 On receipt of notice of a defective Hardware, Seller will notify Nortel Networks about (a) its point of contact for the Repair Service requested, and (b) any special packing for Hardware returns.

1.5 Seller's invoice to Nortel Networks for out-of-warranty repairs will contain:

(a) Nortel Networks' PO number for the Repair Services;

(b) the quantities and the PEC number of Hardware repaired and associated repair charges;
(c) the applicable sales or excise taxes;
(d) the total amount payable; and,
(e) the address to which payment should be made.

Upon request a description of the repairs carried out shall be provided to Nortel Networks.

1.6 Seller will deliver repaired Hardware and replacements to Nortel Networks' designated location, freight prepaid and reasonably insured. Seller will prepare export documentation, showing Nortel Networks' ownership of the RMA Hardware and complying with Preferential Trade Agreement requirements.

2. REPAIR AND REPLACEMENT SERVICES

2.1 *Spares*

2.1.1 Seller is not responsible for providing Nortel Networks' customers with the necessary spare parts/ units required for immediate Hardware replacement.

2.1.2 At Seller's factory or at a location agreed on by the parties, Seller will store the Repair Services Pool. The quantity of spares will be agreed on in writing by the parties, based on the (a) volume of Hardware delivered, (b) the applicable *mean time between failure* rates, and (c) Nortel Networks' desire to provide its customers with immediate Hardware replacement. Seller will not use the Repair Services Pool for retrofits or upgrades. The parties may agree in writing to change the quantity of spares, based on changes in the installed base of Hardware.

2.1.3 At all times Seller will maintain the agreed quantity of spares in the Repair Services Pool. Spares added to the Repair Services Pool will (a) be functionally equal or better than the inventory being replenished, (b) be backward compatible, and (c) meet the minimum field baseline. Seller may provide new Hardware as spares.

2.2 Information about the status of Hardware being repaired will be included in the Monthly Report described in Subsection 6.2.3 of the Agreement.

2.3 *Product Repair Service Process* – Seller will:

(a) ship repaired Hardware freight and insurance prepaid;
(b) track any defective Hardware by its unique serial number throughout the repair process;
(a) repair and update the Hardware to the minimum field baseline;
(b) return the same Hardware shipped by Nortel Networks for repair. If the returned Hardware's serial number has changed, Seller will put the following on repair tag originally provided by Nortel Networks: (i) old serial number, (ii) new serial number and (iii) reason(s) for change; and,
(e) complete the Same-for-Same process within **[*]**calendar days of having received up to **[*]** units of the defective Hardware at Seller's repair facility.

2.4 *Fast Cycle Failure Analysis* - At Nortel Networks' request and Seller's expense, Seller will perform a Fast Cycle Failure Analysis (FCFA) related to Hardware defects that are material, service affecting defects. Seller will issue a separate RMA number for each Hardware returned for an FCFA. As part of the FCFA, Seller will:

(a) perform a detailed root cause analysis of the problem, using the engineering tools required to find the cause of the failure (e.g., Environment Stress Screening [ESS]);
(b) track any defective Hardware by its serial number throughout the repair process;
(a) repair and update the Hardware to the minimum field baseline;
(b) return the same Hardware shipped by Nortel Networks for repair. If the returned Hardware's serial number has changed, Seller will put the following on repair tag originally provided by Nortel Networks and in the FCFA report: (i) old serial number, (ii) new serial number and (iii) reason(s) for change. Seller will not upgrade or repair Hardware going through an FCFA until the Products successfully complete the FCFA test cycle.
(e) return repaired Hardware with a written report, documenting all FCFA findings;
(f) make reasonable efforts complete the FCFA process within **[*]**consecutive days after receiving the defective Hardware;
(g) notify Nortel Networks about the return shipping information (e.g., the date shipped, carrier, waybill number); and,
(h) change the Hardware to eliminate Hardware deficiencies found during the FCFA.

2.5 *DO/ELF Hardware* - Products that become defective within the first **[*]** days of use by Nortel Networks' customer will be referred to as *Dead On Arrival* (DOA) or *Early Life Failure* (ELF). Nortel Networks will return the DOA/ELF Hardware to Seller with the RMA documentation. At its expense Seller will perform a root cause analysis on returned DOA/ELF Hardware. The root cause analysis will consist of functional tests and ESS.

a.1.1 After testing, Seller will repair, re-furbish, upgrade (to the latest version or release), stamp (with the repair date) and return the Hardware to Nortel Networks. Returned DOA/ELF Hardware will be considered new Hardware. Within 30 days of Nortel Networks' notice, Seller will do a root cause analysis and implement a plan of correction if the rate of failure of a DOA/ELF Hardware exceeds **[*]** percent (**[*]**%) of the Hardware's return rate (RR) defined in the Specifications. Seller will update Nortel Networks in writing with the findings of the root cause analysis as well as with the corrective plan of action.

2.6 *No Fault Found*

2.6.1 Seller may invoice Nortel Networks if no fault is found in the returned Hardware (NFF). The invoice will be Seller' then-current charges for full functional tests and ESS, as set out in Exhibit C, and a reasonable charge for return freight. Seller will return the Products to Nortel Networks, using Nortel Networks' chosen carrier. Seller will take no more than **[*]** days from the later of its receipt of Nortel Networks' PO or the returned Hardware to test the Hardware and return them to Nortel Networks.

2.6.2 If NFF Hardware are more than **[*]** percent (**[*]**%) of the Hardware RRs, after Seller has shipped to Nortel Networks **[*]** units of a specific Hardware, as defined in the Specifications, Seller will (a) perform a root cause analysis, and (b) implement a plan to correct the NFF occurrences within **[*]** days of reaching the **[*]**% level. Seller will include the analysis results and the plan in the Monthly Report described in Subsection 6.2.3 of the Agreement.

2.7 *Reimburse Expenses* - If the repair turn around time (TAT) (a) for an out of warranty Hardware exceeds the agreed to TAT threshold, Seller will not charge Nortel Networks for the repair, and (b) for an in-warranty defective Product Seller will credit Nortel Networks in the amount of the FRU price.

2.8 *Uneconomical To Repair* - The Seller will promptly notify Nortel Networks of any returned Hardware that is UTR in the opinion of the Seller. However, a Hardware will only be UTR if Nortel Networks and Seller agree in writing that it is UTR. Seller will return UTR Hardware to Nortel Networks at the expense of the party that agrees to cover the cost of the return in the written agreement characterizing the Hardware as UTR.

3. LONG TERM SUPPORT - For discontinued Hardware, Seller will make available repair services for Hardware until the earlier of the expiration of **[*]** years from the effective date of termination of the Agreement or **[*]** years from the effective date of discontinuation of the Hardware version.

#

EXHIBIT G

ATTACHMENT 1

SELLER'S PROCEDURE FOR RETURN OF PRODUCTS FOR REPAIR

(In this Attachment 1 "Customer" means the Nortel Networks entity purchasing the Product and Seller will be known as "AudioCodes.") If the terms and conditions of this Attachment 1 conflict with the terms and conditions of the body of Exhibit G, the terms and conditions of the body of Exhibit G will prevail.

RMA - Instructions to Customer

Customer satisfaction is one of the main objectives in AudioCodes' business strategy. We believe a thorough and quick response to customer needs is highly important in achieving this objective.

In the event that AudioCodes' product is malfunctioning, please act as follows:

1. Contact your regional AudioCodes' Customer Support, preferably by an e-mail, and report the event. Based on the data you supply, and possibly some more testing, Customer Support will verify with you that indeed an RMA is required. If approved, the RMA process will continue. If the request is not approved AudioCodes will notify you of the reason why.
2. You are kindly requested to fill out an RMA Defective Product Report form or RMA-Defective Chip Report form, as applicable. Please contact your local AudioCodes sales office for a copy of these forms. If necessary Customer Support will help you fill out the form.

Note: It is extremely important to fill out the form in detail. The more data Nortel Networks supplies, the faster AudioCodes will be able to process the RMA.

3. If the product is still under warranty, your regional AudioCodes' Sales Administrator will provide Nortel Networks with an RMA number and shipping instructions.
4. If the product is out of the warranty period, or the failure was not due to AudioCodes' fault, Nortel Networks will be notified and receive a quotation for the repair cost. If Nortel Networks decides to repair the Product and accept the quotation, Nortel Networks will be asked to issue a Purchase Order for the repair. Upon PO receipt, the applicable regional AudioCodes' Sales Administrator will provide Nortel Networks with an RMA number and shipping instructions.
5. Carefully pack the RMA approved product and ship it according to the local office instructions. Please insert one copy of the RMA report form into the external FEDEX envelope, and one copy into the shipped box.
6. Upon receipt at AudioCodes, an e-mail notification will be sent to you acknowledging receipt.

#

EXHIBIT H

TECHNICAL ASSISTANCE AND MARKETING SUPPORT
SELLER'S 24x7 SUPPORT PACKAGE

The terms and conditions set out in this Exhibit H also describe Seller's Standard Support Package and Enhanced Support Package, unless otherwise stated herein.

1. Training

1.1 *Training During the Term* - During the Term of the Agreement, at its expense, Seller will hold Product training sessions for Nortel Networks technicians. The parties will agree on the number of sessions and participants. During training, Seller will provide the Nortel Networks technicians with enough information to allow them to provide training to other Nortel Networks technicians and Nortel Networks' customers. For the duration of this Agreement, Seller grants Nortel the right to modify and republish training materials in accordance with the confidentiality provisions of this Agreement for the specific use of Nortel Networks training, including Nortel Networks using the materials and documentation to train its customers technical personnel.

1.2 Additional training sessions would be provided subject to the fees defined in Section 4 in Exhibit C.

1.3 *Supplemental Training Access During and After the Term* - Supplementing training, Seller will provide trained Nortel Networks technicians with telephone access to Seller's technical personnel during regular business hours. Nortel Networks and Seller will agree in writing on a process for providing the telephone access and identifying the Seller personnel who will provide the training and the trained Nortel Networks technicians who will have the access to the supplemental training.

2. Marketing Support - During the Term, on Nortel Networks' request, **[*]** charge to Nortel Networks, Seller will endeavor to provide the following marketing support:

2.1 Assistance in providing Nortel Networks' customers and potential customers with point by point responses to requests for quotations and requests for information concerning the Products.

2.2 Review and provide feedback on Product promotional material.

2.3 Provide non-operational demonstration units that look like the actual Products.

3. **Technical Support** – During the Term and for **[*]** years after the termination of the Agreement, Seller will make available to Nortel Networks the technical support services described in this Article 3. For discontinued Software, Seller will make available repair services for Software until the earlier of the expiration of **[*]** years from the effective date of termination of the Agreement or **[*]** years from the effective date of discontinuation of the Software version.

3.1 Definitions - As used in this Schedule, unless otherwise defined:

"Critical Problem(s)" means any condition in a Product that renders the service or operation of the Product wholly unusable or inoperative and is due to non-conformance of the Product with its Specification or design defect. Critical Problem includes, but is not limited to, loss of all transaction processing capability, significant reduction in capacity or traffic handling capability, any loss of safety or emergency capability, loss of the ability to perform automatic system reconfiguration, inability to restart a processor or the system, loss of billing capability, corruption of billing or system databases that requires service affecting corrective actions, loss of access to maintenance or recovery operations, or loss of the system's ability to provide any required Critical Problem or Major Problem notification.

"Major Problem(s)" means any condition in a Product that interferes with the ability of the Product to provide routine service or operation at all times due to non-conformance of the Product with its Specifications or design defect. Major Problem includes, but is not limited to, any reduction in capacity or traffic, any loss of functional visibility or diagnostic capability, any loss of routine administrative activity, any significant degradation of the system's ability to provide maintenance or recovery operations, any significant degradation of the system's ability to provide any required Critical Problem or Major Problem notification, any significant increase in system related trouble reports by Nortel Networks' customer, and any corruption of the system billing databases that does not result in service affecting corrective actions.

"Minor Problem(s)" means any condition in a Product that is not a Critical or Major Problem, but is a condition that affects the service or operation of a Product and is due to non-conformance of the Product with its Specifications or a design defect. Without limiting the generality of the foregoing, Minor Problems shall include any defects or inaccuracies in the Product Documentation.

"Permanent Solution(s)" means a resolution to a Problem that, (a) causes the Product to conform with its Specifications, and (b) restores the service and operation of a Product without any loss of functionality.

"Problem" means a Critical Problem, Major Problem or Minor Problem.

"Technical Support Services" means those Seller technical support services described in this Article 3.

"Work-Around(s)" means a temporary resolution for a Problem, which resolution to the extent technically possible can be implemented in the customer's network without interruption of service or operation.

3.2 Technical Support Services - Seller must make available and provide to Nortel Networks those Technical Support Services necessary to ensure (a) the continued operation of the Product, (b) that the Product contains no design defects and that it remains in compliance with its Specifications (c) the Specifications remain complete and accurate, and (d) the Product remains free of Problems. Nortel Networks will provide the first line of support to its customers

3.3 Priority Levels For Technical Support Services- Nortel Networks will categorize Problems and Seller will provide Technical Support Services according to the definitions in Section 3.1 above and the priority levels set forth in this Section 3.3.

3.3.1 Critical Problems: Seller must work continuously, and must use all reasonable commercial efforts, until a Work-Around or a Permanent Solution is successfully implemented. If a Permanent Solution is successfully implemented, but the Permanent Solution cannot be deployed in a Product operating in the Nortel Networks' customer's network without affecting service or operation, Seller will provide Nortel Networks with a Work-Around. Seller will use commercially reasonable efforts to provide a Work-Around or Permanent Solution (subject to the restrictions described in the preceding sentence) within **[*]** hours of a Critical Problem being reported to Seller by Nortel Networks; provided, however, for purposes of Seller's Standard and Enhanced Support Packages, Seller will only be obligated to provide the Work-Around or Permanent Solution within **[*]** business days, rather than **[*]** hours. &nbs p; If a Work-Around is successfully implemented, a Critical Problem shall be reclassified to a Major Problem.

3.3.2 Major Problems: Seller must work continuously and must use all reasonable commercial efforts, until a Work-Around or Permanent Solution is successfully implemented. If a Permanent Solution is successfully implemented, but the Permanent Solution cannot be deployed in a Product operating in Nortel Networks' customer's network without affecting service or operation, Seller will provide North with a Work-Around. Seller will use commercially reasonable efforts to provide a Work-Around or Permanent Solution (subject to the restrictions described in the preceding sentence) within **[*]** calendar days of a Major Problem being reported to Seller by Nortel Networks.

3.3.3 Minor Problems: Seller must use all reasonable commercial efforts to provide a Work-Around or Permanent Solution. If a Permanent Solution is successfully implemented, but the Permanent Solution cannot be deployed in a Product operating in Nortel Networks' customer's network without affecting service or operation, Seller must provide Nortel Networks with a Work-Around. Seller will endeavor to provide a Work-Around or a Permanent Solution (subject to the restrictions described in the preceding sentence) within **[*]** calendar days of a Minor Problem being reported to Seller by Nortel Networks.

3.3.4 Seller's failure to reproduce a Problem on a Seller-specified reference machine will not prejudice or impact the attention that Seller gives to such Problem.

3.4 Delivery of Work-Arounds and Permanent Solutions

Permanent Solutions: Seller agrees to deliver a Permanent Solution to Nortel Networks as soon as reasonably possible. If applicable, a Permanent Solution must include a patch for Software, if such patch can be deployed in a Product operating in Nortel Networks' customer's network without affecting service or operation. The patch will be provided within the times described in Section 3.3 above. If such a patch cannot be provided, Seller will provide a Work-Around within the times described in Section 3.3.

3.5 Service Level Objective - The parties acknowledge the potentially idiosyncratic nature of any Problem in the Products. While the response times in Section 3.3 constitute targeted goals of the Technical Support Services to be provided by Seller to Nortel Networks, the parties agree that Seller will use all reasonable commercial efforts to attempt to resolve any Problems within the target times specified in Section 3.3 (for the relevant priority level) **[*]** percent (**[*]**%) of the time. Seller's meeting the targeted times less than **[*]** percent (**[*]**%) of the time, but at least **[*]**

percent (**[*]**%) of the time will not constitute a failure by Seller to perform a material provision of the Agreement. For the purposes of compiling the statistical data, the parties shall ignore faults and defects ultimately found attributable to hardware and/or software not supplied by Seller.

3.6 Problem Reporting - For each request by Nortel Networks for Technical Support Services from Seller, Nortel Networks will provide Seller with a description ("Problem Report") of the Problem encountered and, -, any other information and/or access to software and or hardware reasonably requested by Seller, including by way of example a description of how to repeat the condition which brought about the Problem. Nortel Networks will include the priority level, determined to be applicable in its sole discretion, in each Problem Report. Seller will identify each outstanding issue relating to a Problem Report with a unique "Case Number" for tracking purposes. Seller will communicate Case Numbers the Seller production manager responsible for the described Product within **[*]** of Seller's receipt of the Problem Report.

3.7 Communications – Seller will provide unlimited, toll-free telephone support to Nortel Networks on issues relating to Products, as follows: (a) Seller will provide Nortel Networks with toll-free telephone access and support between the hours of **[*]**. EST and **[*]** p.m. EST Sunday through Friday; and, (b) 24 hours per day, 7 days a week, Seller will provide Nortel Networks with pager access and respond to Nortel Networks' pages within **[*]** minutes of receiving a page. Seller will provide Nortel Networks with two pager numbers (i.e., more than one person to access) with respect to the described pager with telephone response support. One of the pager numbers must provide Nortel Networks with a Seller escalation party who Nortel Networks (a) may call if the other pager number does not respond as described and (b) can resolve support issues resulting from Nortel Networks' initial contact with Seller 46;s support representative (e.g., engineers cannot decide on a timeframe for Problem resolution). Seller will staff its telephone and pager support service with qualified technical representatives or persons with immediate access to qualified technical representatives with a detailed working knowledge of the Products.

Notwithstanding the preceding, under Seller's Standard and Enhanced Support Packages, Seller will only be obligated to provide unlimited, toll-free telephone support to Nortel Networks on issues relating to Products between the hours of **[*]**a.m. eastern standard time (EST) and **[*]** p.m. EST, seven (7) days a week. Seller will have no obligation to provide page access under the Standard and Enhanced Support Packages. Further, with respect to the two packages Seller will staff its telephone support service only with qualified technical representatives with a detailed working knowledge of the Products.

The parties may augment the telephone and pager communications described above with the use of facsimile transmission and secure electronic mail.

3.7.1 The Parties shall use reasonable efforts to establish security measures for the electronic exchange of Problem Reports and other information.

3.8 Information – Once a month during the Term Seller will provide Nortel Networks with a report, listing the following information for Products sold to Nortel Networks that have experienced Problems reported and experienced by Nortel Networks: all known bugs, errors, or defects in the Product, and the classification of each; any resolutions or fixes; and any available Work-Arounds. Seller's failure to report a bug, error or defect that is not material and service affecting will not be a material breach of this Agreement.

3.8.1 Upon Nortel Networks' request, Seller will provide a "Status Report" on any Problem logged for Nortel Networks; provided that Nortel Networks identifies the particular Problem by the Case Number assigned to it by Seller. For Problems that have been resolved, the Status Report will include the Case Number, the closing resolution for the Problem, the expected date that a Permanent Solution will be released, and a description of any known Work-Around. For Problems that have not yet been resolved, the Status Report shall include the Case Number, a Problem resolution plan, and a description of any known Work-Around. Each Problem logged for Nortel Networks will remain open until closure notification is received from Seller and accepted by Nortel Networks.

3.9 For the purpose of definition, the technical support services described in Sections 3.1 -3.8 are collectively defined as the Standard Support Program.

3.10 In addition to Seller's obligations under this Exhibit H for providing its Enhanced Support Package, the Enhanced Support Package will include Seller's providing Nortel Networks with Major Software Version releases that include performance enhancements as well as additional features..

3.11 On-site Technical Service – If Nortel Networks requests the on-site presence of a qualified Seller technical support representative at a Nortel Networks location or customer site to diagnose and resolve a Problem, Seller will make reasonable efforts to have a qualified technical representative available at the location or site within the shortest time reasonably possible; provided that Nortel Networks reimburses Seller as provided in section 1.2 of Exhibit C.

3.12 Termination – Nortel Networks may cancel Technical Support for Products upon **[*]**days prior written notice to Seller. Upon receipt of Nortel Networks' notice, Seller will continue to provide Technical Support for the Products until the termination date specified in the notice. Nortel Networks shall not be entitled to receive from Seller a refund of, or other credit for, the remainder of the applicable (annual or otherwise) Technical Support fee.

3.13 Technical Support Service Level Activities

Nortel Networks shall be responsible for Service Level 1 activities and Seller shall be responsible for Service Level 2 and Service Level 3 activities described below: Service Level 1 means handling all customer or end user contact.

A. Level 1: Level 1 Support activities require a relatively low but broad degree of product expertise. Level 1 support activities include, without limitation, the following activities:

(i) Receipt and logging of customer problem calls

(ii) Service entitlement verification

(i) Provision of primary support for installation activities, including configuration problems, installation related problems, and post-installation reconfiguration.

(ii) Problem verification

(v) Problem classification as Hardware, Software, driver or configuration problems

(vi) Troubleshooting using diagnostic utilities provided by OEM

(vii) Attempted resolution of Software problems

(viii) Response to frequently asked questions ("FAQ") provided by OEM related to OEM Product

(ix) Decoding of error messages and attempted provision of corrective action provided by OEM

(x) Verification of software release level and distribution of updates if necessary

(xi) Distribution of software updates and major releases to End-Users in accordance with Nortel Networks standard entitlement and distribution process.

B. Level 2: Level 2 activities require (i) both broad and in-depth product expertise, including thorough knowledge of product interdependencies and relationships and (ii) problem determination, problem trouble-shooting, and the development of prevention plans and workarounds. Level 2 support activities also include, without limitation, the following activities:

(i) Identification of code-level problems

(ii) Gather and attempt to analyze trace information

(i) Determination if the failure was caused by configuration or microcode

(ii) Provision of Work Around where available

(iv) Adherence to the escalation procedures agreed by both parties.

C. Level 3: Level 3 Support activities require system engineering level technical support expertise and provision of timely and accurate (i) determination of product defects and (ii) resolution plans to Nortel Networks. Level 3 Support activities also include, without limitation, the following:

(i) Engineering Support

(ii) Analysis of traces and processor dumps

(i) Development, test and release of microcode corrections

(iv) Permanent Solution

#

EXHIBIT I

DOCUMENTATION

1. **Draft Product Documentation** - For Nortel Networks' review Seller will provide 1 hard copy and 1 electronic version of the Product Documentation, marked "Draft." Nortel Networks will provide Seller with comments (e.g., an ordering section) on the draft documentation within 2 weeks after receipt. Seller will integrate Nortel Networks' comments into the Product Documentation. Seller will provide Nortel Networks with the final Product Documentation by the end of the corresponding Acceptance Program. The Product Documentation will be revised as the Product is updated.

2. **Product Documentation at No Charge** – Subject to Article 3 below, at its expense Seller will provide Nortel Networks Product Documentation with each Product. The Product Documentation will include the Product descriptions, planning guides, operations manuals, installation manuals, and maintenance manuals normally provided by Seller to customers to facilitate the customers' installation, use, and maintenance of the Products.

3. **Nortel Networks Standard Format** – At its expense Seller will provide Nortel Networks with (a) hard and electronic copies of Seller's marketing and product documentation (i.e., manuals, application notes and sales collateral), (b) technical assistance reasonably deemed necessary by Seller to be required by Nortel Networks to adapt Seller's documentation to Nortel Networks' standard format, (c) and updates of Seller's documentation.

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

EXHIBIT J
TRADE AND SHIPPING REQUIREMENTS

1. **Preferential Trade Agreement** - Seller will assist Nortel in performing all administrative actions necessary to qualify Products for preferential treatment under the rules of any trade treaty by completion of certificates of origin and distribution to the below Vastera address (Section 1.4.2), including, but not limited to the North American Free Trade Agreement, Canada Chile Free Trade Agreement, Canada Israel Free Trade Agreement, US Israel Free Trade Agreement, and EU-Mediterranean Agreement.

1.1 On a calendar quarter basis, where blanket certificates of origin are allowed, Seller will provide Vastera with a list of Products that do not qualify for the preferential treatment. On or before "December 1st" of each calendar year, Seller will provide Vastera, Southfield Michigan with a valid blanket certificate for products that seller intends to sell to Nortel or it's affiliates or Nortel's end customers in the following calendar year.

1.2 Supplier will respond to Preferential Trade Agreement questionnaires in a timely manner concerning any certificates of origin issued and assist Nortel Networks in resolving product eligibility for preferential trade agreement qualification.

1.3 Seller agrees to notify Vastera at least 90 days in advance of any changes in Seller's manufacturing process or supply chain that would impact the validity for any certificate of origin provided by Seller to Nortel Networks or its customers. Seller will indemnify Nortel Networks under the Agreement against liabilities resulting from Nortel Networks' Exporter's Certificate of Origin being deemed invalid by a government authority and/or unavailable at time of export by the supplier.

1.4 In accordance with the trade agreement certificates of origin should be completed and distributed as follows:

1.4.1 *Per Shipment* - If an Exporter's Certificate of Origin is prepared for each shipment, Seller will (a) retain the original Exporter's Certificate of Origin (b) attach a copy of the Exporter's Certificate of Origin to the customs/shipping documents for qualifying Products, and (c) mark the customs/shipping documents with: *Copy of the Exporter's Certificate of Origin attached.*

1.4.2 *Blanket Certificate of Origin* - If a blanket Exporter's Certificate of Origin is prepared, Seller will (a) retain the original Exporter's Certificate of Origin (b) mark the customs/shipping documents for the qualifying Product with: *Copy of blanket Exporter's Certificate of Origin on file* and (c) e-mail or mail copies of the blanket Exporter's Certificate of Origin to the following address or such other address of which Nortel Networks or Vastera may notify Seller in writing:

Vastera,
20700 Civic Center Drive,
5th Floor – Suite 500,
Southfield, Michigan
USA 48076
Attention: Scott Puckett
Phone (248) 603-6847
e-mail: scott.puckett@vastera.com.

2. **Customs Invoices and Country of Origin Declarations/Documents** - Seller ensure that customs invoices and Country of Origin declarations/documents for all Product shipments crossing international borders comply with all laws, treaties and regulations of both the exporting country and the importing country. Seller will indemnify Nortel Networks against any customs liabilities for non-compliance with the above.

2.1 Seller will ensure that the customs invoices contain the following information:
(a) in addition to the vendor and shipper address, the Nortel Networks entity to which the goods are being sold and delivered
(b) a clear description of the Products
(c) the quantity of units sold, including the units of measure
(d) the purchase price as well as any related freight charges and insurance charges
(e) the terms of sale including the Incoterms
(f) depending on country of destination, when requested by Nortel Networks or its customer, the international tariff to the 6 digit level
(g) the country of origin of each line item

1. **Export Licenses** - Seller will apply for all licenses necessary for the export of, software, or technology being sold to Nortel Networks and notify Nortel Networks when the license is granted, and, if not granted, why the license was denied. To the extent a license is denied Seller's shall be excused of delivery under this Agreement. Seller will submit license applications in a timely manner and advise Nortel Networks in writing of any anticipated delays in shipping that may result from delayed approval of an application. Nortel Networks shall provide timely assistance and full co-operation in obtaining any end user undertakings required in order to obtain the export license.

4. **C-TPAT Compliance –** Supplier shall take all administrative actions required to become a member of the Customs & Trade Partnership Against Terrorism ("C-TPAT") and /or to demonstrate to Nortel Networks Supplier's compliance with C-TPAT guidelines as described by U.S. Customs at http://www.customs.gov/xp/cgov/import/commercial_enforcement/ctpat/ or such other site as may be provided by the U.S. government from time to time, or similar international supply chain programs designed to protect against acts of terrorism ("Customs Guidelines"). Demonstration of C-TPAT compliance shall include, without limitation, assessment in accordance with the Customs Guidelines the current supply chain security measures used by Supplier, and addressing any potential security weaknesses in Supplier's supply chain.

#

EXHIBIT K

DEBARMENT CERTIFICATE

(S A M P L E)

CERTIFICATION REGARDING DEBARMENT, SUSPENSION, INELIGIBILITY AND VOLUNTARY EXCLUSION - LOWER TIER COVERED TRANSACTIONS

This certification is required by the regulations implementing Executive Order 12549, Debarment and Suspension, 7 CFR Part 3017, Section 3017.510, Participants' responsibilities. The regulations were published as Part IV of the January 30, 1989, Federal Register (pages 4722-4733).

(BEFORE COMPLETING CERTIFICATION, READ INSTRUCTIONS ON REVERSE)

(1) The prospective lower tier participant certifies, by submission of this proposal, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this transaction by any Federal department or agency.

(2) Where the prospective lower tier participant is unable to certify to any of the statements in this certification, such prospective participant shall attach an explanation to this proposal.

Organization Name | PR/Award Number or Project Name

Name and Title of Authorized Representative

Signature | Date

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

Instructions For Certification

1. By signing and submitting this form, the prospective lower tier participant is providing the certification set out on the reverse side in accordance with these instructions.

2. The certification in this clause is a material representation of fact upon which reliance was placed when this transaction was entered into. If it is later determined that the prospective lower tier participant knowingly rendered an erroneous certification, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

3. The prospective lower tier participant shall provide immediate written notice to the person to which this proposal is submitted if at any time the prospective lower tier participant learns that its certification was erroneous when submitted or has become erroneous by reason of changed circumstances.

4. The terms "covered transaction", "debarred", "suspended", "ineligible", "lower tier covered transaction", "participant", "person", "primary covered transaction", "principal", "proposal", and "voluntarily excluded", as used in this clause, have the meanings set out in the Definitions and Coverage sections of rules implementing Executive Order 12549. You may contact the person to which this proposal is submitted for assistance in obtaining a copy of those regulations.

5. The prospective lower tier participant agrees by submitting this form that, should the proposed covered transaction be entered into, it shall not knowingly enter into any lower tier covered transaction with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the department or agency with which this transaction originated.

6. The prospective lower tier participant further agrees by submitting this form that it will include this clause titled "Certification Regarding Debarment, Suspension, Ineligibility and Voluntary Exclusion - Lower Tier Covered Transactions", without modification, in all lower tier covered transactions and in all solicitations for lower tier covered transactions.

7. A participant in a covered transaction may rely upon a certification of a prospective participant in a lower tier covered transaction that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered transaction, unless it knows that the certification is erroneous. A participant may decide the method and frequency by which it determines the eligibility of its principals. Each participant may, but is not required to, check the Non-procurement List.

8. Nothing contained in the foregoing shall be construed to require establishment of a system of records in order to render in good faith the certification required by this clause. The knowledge and information of a participant is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.

1. Except for transactions authorized under paragraph 5 of these instructions, if a participant in a covered transaction knowingly enters into a lower tier covered transaction with a person who is suspended, debarred, ineligible, or

10. Voluntarily excluded from participation in this transaction, in addition to other remedies available to the Federal Government, the department or agency with which this transaction originated may pursue available remedies, including suspension and/or debarment.

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

EXHIBIT L

LICENSED USE OF SOFTWARE

Nortel Networks grants customer a nonexclusive license to use a copy of the Software to the extent of the activation or authorized usage level. To the extent Software is furnished for use with designated Products or customer furnished equipment ("CFE"), customer is granted a nonexclusive license to use Software only on such Products or CFE, as applicable. Software contains trade secrets and customer agrees to treat Software as Information. Customer will ensure that anyone who uses the Software does so only in compliance with the terms of this Agreement. Customer shall not a) use, copy, modify, transfer or distribute the Software except as expressly authorized; b) reverse assemble, reverse compile, reverse engineer or otherwise translate the Software; c) create derivative works or modifications unless expressly authorized; or d) sublicense, rent or lease the Software. Licensors of intellectual property to No rtel Networks are beneficiaries of this provision. Upon termination or breach of the license by customer or in the event designated Product or CFE is no longer in use customer will promptly return the Software to Nortel Networks or certify its destruction. Nortel Networks may audit by remote polling or other reasonable means to determine customer's Software activation or usage levels. With respect to Third Party Software, customer agrees to abide by the terms provided by Nortel Networks with respect to any such software. Customer further agrees that the terms contained in any Nortel Networks or third party "shrink wrap" or "click" licenses shall govern the use of such software.

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

EXHIBIT M

DEMAND-PULL PROGRAM AND VENDOR MANAGED INVENTORY

If required by Nortel Networks, the parties will enter into a demand pull/vendor managed inventory agreement (with or without Seller's managing inventory through a third party logistics provider). The parties have created this Exhibit M only for the purpose of providing a guide to establishing the elements for demand pull agreements case-by-case.

A DEMAND-PULL PROGRAM

1. **Demand-Pull Program Forecast** - On the first business day of each week, the Nortel Networks will provide Seller with a weekly rolling, forecast of its Demand-Pull Program Product requirements ("Demand-Pull Forecast"). The Demand-Pull Forecast will be non-binding and Nortel Networks will have no obligation to purchase any of the forecasted quantity of Products; however, subject to Section 7 of the Agreement and Section 6 of this Exhibit M, Nortel Networks will issue a Blanket Purchase Order for the quantity of Products shown for the first _____ [weeks; months] of the first Forecast ("Demand-Pull Blanket Purchase Order"). Nortel Networks will not be obligated to pay for any of Seller's stock of manufacturing material/components used in manufacturing Products to the extent the stock exceeds what Seller needs to manufacture the Products ordered under the Committed Blanket Purch ase Order.
2. **Target Products Total Stock** - *Target Product Total Stock* means the total quantity of finished modules, dies, components and parts targeted (Target Finished Goods) plus works in progress (Target WIP). The Product run rate chart is attached to and incorporated in this Exhibit M as Attachment 1. Seller will maintain __to ___weeks of a target for total Product Stock (Target Product Total Stock). The parties will mutually agree in writing on the Target Product Total Stock and the exact number of weeks to be maintained. However, if the Target Finished Goods is inactive for more than 180 days, the parties will agree on a reasonable disposition of all or part of the Target Product Total Stock.

2.1 *Increase Target Product Total Stock* - Seller will have the capability of increasing the then-current Target Product Total Stock by (a) ___% within 1month after Nortel Networks' written request for the increase, and (b) ___% within ___ months after Nortel Networks' written request.

3. **Delivery** - Demand-Pull Program Products will be delivered FCA, Seller's plant (as designated in the applicable Purchase Order), within **[*]** after Nortel Networks issues the Release(s) to Seller.

4. **Non-Demand Pull PO** – Nortel Networks may purchase Products included in the Demand-Pull Program by issuing a P.O. for the Products under terms of the Agreement rather than the terms of the Demand-Pull Program. The Products purchased under the P.O. will count towards Nortel Networks' purchases of Target Product Total Stock.

5. **Target Finished Goods Report** - Seller will provide Nortel Networks' designated purchasing department representative with a weekly written report detailing the status of the **Target Finished Goods**

6. **Cancellation** - Nortel Networks may cancel the Demand-Pull Program in whole or in part by 30 days advance notice to Seller. The current Blanket Purchase Order will be cancelled and the parties will agree on a (a) reasonable disposition of the Target Product Total Stock, and (b) Product delivery lead time not to exceed 26 weeks.

B. VENDOR MANAGED INVENTORY PROGRAM

1. Definitions –For purposes of Part B the following definitions will apply

"3PL" shall mean a third party logistics provider with whom the Seller will contract with for the provision of warehousing services for the VMI Products Seller expects to sell to Nortel Networks when the Nortel Networks issues a Demand-Pull Trigger.

"Demand-Pull Trigger" shall mean a Purchase Order or Release that is only sent by electronic or other written recorded means from Nortel Networks to the 3PL as the agent for Seller to deliver VMI Products.

"Electronic Means" shall mean any form of electronic communication, including e-mail, Electronic Data Interchange ("EDI"), Internet Web based, fax, but excluding telephone.

"Forecast" shall mean the projected requirement for the VMI Products set out in Attachment 1, attached to and incorporated in this Exhibit M.

"Hub" shall mean a storage facility or warehouse, owned and/or managed by the 3PL, within close proximity of the System house set out in Schedule 1a, in which the Seller warehouses VMI Products prior to delivery to the Nortel Networks.

"Lead-time" shall mean the length of the manufacturing process time between the start of a known requirement and the actual delivery of such VMI Products for replenishment as set out in Attachment 1.

"OEM Products" means those VMI Products described in Attachment 1.

"Safety Stock" shall mean the minimum level of VMI Products, as identified in Attachment 1, which Seller shall use best commercial efforts to maintain in the Hub based upon consumption consistent with Forecast rates.

"VMI Products" shall mean the components or products in Attachment 1, as may be amended in writing by the parties from time to time.

2. Forecasts

By Electronic Means Nortel Networks will provide a weekly Forecast to Seller of Nortel Networks' requirement for VMI Products for the following fifty-two (52) weeks. Seller will meet Nortel Networks' requirements for any quantity of VMI Products in a Forecast up to **[*]** of the immediately preceding Forecast and Seller will use its best efforts to meet any quantity of Products in a Forecast that are in excess of the **[*]**. The Seller shall advise Nortel Networks if the Seller does not receive a Forecast within **[*]**calendar days of the previous Forecast. Notwithstanding the preceding a Forecast is not a binding commitment to purchase and Nortel Networks may at any time change its Forecast for VMI Products.

2.1 *Purchase Orders* - The Nortel Networks will periodically issue Demand-Pull Trigger instructions to the Seller, or 3PL as the agent for the Seller, for purposes of ordering VMI Products.

3. Lead Time - Seller will immediately advise Nortel Networks in writing of any requested change in the Lead-times for any VMI Products and will provide Nortel Networks with a monthly update on the Lead-time for all VMI Products.

4. Hub Operation - The parties will agree upon the Hub and the 3PL responsible for managing the Hub for Seller. Nortel Networks may at any time, on reasonable notice to the Seller, change the designated 3PL. In the event of a 3PL change, Seller will be responsible for ensuring that stocks of VMI Products and operation of the Hub is transferred to the new 3PL without any loss or disruption in service to Nortel Networks in a time period acceptable to Nortel Networks. Upon Nortel Networks' request and at no charge to Nortel Networks, Seller will conduct a stock check or other similar activity to be undertaken in the Hub and report the results to Nortel Networks.

5. Delivery and Invoicing -Seller will deliver VMI Products FCA Hub dock within **[*]** after Nortel Networks issues Demand-Pull Trigger to Seller. Seller will ensure that 3PL is responsible for providing Seller with notification by Electronic Means within **[*]** hours of shipping VMI Products to Nortel Networks. If the Hub is a bonded facility, Seller will provide Nortel Networks with the commercial invoice details for the relevant bonded inventory within one working day of notification of the Demand-Pull Trigger.

6. **Stock levels in the Hub and Flexibility** -At the Hub Seller will maintain VMI Products in stock at a level between the Safety Stock and maximum level set out in Attachment 1. Nortel Networks will not be responsible or liable for any Products stored at the Hub in excess of the maximum level set out in Attachment 1. Seller agrees to use its best commercial efforts to maintain the Safety Stock levels in cases in which Forecasts increase inside of the Lead-time. Nortel Networks may at its sole discretion increase a Forecast outside of the Lead-time. Seller will ensure that all VMI Products, including Forecasted VMI Products and Safety Stock held in the Hub, are in compliance with Seller's then-current specifications for the Products and that Seller and the 3PL use strict "first-in/first-out" management. If a particular line item VMI Product in the Hub has not been ordered under a Demand-Pull Trigger for at leas t **[*]**, within **[*]** business days after the **[*]** day, Seller will notify Nortel Networks to that effect, identifying the line item VMI Product and the last applicable Demand-Pull Trigger date. After Nortel Networks' receipt of the notice, Nortel Networks and Seller will agree in writing upon the disposition of VMI Products identified.

7. **Title and Risk of Loss** - Title and risk of loss to a VMI Product will pass from Seller to Nortel Networks at the time that the VMI Product is delivered to Nortel Networks' carrier from the Hub dock.

#

D R A F T
SUBJECT TO CORPORATE AND LEGAL APPROVAL

EXHIBIT M

ATTACHMENT 1

(Note: This is a sample Product run rate format for use with standard Demand-Pull Program. Can be used to create a form for use with Vendor Managed Inventory Program.)

WEEK: _____

CPC NO.	DESCRIPTION	RUN RATE	TARGET FG STK	TARGET WIP	ACTUAL FG STK	ACTUAL WIP	LEAD TIME

NORTEL NETWORKS _____
APPROVAL:
DATE:_____
SUPPLIER APPROVAL: _____
DATE:_____

#

AMENDMENT #1

TO

OEM PURCHASE AND SALE AGREEMENT NO. 011449 ("Agreement")

BETWEEN SELLER CORPORATION AND NORTEL NETWORKS LIMITED

This Amendment #1 to OEM Purchase and Sale Agreement No. 011449 by and between Nortel Networks Limited, a Canada corporation with offices located at 8200 Dixie Road, Suite 100, Brampton, Ontario, Canada L6T 5P6 (Nortel Networks) and AudioCodes Ltd., an Israeli corporation with offices located at 4 HaHoresh Street, 56470 Yehud, Israel (Seller), will be effective as of May 1, 2003 ("Exhibit A-3 Effective Date"),

WHEREAS, Nortel Networks and Seller entered into an OEM Purchase and Sale Agreement dated April 28, 2003 ("Agreement"); and

WHEREAS, Nortel Networks and Seller wish to amend the Agreement for the purposes of adding Exhibit A-3 and for revising the terms and conditions of the Agreement, but only for purposes of governing the sale and purchase of the Products described in Exhibit A-3 ("Norstar Gateway Products");

NOW, THEREFORE, in consideration of the premises and the promises set forth herein, but only for purposes of governing the sale and purchase of the Products described in new Exhibit A-3 ("Norstar Gateway Products"), the parties agree as follows:

1. Nortel Networks and Seller agree to amend the Agreement as follows:

1.1 Add new Exhibit A-3 (including Attachment 1 to Exhibit A-3) to the Agreement, attached to and incorporated in this Amendment 1 as Attachment 1.

1.2 Add new Subsection 7.4.1 to the Agreement, as follows:

"7.4.1 Notwithstanding Section 7.4 above and only for purposes of Products being purchased under Exhibit A-3 (Norstar Gateway Products as defined there), incorporated in and attached to this Agreement, Nortel Networks or the purchasing Subsidiary or Affiliate may cancel at its convenience any part of a P.O., Blanket Purchase Order or Release according to the following schedule:

[*] Confidential

# calendar days before Delivery Date	% of total order Price cancellable without charge
0-15	**[*]**%
16-30	**[*]**%
31-45	**[*]**%
>45	**[*]**%

Seller will invoice Nortel Networks for the dollar amount of that portion of the total Price of any Purchase Order or Release that is cancelled and not subject to the exclusion set out in the matrix above."

1.3 Add new Subsection 8.4 to the Agreement, as follows:

"8.4.1 Notwithstanding Section 8.4 above and only for Products purchased under Exhibit A-3 (Norstar Gateway Products), at no additional charge Nortel Networks may reschedule each Delivery Date in accordance with the applicable Product rescheduling schedule in Exhibit A-3. Nortel Networks may defer once per Purchase Order (reschedule) all or part of the Products ordered under any Purchase Order for as long as seventy-five (75) business days beyond the scheduled delivery date, provided notice of such deferral is given to Seller at least twenty (20) business days prior to the scheduled delivery date. If Products rescheduled under this Subsection 7.4.1 are subsequently canceled, cancellation shall be based on the original scheduled delivery date."

1.4 Add new Subsection Section 11.1.1 to the Agreement, as follows:

"11.1.1 Notwithstanding Section 11.1 above and only for Products purchased under Exhibit A-3 (Norstar Gateway Products), Seller warrants that for eighteen (18) months from the Delivery Date (Product Warranty Period), the Hardware and the Software will be free from material defects in materials and workmanship and will conform to the Specifications."

1.5 Add new Subsection 11.2.1 to the Agreement, as follows:

"11.2.1 Notwithstanding the definition of "Epidemic Failure: in Section 11.2 above and only for purposes of Products purchased under Exhibit A-3 (Norstar Gateway Products) *Epidemic Failure* will mean that the same type of Products has experienced the same type of failure to conform to the applicable Specifications, and such failure materially affects Product functionality, based on the following minimum quantities so affected:
(a) a minimum of **[*]**% of a total installed base of between **[*]** units and **[*]** units; or,
(b) a minimum of **[*]** units out of a total installed base of between **[*]** units and **[*]** units; or,
(c) a minimum of **[*]**% out of a total installed base of **[*]** or more units."

1.6 For the Norstar Gateway Products described in Exhibit A-3, add the following new Sections 3 and 4 to Part 1 of Exhibit B.

"3. Notwithstanding the return rate stated in the Specifications, the return rate for the Products purchased under Exhibit A-3 ("Norstar Return Rate") shall be **[*]**% for the first 12 month period immediately following the actual delivery to Nortel Networks of the first Products purchased by Nortel Networks under Exhibit A-3 and **[*]**% for each 12 month period thereafter based on minimum installed base of **[*]** units."

"4. Seller will ensure that the Norstar Gateway Products set out in Exhibit A-3 will meet or exceed a minimum calculated MTBF of 5 years."

1.7 Add the following after the matrix in Exhibit C, Section 3.3.

Notwithstanding the preceding matrix and only for purposes of Products purchased under Exhibit A-3 (Norstar Gateway Products) , the following will apply:

Nortel CPC	Nortel PEC	Seller Part #	Description	Repair Price per Unit	NFF Price per Unit
A0514478	NT9B10AAAA		Norstar IP Gateway ENG/FR	$**[*]**	$**[*]**

1.8 Add the following new Section 5.0 to Exhibit C, as follows:

"5. For the Norstar Gateway Products described in Exhibit A-3, Seller is responsible for ensuring that any accessory (i.e. mounting bracket kit, Y splitter or power cord) that is with the Product when Seller receives the Product for repair, is in the packaging container with the Product when the repaired Product is shipped back to Nortel Networks.

5.1 Regardless of whether the Norstar Gateway Product that Seller receives for repair has a power cord, mounting bracket kit or Y splitter with it, Seller shall ensure that all repaired Products are shipped back to Nortel Networks in a carton, similar to the carton the original product ships in, with a power cord, mounting bracket kit and a Y splitter. An extra charge of $15.00 shall apply to every unit, regardless of whether such Product is in or out of Warranty. This extra charge is based on 50% of units returned without a power cord, 100% of units returned without a mounting bracket kit, and 50% of units returned without a Y splitter. The extra charge will be adjusted regularly based on actual trends, provided, however, the extra charge will never be greater than $15 per unit. For the avoidance of doubt, power cord, mounting bracket kit or Y splitter may be used rather than new.& #148;

[*] Confidential

1.9 Add new Subsection 18.2.1, as follows:

"18.2.1 Notwithstanding the preceding Nortel Networks will indemnify and hold harmless Seller and its Subsidiaries and Affiliates (including their employees, officers and directors) from fines, penalties, losses, costs, damages, injuries, claims, expenses or liabilities but solely to the extent that they (i) result from intellectual property, designs, specifications, trademarks or artworks provided by Nortel Networks to Seller in relation to Products provided by Seller under Exhibit A-3 of this Agreement, and (ii) (a) result from injury or death of a person or damage or loss of property during performance of this Agreement, or (b) are caused by the Product (Product Liabilities), or (c) result from infringement of third party rights in a Product (Infringement Claim Liabilities). The fines, penalties, losses, costs, damages, injuries, claims or liabilities resulting from Secti on 11.1(a) through (c) will be known collectively as *Nortel Networks Liabilities.*

1.1.1.1 At its expense Nortel Networks will defend against or settle Nortel Networks Liabilities and pay related costs and attorneys' fees. Nortel Networks will have sole control of the settlement or defense of Nortel Networks Liabilities, but Seller or the indemnified Subsidiary or Affiliate may participate in the defense or settlement at its own expense. Seller will give notice to Nortel Networks of Nortel Networks Liabilities. Notwithstanding anything to the contrary in this subsection 18.2.1, Nortel Networks has no obligation to indemnify Seller to the extent liabilities result from Seller's modification or use of a Product in a manner other than in accordance with the applicable design instructions provided by Nortel Networks or use of the design instructions Exhibit A-3 in strict accordance with instructions provided by Nortel Networks and to the extent such liability relates to Seller's departure from such instructions of Nortel Networks."

2. This Amendment will serve as notice under Section 1.1 of the Agreement that Nortel Networks Inc. will be a purchasing Subsidiary under the Agreement.

3. Nortel Networks is hereby notified for the purposes of Article 7.5 and Nortel Networks hereby accepts short notice that the Country of Origin of the Products purchased by Nortel Networks under Exhibit A-3 will be the People's Republic of China.

4. This Amendment # 1 supercedes the Product Evaluation Agreement between the Parties dated March 31, 2003 and will constitute the Parties' mutual written agreement to terminate the Product Evaluation Agreement dated March 31, 2003, as of the Exhibit A-3 Effective Date.

5. Except for this Amendment No. 1, in all other respects the Agreement shall remain unchanged.

[*] Confidential

IN WITNESS WHEREOF, the parties have caused this Amendment No. 1 to the Agreement to be signed by their duly authorized representatives.

NORTEL NETWORKS LIMITED **AUDIOCODES LTD.**

By: By:

Print Name: Print Name:

Title: Title:

Date: Date:

[*] Confidential

ATTACHMENT 1

EXHIBIT A-3
NORSTAR GATEWAY PRODUCT
PRICES, DISCOUNTS AND DELIVERY

1. Norstar Gateway Products List: Accepted Products, Prices and Discounts

Nortel CPC	Nortel PEC	Seller Part #	Description	Standard Lead Time	Order Quantity	Price per Unit
A0514478	NT9B10AAAA	MP-104/FXS/AC/H.323-0	4 Port analog MGW. All systems are to be shipped with a power cord, Y splitter, mounting bracket kit Norstar VoIP Gateway Documentation & Software CD and a paper copy of the installation guide.	6 weeks	100 units or greater	$**[*]**
A0514478	NT9B10AAAA	MP-104/FXS/AC/H.323-0	4 Port analog MGW. All systems are to be shipped with a power cord, Y splitter, mounting bracket kit, Norstar VoIP Gateway Documentation& Software CD and a paper copy of the installation guide.	6 weeks	50-99 units	$**[*]**
A0514478	NT9B10AAAA	MP-104/FXS/AC/H.323-0	4 Port analog MGW. All systems are to be shipped with a power cord, Y splitter, mounting bracket kit, Norstar VoIP Gateway	6 weeks	1 – 49 units	$**[*]**

			Documentation& Software CD and a paper copy of the installation guide.			
A0520936	NTAB9923		One CD with Norstar VoIP Gateway Software and Documentation	2 weeks	100 units or greater	$[*]

With respect to the cost reduction obligation described in Section 3 below, Seller is not obligated in its cost reduction calculations to include the cost of indemnifying Nortel Networks against third party intellectual property claims related to Nortel Networks purchase of Product A0514478, which includes Voice Codec G.723.1 and G.729A. For purposes of such cost reduction calculations the cost for Codec indemnification included in the Price for A0514478 is $**[*]** per port per Codec.

2. Product List: Non-accepted products, Prices, Discounts and Availability Dates

Nortel CPC	Nortel PEC	Seller Part #	Description	Price	Date Avail-able

3. Subject to certain exclusions referred to elsewhere in this Exhibit A-3, Seller must reduce the Price of the Products (i) by at least **[*]**% for all Purchase Orders and Releases issued by Nortel Networks between October 1, 2004 and September 30, 2005; and, (ii) by at least an additional **[*]**% (over and above the **[*]**%) for all Purchase Orders and Releases issued by Nortel Networks between October 1, 2005 and September 30, 2006.

4. On a monthly basis Nortel Networks shall provide Seller with a rolling 12-month non-binding forecast for the Products. Seller shall use any forecast provided by Nortel Networks for planning purposes only. In that regard, a forecast is not a commitment by Nortel Networks or a Subsidiary or Affiliate to purchase any quantity or dollar amount of Products.

5. Prior to the applicable Delivery Date for a Purchase Order or Release that conforms to a 6 week lead time requirement, Seller must accept a new Purchase Order or Release (or an amended Purchase Order or Release) for a number of units in excess of the number of units originally ordered by Nortel Networks under the conforming Purchase Order or Release ("Excess Units"), whether or not such order for Excess Units conforms to the 6 week lead time requirement. The number of Excess Units that Nortel Networks may order within the 6 week lead time is based on the number of days prior to the Delivery Date the Excess Units are ordered, as set out in the table below. Seller further agrees that the Delivery Date for Excess Units ordered under this Section will be the same as the Delivery Date of the original P.O. or Release to which the increase is linked.

# Days prior to Delivery Date	Maximum Qty of Excess Units
5-20 business days	up to **[*]**% of original Purchase Order or Release
21-30 business days	up to **[*]**% of original Purchase Order or Release

5.1 Notwithstanding the preceding:

a) Nortel Networks will have no liability for, or obligation to reimburse Seller for, any purchases or commitments Seller makes or work performed by Seller (including but not limited to raw materials, work in progress, components or finished goods inventory) with respect to making Products available for purchase other than those included in a Purchase Order or Release.

b) Unless otherwise agreed in a written amendment to this Agreement, for 36 months starting October 1, 2003, Seller agrees to maintain an inventory of at least 100 units of the then-current version of the Norstar Gateway Product that are available to ship within 7 business days of receipt of a P.O. or Release. Replenishment of inventory shall be at Seller's standard lead time.

6. Nortel Networks' first Purchase Order for Accepted Product will be for a quantity equal to 300 units minus any units purchased prior to Product Acceptance.

7. Delays in Delivery of Products (after completion of the Development Agreement and Acceptance) shall be governed by section 8.3 of the Agreement.

8. In addition to its obligations under Section 6.2.3 of the Agreement, Seller shall provide Nortel with reports on out-of-box audit and final inspection results for the Products intended for delivery to Nortel. Such additional reports shall be provided for Norstar Gateway Product starting October 16, 2003.

9. In the event the Product return rates during the Product's warranty period are 8 times higher than the Norstar Return Rate, as set out in Exhibit B (Part I, Section 3) and as further amended in this Amendment 1, Seller shall reimburse Nortel Networks for the direct costs (limited to freight and packaging) Nortel Networks has incurred as a direct result of Product returns in excess of 8 times the Norstar Return Rate. However, the parties agree that the direct costs for which Seller is obligated will not exceed the total dollar amount of net Purchase Orders (i.e., Purchase Orders excluding cancelled or delayed purchase orders) for Norstar Gateway Products in the 12 month period immediately preceding the date on which the "8 times" is first exceeded. For the avoidance of doubt Product returns shall exclude any returns under section 4.3 of the Agreement.

10. To support the Norstar Gateway Products it purchases under this Exhibit A-3, Nortel Networks will purchase the "Standard Support Package" as described in Exhibit C. In that regard Nortel Networks agrees to purchase at least 36 months of support, beginning October 1, 2003; provided, however, Seller agrees that will not charge Nortel Networks for the first 12 months of such support.

11. Nortel Networks hereby grants Seller and its manufacturer of the Norstar Gateway Product, Flextronics International Ltd., the non-exclusive, limited right to use, free of charge, the following items in conjunction with the provision of the Norstar Gateway Products to Nortel Networks and for so long as Seller provides such Norstar Gateway Products or services related thereto to Nortel Networks, its Subsidiaries or Affiliates under this agreement:

a. Nortel Networks' proprietary interface for CLID (calling line ID), to the extent expressly set out in the Development Agreement dated March 28, 2003 .

b. Nortel Networks trademark (i.e., the masterbrand company design --- the "Nortel Networks" logo), but only for purpose of marking the Norstar Gateway Products, based solely on specifications provided by Nortel Networks as may be modified from time to time, in respect of:

i. Operations, Administration and Maintenance (OA&M) Web Browser header located at: http://47.135.151.86 as of the Effective Date of this Amendment;
i. Soft copies of user documentation that are contained in the CD ROM (installation guide and user guide);
ii. Printed copy of user documentation that is provided in the box (installation guide);
iii. CD ROM and CD ROM jewel case artwork and labels;
iv. Front panel of the Product;
v. Product labels; and
vii. Labeling on the Product box and packaging cartons.

1. Seller shall make available for purchase by Nortel Networks an extension of the warranty described in Section 11 of the Agreement, but only as it pertains to Hardware, for the Products Nortel Networks purchases under this Exhibit A-3. Upon expiration of the applicable original Warranty Period Nortel Networks may purchase a 12 month extended warranty for a unit of Norstar Gateway Product Hardware ("Norstar Hardware"), and purchase additional 12 month extensions, up to a total of three consecutive 12 month periods (i.e., 36 months) for each unit of Norstar Hardware. Seller will sell Nortel Networks extended Norstar Hardware warranties at a price of $**[*]** for each unit of Norstar Hardware with a minimum order quantity of **[*]** warranties (i.e., a $**[*]** block of warranties) subject to the following conditions: a) Within 12 months of the date of purchase of a block of < B>[*] warranties Nortel Networks will provide Seller with the serial number of each Norstar Hardware unit for which it wants to activate an extended warranty; b) the 12 month period of extended warranty for a Norstar Hardware unit will be activated and coverage will start when Seller receives the serial number for the Norstar Hardware unit, and c) upon the expiration of 12 months from the date of purchase of a block of **[*]** warranties if Nortel Networks has not activated the whole block of **[*]** warranties, any unused warranties will expire.

2. Software Distribution - For the avoidance of doubt the Software rights granted in Section 3 of the Agreement will include Nortel Networks' right to load Software used with Norstar Gateway Products on a Nortel Networks server used by authorized Nortel Networks distributors and from which each distributor may download the Software and install it on the installed Norstar Gateway Products as provided in the Agreement.

3. Norstar Gateway Product Software Support Escrow – Within thirty (30) days after execution of this Amendment, Seller and Nortel Networks Inc. will execute the Depositor Acceptance Form and Amendment, attached to and incorporated in this Exhibit A-3 as Attachment 1. Nortel Networks will ensure that its escrow agent DSI Technology Escrow Services, Inc. ("DSI") also executes the Depositor Acceptance Form and Amendment, thereby implementing the terms and conditions of the Master Escrow Agreement dated February 1, 2003 between DSI and Nortel Networks Limited ("Master Escrow Agreement"). Within thirty (30) days of the date of Nortel Networks' notification to Seller of Nortel Networks' Acceptance of a Norstar Gateway Product, Seller will deposit with DSI those materials necessary for Nortel Networks to provide software support on the Product to its customers, including, but not limited to, all Product source code, Seller's specific software tools, debugging tools, testing tools, and supporting documents required to debug, modify, compile, link and create patches to fix bugs in any part of the Software ("Norstar Gateway Escrow Materials"). Nortel Networks will pay all fees incurred under the Escrow Agreement with respect to Norstar Gateway Escrow Materials with the exception of any fees resulting from Seller's breach of the Escrow Agreement.

14.1 Intent of Parties - The parties agree that the only purpose for accessing the Norstar Gateway Escrow Materials held under the Escrow Agreement will be to allow Nortel Networks to support the software on its installed base of Norstar Gateway Product. Nortel Networks understands that it is prohibited from using Norstar Gateway Escrow Materials to create any other or new

products or for any other purpose. Nothing in this section is intended to affect the other provisions of this Agreement, or grant Nortel Networks additional rights to those expressly granted to it under this Agreement.

14.2 **Escrow Materials** – The Norstar Gateway Escrow Materials shall be kept current by Seller by making updates to the Norstar Gateway Escrow Materials at least once per year (if such updates are made) until Seller discontinues the Norstar Gateway Product. New materials deposited in escrow shall supplement previous materials deposited in escrow in relation to the relevant Norstar Gateway Product.

14.3 **License Grant.** At such time as the Norstar Gateway Escrow Materials are released under the terms of the Master Escrow Agreement, Seller grants Nortel Networks a non-exclusive, license to utilize the Norstar Gateway Escrow Materials deposited with DSI to support the software in the Norstar Gateway Product for as long as Nortel Networks' customers require such support. "Support the software" shall mean repair bugs or defects in the Product's software by reference to the Specifications for the Products purchased by Nortel Networks but without adding any new functionality or improvement thereto.

14.4 **No Royalties.** Seller will not charge Nortel Networks any fees or royalties for Nortel Networks use of the Norstar Gateway Escrow Materials, as described in this Section 14.

14.5 **Ownership of Rights**. Seller and/or its licensors shall continue to own all rights including but not limited to all intellectual property rights in the materials deposited in escrow and released to Nortel Networks (if at all).

14.6 **Nortel Networks Responsibility.** With the exception of Seller's indemnifying Nortel Networks against third party claims for intellectual property rights infringement, as set out in Section 18 (et seq) of this Agreement, Nortel Networks acknowledges that Nortel Networks' use of the Norstar Gateway Escrow Materials will be at its sole risk and expense. Subject to the indemnification exception, Nortel Networks agrees to accept and use the Norstar Gateway Escrow Materials on "as is" basis and without warranty of any kind whatsoever. Except to the extent third party claims for infringement of intellectual rights arise from Nortel Networks' use of the Norstar Gateway Escrow Materials, Nortel Networks shall indemnify and hold harmless Seller's directors, officers and employees from any and all claims of any sort relating to Nortel Networks' use of the Norstar Gateway Escrow Materials.

4. Seller shall ensure that its manufacturer of the Norstar Gateway Product (as of Exhibit A-3 Effective Date, Flextronics International Ltd.)("Norstar Manufacturer") has the necessary licenses and technology required to manufacture the Products identified in this Exhibit A-3. Seller agrees that if any of the following trigger conditions occur, Nortel Networks will have the right to procure the Norstar Gateway Products directly from the then-current Norstar Manufacturer and Seller will ensure that the Norstar Manufacturer will have the right to manufacture the Norstar Gateway Products and sell the Products directly to Nortel Networks:

a. Seller (i) files for voluntary dissolution in bankruptcy; (ii) files a petition for voluntary reorganization in bankruptcy (e.g., Chapter 11 in the U.S.), which is then converted to involuntary proceedings for dissolution based on a petition by a member of the creditor's committee representing the creditors in the voluntary proceeding (or its equivalent in non-U.S. jurisdictions) and such proceedings are not dismissed within 90 days; or (iii) is declared insolvent under applicable bankruptcy/insolvency laws or other similar laws; or

b. Over any 90 day period during the Term, subsequent to Nortel Networks having taken delivery of a total of 1,000 or more units of the Norstar Gateway Products, Nortel Networks experiences a consistent, repetitive and material failure or refusal by Seller to comply with the terms of this Agreement that govern Nortel Networks' purchase of Norstar Gateway Products (which failure or refusal is not otherwise excused under the Agreement), which trigger condition will be effective as of the date Nortel Networks notifies Seller in writing of the 90 day failure or refusal (which notice can be Nortel Networks' notice to DSI under the Master Escrow Agreement with a copy to Seller, requesting a release of the Norstar Gateway Escrow Materials, that includes a description of the specific failures or refusals); or,

c. Seller ceases to carry on normal business operations. For purposes of sub-part c, a merger, reorganization or other permitted assign under any written agreement between the applicable Preferred Beneficiary under the Master Escrow Agreement and AudioCodes Ltd. will not trigger a release of the Norstar Gateway Escrow Materials as long as the resulting reorganized entity, assignee or merged entity carries on normal business operations (i.e., continues the manufacture of Norstar Gateway Products and sale of Norstar Gateway Products directly to the Preferred Beneficiary).

15.1 If any one of sub-parts a through c in the preceding paragraph occurs and Nortel Networks chooses to procure Product from the Norstar Manufacturer, Nortel Networks will negotiate directly with the Norstar Manufacturer the terms and conditions of the purchase, including, but not limited to, price, warranty, indemnification, and payment terms applicable to the Norstar Gateway Products being sold to Nortel Networks by the Norstar Manufacturer. Seller agrees that any royalty it charges the Norstar Manufacturer for each Norstar Gateway product sold by the Norstar Manufacturer directly to Nortel Networks will be $**[*]**.

16. Nortel Networks hereby agrees to loan Seller the equipment included in the list of equipment ("Loaned Equipment") attached to and incorporated in this Exhibit A-3 as Attachment 2. Nortel Networks will retain title to the Loaned Equipment; however, Seller will assume the risk of loss of the Loaned Equipment while the Loaned Equipment is in Seller's possession. Nortel Networks is providing the Loaned Equipment on an "as is basis" only and no warranties will apply to the Loaned Equipment. Seller may retain the Loaned Equipment during the Term; provided, upon 30 days' notice from Nortel Networks at its expense Seller will return to Nortel Networks the loaned equipment described in the notice. Seller will return Loaned Equipment in the same condition in which Seller received it, ordinary wear and tear excepted.

ATTACHMENT 1

TO EXHIBIT A-3

DEPOSITOR ACCEPTANCE FORM AND AMENDMENT
Account Number _____

AudioCodes Ltd. ("Depositor"), Nortel Networks Inc. (the "Preferred Beneficiary") and DSI Technology Escrow Services, Inc. ("DSI"), hereby acknowledge that AudioCodes Ltd. is the Depositor referred to in the Master Escrow Agreement ("Agreement") effective February 1, 2003 with DSI as the escrow agent and Nortel Networks Inc. as the Preferred Beneficiary. In addition to DSI and the Preferred Beneficiary by its signature below, Depositor hereby agrees to be bound by all provisions of such Agreement; provided, however, the parties agree that for the limited purposes of AudioCodes Ltd.'s Deposit Materials under this Agreement the Agreement is amended as follows, but only for the particular purposes of governing the Deposit Materials generally described as Norstar Gateway Escrow Materials in Section 14 of Exhibit A-3 of the License Agreement:

1. For purposes of this Depositor acceptance form (a) references to "License Agreement" in the Agreement will include OEM Purchase and Sale Agreement No. 011449 between Nortel Networks Inc. and AudioCodes Ltd., dated April 28, 2003; and, (b) references to "Deposit Materials" in the agreement will mean the Norstar Gateway Escrow Materials described above.

2. The first paragraph of Section 2.6 is deleted in its entirety and replaced with the following:

"Preferred Beneficiary shall have the right, at Preferred Beneficiary's expense, to cause a verification of any Deposit Materials. Preferred Beneficiary shall notify Depositor and DSI of Preferred Beneficiary's request for verification. Depositor shall have the right to be present at the verification. A "verification" determines, in different levels of detail, the accuracy, completeness, sufficiency and quality of the Deposit Materials. Preferred Beneficiary shall have the right to verify that the binary executable versions of any Deposit Materials (including those derived from any Deposit Materials) are complete and operate in accordance with their specifications and documentation. If verification is requested by Preferred Beneficiary before Depositor delivers the Deposit Materials to DSI, at Depositor's expense Depositor must verify the Deposit Ma terials for Preferred Beneficiary in Depositor's lab in North Carolina with Preferred Beneficiary's technical representatives present during verification. However, if Depositor's lab is not available or is not sufficient for performing verification, the parties will agree on an alternate lab location and expenses related to the verification in the alternate location will be equally shared by the parties. If Preferred Beneficiary requests a verification after the Deposit Materials have been delivered to DSI, then only DSI, or at DSI's election an independent person or company selected and supervised by DSI, may perform the verification."

3. The first sentence of Section 4.1 is deleted in its entirety and replaced with the following:

"Depositor hereby transfers to DSI the title to the media upon which the Norstar Gateway Escrow Materials are written or stored, which title will revert back to Depositor if this Agreement is terminated under Section 6.4; provided, under this Agreement

Depositor is entitled to the return of the media on which the Deposit Materials are written and/or stored and requests the return under Section 6.4."

4. For purposes of governing AudioCodes Ltd.'s Norstar Gateway Escrow Materials, Section 5.1 (Release Conditions) of the Agreement is deleted in its entirety and is replaced with the following:

"5.1 Release Conditions. As used in this Agreement, "Release Condition" shall mean the following:
a.

Seller (i) files for voluntary dissolution in bankruptcy; (ii) files a petition for voluntary reorganization in bankruptcy (e.g., Chapter 11 in the U.S.), which is then converted to involuntary proceedings for dissolution based on a petition by a member of the creditor's committee representing the creditors in the voluntary proceeding (or its equivalent in non-U.S. jurisdictions) and such proceedings are not dismissed within 90 days; or (iii) is declared insolvent under applicable bankruptcy/insolvency laws or other similar laws; or

lescription of the specific failures or refusals); or,

c. Seller ceases to carry on normal business operations. For purposes of sub-part c, a merger, reorganization or other permitted assign under any written agreement between the Preferred Beneficiary and AudioCodes Ltd. will not trigger a release of the Escrow Material as long as the resulting reorganized entity, assignee or merged entity carries on normal business operations (i.e., the manufacture and sale of Norstar Gateway Products to the Preferred Beneficiary)."

5. For purposes of Section 6. 1 of the Agreement the term of the escrow arrangement for Norstar Gateway Products will continue for 5 years after the effective date upon which AudioCodes discontinues manufacturing the Norstar Gateway Products.

DSI will not be required to inquire into the truth or evaluate merit of any statement or representation contained in any notice or document. DSI shall not be responsible for failure to act as a result of causes beyond the reasonable control of DSI.

Notices and communications to Depositor should be addressed to:	Notices and Invoices to Preferred Beneficiary concerning this escrow arrangement should be addressed to:
Depositor Company Name: AudioCodes Ltd. Address: 4 HaHoresh Street, 56470 Yehud, Israel Designated Contact: Telephone: Facsimile: E-Mail: Verification Contact (required):	Preferred Beneficiary: Nortel Networks Inc. Address: 221 Lakeside Blvd., Richardson, Texas 75082 Designated Contact: Telephone: Facsimile: E-Mail: Verification Contact (required): P.O.#, if required: _____

Requests to change the designated contact should be given in writing by the designated contact or an authorized employee.

Contracts, Deposit Materials and notices to DSI should be addressed to:	Invoice inquiries and fee remittances to DSI should be addressed to:
DSI Technology Escrow Services, Inc. Contract Administration 9265 Sky Park Court, Suite 202 San Diego, CA 92123 Telephone: (858) 499-1600 Facsimile: (858) 694-1919 E-Mail: clientservices@dsiescrow.com Date: _____	DSI Technology Escrow Services, Inc. P.O. Box. 27131 New York, NY 10087-7131 Wire Information: Routing # 021000021 Acct# 323285228 Bank Address: JP Morgan Chase Bank 280 Park Avenue New York, NY 10017 Funds Transfer Phone# (866) 223-0359

.

AudioCodes Ltd. - Depositor	Nortel Networks Inc. – Preferred Beneficiary
By: Print Name: Title: Date:	By: Print Name: Title: Date:

DSI Technology Escrow Services, Inc.

By:
Print Name:
Title:
Date:

[*] Confidential

ATTACHMENT 2

TO EXHIBIT A-3

LOANED EQUIPMENT

1. 1 MICS KSU
2. 1 CICS KSU
3. 2 CLID Cards
4. 1 MICS Services Card
5. 2 Remote Access Devices
6. 4 Digital Sets (2 must be two line displays for programming)
7. 1 NTBB08GA-93, MODULAR ICS NVRAM CARTRIDGE FOR MICS
8. 1 NTPW0011, USA-MICS-XC S/W & DOCS - ENGLISH
9. 1 NT7B65AABF, CICS 6.0 SW WITH DOC'S

Exhibit 10.28

PURCHASE AND SALE AGREEMENT

BETWEEN

Nortel Networks Limited
("Seller")

AND

AudioCodes Inc.
("Buyer")

AND

AudioCodes Ltd
("Buyer Parent")

April 7, 2003

Table of Contents

-#-

Exhibits:

Exhibit A - Form of Technology License Agreement
Exhibit B - Form of OEM Agreement
Exhibit C - Form of Development Agreement
Exhibit D - Form of Bill of Sale
Exhibit E of Assumption Agreement
Exhibit F of Transition Services Agreement
Exhibit G of Employment Offer for Product Employees
Exhibit H Estate License

Disclosure Schedule:

2.5 Conflicting Agreements
2.7(a) Material Contracts
2.8 Litigation
2.9(a) Labor Matters
2.9(b) Compliance with Labor Laws
2.10(a) Seller Employee Plans
2.10(c) Employee Information
2.13(a) Property
2.13(c) Property Claims
2.15 Sales
2.16 Intercept Functionality
2.17 Performance

Additional Schedules:

1.1(a)(i) Equipment
1.2(c) Valuation Products
1.3

Purchase Price Allocation
3.7 Buyer Employee Plans
4.4 Key Employees
4.5 Terms of Agreement with Solectron
5.1(a) Seller’s
Waivers and Permits
5.2(a)
Waivers and Permits
8.4(d)(vi)
Employees
8.4(d)(vii)
Performance Bonus
8.4(d)(viii)
Options
9.5
Competitors
IIa
Persons with Knowledge
IIb
Persons with Knowledge

-#-

TABLE OF DEFINED TERMS

Defined Term	**Section**
Acquired Assets	1.1(a)
Affiliate	9.3
Agreed Amount	6.3(b)
Agreement	Preliminary Statement
Alternate Products	8.5(d)(i)
Ancillary Agreements	1.3(b)(vii)
Approval	1.5(a)(i)
Asset Allocation Schedule	1.3
Assigned Contract	1.1(a)(iii)
Assumed Liabilities	1.1(d) and 1.1(d)(iv)
Assumed Liability Claims	6.2(c)
Assumption Agreement	1.1(d)
Business	Introduction
Business Day	1.4
Buyer	Preliminary Statement
Buyer Employee Plan	3.7
Buyer Event of Default	8.5(e)
Buyer Fraud Claims	6.1(c)
Buyer General Claims	6.1(a)
Buyer Group	1.1(a)
Buyer Indemnified Parties	6.1
Buyer Material Adverse Effect	3.3(c)
Buyer Non-Compete Period	8.5(c)
Buyer Organizational Claims	6.1(b)
Buyer Parent	1.1(a)
Buyer’s Persons With Knowledge	Article III
Cause	8.4(d)(i) and 8.4(d)(vii)
Claim Notice	6.3(b)
Claimed Amount	6.3(b)
Closing	1.4(a)
Closing Date	1.4(a)
Closing Payment	1.2(a)(i)
Code	1.3
Complaint	2.8
CS2K	Introduction and 8.5(a)(i)
Damages	6.1
Development Agreement	Introduction
Disclosure Schedule	Article II
Effective Time	1.4(a)
Employee Information	1.1(a)(ii)
Employment Offer	8.4(c)(i)
Equipment	1.1(a)(i)
ERISA	2.10(a)
Excluded Liabilities	1.1(e)
Excluded Liability Claims	6.1(d)
FCS	8.5(f)(ii)
Feature	8.5(f)(ii)
First Earnout Payment	1.2(b)(i)
First Earnout Payment Date	1.2(b)(i)
GAAP	1.2(e)(i)
Governmental Entity	2.4(b)
IMS	8.5(a)(i)
Indemnified Party	6.3(a)
Indemnifying Party	6.3(a)
Information	8.2(a)
Integration Payments	1.2(f)
IP Agreement	Introduction
Key Employee	4.4
Key Product Employee	5.1(h)
Leave Employee	8.4(c)(ii)
Licenses	2.12

Licensed Trademarks	Introduction
Major Customer	8.5(f)(iii)
Material Adverse Effect	2.1
Material Contracts	2.7(a)
Media Products	1.2(e)(ii)
Media Server Functionalities	8.5(a)(i)
Net Orders	1.2(d)
Non-Disclosure Agreement	8.2(e)
Non-License Period	8.5(b)(i)
OEM	Introduction
OEM Agreement	Introduction
Ordinary Course of Business	2.2(b)
Other Business Units	8.5(a)(i)
Parties	Preliminary Statement
Payment Period	1.2(c)
Plan	8.4(d)(viii)
POR	Introduction
Post-Closing Claims	6.2(b)
Pre-Closing Claims	6.1(e)
Product Employees	2.10(a)
Products	Introduction
Purchase Price	1.2(a)
Qualified Net Revenue	1.2(e)(i)
Real Estate License	1.4(b)(vii)
Reasonable Commercial Efforts	4.1
Reasonable Investigation	Article II
Second Earnout Payment Date	1.2(b)(ii)
Security Interest	2.2(b)
Seller	Preliminary Statement
Seller Employee Plan	2.10(a)
Seller Event of Default	8.5(f)
Seller Fraud Claims	6.2(e)
Seller General Claims	6.2(a)
Seller Group	1.1(a)
Seller Indemnified Parties	6.2
Seller Organizational Claims	6.2(d)
Seller Non-Compete Period	8.5(a)
Seller's Persons With Knowledge	Article II
Selling Subsidiaries	1.1(a)
Service Provider Customers	8.5(a)(i)
Severance Period	8.4(d)
Substitute	8.5(f)(x)
Tax	1.5(a)
Transfer Date	8.4(b)(i)
Transfer Taxes	1.5(a)
Transferred Employees	8.4(d)(i)
Transition Services Agreement	1.4(b)(vii)(B)
UAS	Introduction
USERRA	8.4(c)(ii)
Valuation Products	1.2(d)
VoP	8.5(a)(i)
Wireless Business Unit	8.5(a)(i)
Wireless Succession Products	8.5(a)(i)

-#-

PURCHASE AND SALE AGREEMENT

This PURCHASE AND SALE AGREEMENT ("Agreement") is entered into as of April 7, 2003 between Nortel Networks Limited, a corporation incorporated under the laws of Canada ("Seller"), AudioCodes Inc., a corporation incorporated under the laws of Delaware ("Buyer") and AudioCodes Ltd, a corporation incorporated under the laws of Israel ("Buyer Parent"). Seller, Buyer and Buyer Parent are referred to together herein as the "Parties."

INTRODUCTION

WHEREAS, Seller is, and Selling Subsidiaries are, engaged in the business (the "Business") of research, design, development, manufacturing, marketing, selling, providing maintenance, support and warranty service, or managing one or more of the foregoing with respect to the products (the "Products") which consist of the Universal Audio Server ("UAS") hardware, the UAS software version UAS08 and Audio Provisioning Server software version APS08 for use only with Nortel's Call Server 2000 ("CS2K") and CS2K Compact product offerings;

WHEREAS, Buyer (directly, or through the Buyer Parent) desires to purchase from Seller and Selling Subsidiaries, and Seller desires to sell (and cause the Selling Subsidiaries to sell) to Buyer (or one or more of its subsidiaries), certain assets of Seller and Selling Subsidiaries relating to research, design, development, maintenance, support and warranty service related to the Products (the "Acquired Assets," as more fully defined below), subject to the assumption of certain related liabilities upon the terms and subject to the conditions set forth herein;

WHEREAS, Buyer Parent desires to license from Seller, and Seller desires to license to Buyer, certain of the Technology IPR (as defined in the IP Agreement) and one or more trademarks related to the Products (the "Licensed Trademarks") on the terms and conditions set forth in that certain Technology License Agreement in the form attached hereto as Exhibit A (the "IP Agreement");

WHEREAS, the Parties desire to enter into an agreement relating to the purchase, sale and support of the Products (including the installed base of Products) on the terms and conditions set forth in that certain Original Equipment Manufacture ("OEM") Purchase and Sale Agreement in the form attached hereto as Exhibit B (the "OEM Agreement"); and

WHEREAS, the Parties desire to enter into an agreement with respect to the development and evolution of certain products in accordance with Seller's current Plan of Record ("POR") on the terms and conditions set forth in that certain Development Agreement in the form attached hereto as Exhibit C (the "Development Agreement").

NOW, THEREFORE, in consideration of the representations, warranties, covenants and agreements contained in this Agreement and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Parties agree as follows:

ARTICLE I

ASSET PURCHASE

1.1 Purchase and Sale of Assets; Assumption of Liabilities.

(a) Transfer of Assets. On the basis of the representations, warranties, covenants and agreements and subject to the satisfaction or waiver of the conditions set forth in this Agreement, as of the Effective Time, Seller shall, or as required shall cause Nortel Networks Inc., a Delaware corporation, and all other subsidiaries of Seller that have an ownership interest in the Acquired Assets ("Selling Subsidiaries" and, together with Seller, "Seller Group"), to, sell, convey, assign, transfer and deliver to Buyer or to Buyer Parent (together with Buyer, "Buyer Group"), as designated by Buyer, and Buyer or Buyer Parent, as so designated by Buyer, shall purchase and acquire from the applicable member of Seller Group, certain of the rights, assets and contracts of Seller Group at the Closing Date which are utilized in the Busines s, all as set forth below in clauses (i) through (iii) of this Section 1.1(a) (collectively, the "Acquired Assets"), but subject in all respects to Section 1.1(b) hereof:

(i) Seller's and each Selling Subsidiary's right, title and interest in and to the test and lab equipment, machinery and tools, all as set forth on Schedule 1.1(a)(i), (collectively, the "Equipment"), and all warranties and guarantees, if any, express or implied, existing for the benefit of Seller or any Selling Subsidiary in connection with the Equipment to the extent that such warranties and guarantees are transferable;

(ii) Employee data related to Transferred Employees all solely as set forth in Section 2.10(c) of the Disclosure Schedule (the "Employee Information"); and

(iii) the Nortel Deployment Support Agreement entered into between NMS Communications Corporation and Nortel Networks Inc. dated February 13, 2003 (the "Assigned Contract").

(b) Excluded Assets. It is expressly understood and agreed that the Acquired Assets shall not include any right, title or interest of any member of the Seller Group in and to any of the following:

(i) Except with respect to the Assigned Contract and subject to Section 4.5, rights under any and all contracts related to the manufacture, marketing, sale, provision or support of the Products;

(ii) All employee data, including records, pertaining to Product Employees, except for the Employee Information;

(iii) Any Taxes refundable to Seller Group in respect of transactions, or in respect of the period, prior to the Effective Time;

(iv) All assets of Seller that are not defined as Acquired Assets;

(v) All trademarks, business names, trade names, product names, assumed names and other identifiers of origin or source, including all Internet protocol addresses and networks, including, without limitation, DNS domain names, e-mail addresses, World Wide Web (www) and http addresses, network names, network addresses (such as IPv4 and IPv6) and services (such as mail or website) whether or not used or currently in service, and including all registrations relating thereto in or with all registration bodies and organizations other than the Licensed Trademarks; and

(vi) All software and infrastructure components of Seller Group that are not Acquired Assets, such as but not limited to software and databases associated with administrative services, including any financial, human resources, real estate, security, sales and marketing, order management, bills of materials, logistics, customs/excise, information systems or general administrative processes or services, supplied to or in connection with the Acquired Assets, as well as the corporate information technology infrastructure of Seller Group.

(c) Instruments of Conveyance and Transfer. On the Closing Date, Seller shall deliver or cause to be delivered to Buyer:

(i) One or more Bills of Sale in substantially the form attached hereto as Exhibit D; and

(ii) Such other deeds, bills of sale, endorsements, consents, assignments and other good and sufficient instruments of conveyance and assignment as are reasonably necessary or appropriate or as may be required by the jurisdiction of organization of Seller or the relevant Selling Subsidiary to vest in Buyer or the relevant Buyer Subsidiary all right, title and interest of Seller Group in and to the Acquired Assets.

(d) Assumed Liabilities. On the Closing Date, Buyer and the Buyer Parent shall deliver to Seller an undertaking (the "Assumption Agreement"), in the form attached hereto as Exhibit E, pursuant to which Buyer and/or the Buyer Parent, on and as of the Closing Date, shall assume and agree to pay, perform and discharge when due, upon the terms and subject to the conditions of this Agreement, the following liabilities and obligations ("Assumed Liabilities") relating to the Acquired Assets:

(i) All liabilities and obligations in respect of the Acquired Assets arising or incurred by Buyer or Buyer Parent after the Effective Time;

(ii) All liabilities and obligations of Buyer Group or their Affiliates (as such term is defined in Section 9.3), as set out in Section 8.4;

(iii) All liabilities and obligations of Buyer and the Buyer Parent under the Ancillary Agreements required to be performed after the Effective Time; and

(iv) Personal property taxes or other ad valorem taxes with respect to the Acquired Assets to the extent that such taxes relate to periods subsequent to the Effective Time (for the avoidance of doubt, such Taxes for the year that includes the Closing Date shall be allocated pro rata based on the number of days that occur before and after the Effective Time).

The liabilities and obligations assumed by Buyer Group in accordance with this Section 1.1(d) are sometimes hereinafter referred to as the "Assumed Liabilities."

(e) Excluded Liabilities. The Assumed Liabilities shall not include, and the Buyer Group shall not assume or become responsible for, any of the following obligations or liabilities (collectively, the "Excluded Liabilities"):

(i) All accounts payable in connection with the Acquired Assets as at the Effective Time;

(ii) Personal property taxes or other ad valorem taxes with respect to the Acquired Assets to the extent that such taxes relate to periods prior to the Effective Time (for the avoidance of doubt, such Taxes for the year that includes the Closing Date shall be allocated pro rata based on the number of days that occur before and after the Effective Time, with the Closing Date included in the days before the Effective Time) and all liabilities and obligations of Seller, Seller Subsidiaries or any of their affiliates for Taxes other than the Taxes specified in Sections 1.1(d) (iv) and 1.5(a);

(iii) Support or related obligations to hardware vendors, suppliers or systems integrators other than those obligations for support or other services provided after the Effective Time pursuant to the terms of the Assigned Contract; and

(iv) All other obligations and liabilities incurred by Seller Group other than the Assumed Liabilities, including, without limitation, (x) the obligations and liabilities of Seller Group as set out in Section 8.4 and (y) all liabilities related to the Acquired Assets or the Business prior to the Effective Time.

1.2 Purchase Price and Other Payments. In consideration for the sale and transfer of the Acquired Assets, Seller agreeing to enter into Section 8.5 hereof, and the Parties agreeing to enter into the Ancillary Agreements, and subject to the terms and conditions of this Agreement, Buyer (on its behalf and, as applicable, as agent for the Buyer Parent) shall assume the Assumed Liabilities as provided in Section 1.1(d) hereof on the Closing Date and shall pay to Seller (by wire transfer or other delivery of immediately available funds to an account designated by Seller) and Seller shall collect on its behalf and, as applicable, as agent for the relevant Selling Subsidiaries the purchase price set forth in this Section 1.2 (a) and (b) (the "Purchase Price") payable in installments at the times and subject to the conditions specified below.

(a) An amount payable in cash equal to Five Million Five Hundred Thousand Dollars ($5,500,000), which shall be payable as follows:

(i) Two Million Dollars ($2,000,000) on the Closing Date (the "Closing Payment");

(ii) Two Million Dollars ($2,000,000) on the six-month anniversary of the Closing Date; and

(iii) One Million Five Hundred Thousand Dollars ($1,500,000) on the twelve-month anniversary of the Closing Date.

(b) Subject to the last paragraph of this Section 1.2(b), earnout amounts payable in cash as follows:

(i) Three Million Dollars ($3,000,000) (the "First Earnout Payment"), which shall be payable on the twelve-month anniversary of the Closing Date ("First Earnout Payment Date"), provided that Seller or Seller's Affiliates (as defined in the OEM Agreement) have (x) placed an aggregate of $10 million of Net Orders or (y) made non-refundable payments to Buyer with respect to Net Orders totaling $10 million, during the period after the Closing Date but prior to the First Earnout Payment Date, which payment shall be due no later than ten (10) Business Days following the First Earnout Payment Date;

(ii) An amount in cash, up to a maximum of Nine Million Five Hundred Thousand Dollars ($9,500,000), equal to twenty cents ($0.20) for each dollar of Net Orders that Seller or Seller's Affiliates (as defined in the OEM Agreement) have placed above $10 million on or before the 18-month anniversary of the Closing Date ("Second Earnout Payment Date"), which payment shall be due no later than ten (10) Business Days following the later to occur of (x) the Second Earnout Payment Date and (y) the date that Seller and Buyer mutually agree that Seller has completed the transition from the current UAS architecture for ATM-based applications by integrating Buyer's ATM-based IPmedia 2000 products into Release SN 07, which is currently targeted for June 2004, provided, however, that such payment shall not be withheld by Buyer if the failure of such integration to occur is due solely to Buyer's failure to satisfy the delivery requirements set forth in the Statement of Work attached as Exhibit A to the Development Agreement.

In the event that Seller or Seller's Affiliates (as defined in the OEM Agreement) have not placed $10 million in Net Orders (or made aggregate payments of $10 million, as the case may be) during the period prior to the First Earnout Payment Date, but do so prior to the Second Earnout Payment Date, Buyer shall pay Seller an amount equal to One Million Nine Hundred and Fifty Thousand Dollars ($1,950,000) within ten (10) Business Days after the date that Seller or Seller's Affiliates (as defined in the OEM Agreement) have placed $10 million in Net Orders and no additional amount of the original First Earnout Payment shall thereafter be due and payable.

(c) For purposes of Section 1.2(b), "Net Orders" shall mean Purchase Orders (as defined in the OEM Agreement) (i) for the products listed on Schedule 1.2(c) (the "Valuation Products") which orders are made in accordance with the terms of the OEM Agreement, (ii) that are not subject to cancellation pursuant to the terms of the OEM Agreement, and (iii) that are scheduled for delivery within the relevant time period for which Net Orders are being measured less (x) Purchase Orders that have been cancelled, and (y) returns of Valuation Products in accordance with the OEM Agreement.

(d) In addition to the Purchase Price, Buyer shall pay to Seller an amount payable in cash equal to one percent (1%) of all Qualified Net Revenue on Media Products (as such terms are defined in Section 1.2(e) below) of Buyer that are shipped or scheduled to be shipped on or before the 18-month anniversary of the Closing Date (such 18-month period referred to as the "Payment Period"), which amount shall be paid within thirty (30) days after the end of each successive calendar quarter during the Payment Period with respect to Qualified Net Revenue recognized during the immediately preceding calendar quarter.

(e) For purposes of Section 1.2(d):

(i) "Qualified Net Revenue" shall mean the revenues recognized on a consolidated basis by Buyer using U.S. generally accepted accounting principles ("GAAP") where such revenues are generated from the sale, lease, licensing, renting or other disposition, transfer or providing of Media Products to third parties other than to Seller or its Affiliates (as such term is defined in the OEM Agreement), regardless of whether such revenues include a lump sum and/or a series of periodic payments, after deducting any actually incurred returns, transportation charges or allowances, transportation insurance, Taxes and custom duties imposed upon and paid by Buyer directly in respect of such sale, lease, licensing or provision of Media Products, or otherwise included in such proceeds, provided that Qualified Net Revenues for any particular Media Product shall be calculated ba sed on the higher of : (x) the average price of any such Media Product charged over the last ninety (90) days in transactions in which such Product is sold on a stand-alone basis and not in a bundled transaction, or (y) the actual prices involved; and provided further that neither Buyer nor Buyer Parent shall (1) decline business or delay entering into customer agreements, shipping to customers or recognizing revenue, or (2) fail to market, promote and sell Media Products in a manner consistent with Buyer's past practices, in the case of (1) or (2) solely for the purpose of not achieving, or reducing, the Qualified Net Revenue; and

(ii) "Media Products" shall mean the IP Media 2000 product and the Media 2000 SIP/PRI Gateway product (and their successor products), and any Natural Evolutions (as defined in the IP Agreement) thereof, which provide conferencing, announcements, legal intercept and/or SIP/PRI functionality.

(f) In addition to the Purchase Price, Buyer shall pay to Seller (by wire transfer or other delivery of immediately available funds to an account designated by Seller) and Seller shall collect on its behalf and, as applicable, as agent for the relevant Selling Subsidiaries an amount in cash (the "Integration Payments") equal to One Million Dollars ($1,000,000) which shall be payable within ten (10) Business Days after the date that Seller and Buyer mutually agree that Seller has completed the transition from the current UAS architecture for IP-based applications by integrating Buyer's IP-based IPmedia 2000 products into Release SN 06.2, which is currently targeted for January 2004, provided, however, that such payment shall not be withheld by Buyer if the failure of such integration to occur is due solely to Buyer's failure to satisfy the deliver y requirements set forth in the Statement of Work attached as Exhibit A to the Development Agreement.

(g) If Buyer fails to pay any amount due pursuant to this Section 1.2, Seller shall have the right, in addition to any other remedies, to charge, and Buyer shall pay, interest on such overdue amounts at the rate of one percent (1%) per month (12% per annum) or the maximum lawful rate, whichever is lower.

1.3 Allocation. Seller and the Buyer agree, as promptly as practicable following the date hereof, but in any event not later than five (5) Business Days prior to the Closing Date, to allocate that portion of the Purchase Price to be paid under Section 1.2(a) plus the amount of Assumed Liabilities as set forth on Schedule 1.3 ("Asset Allocation Schedule"). Such Asset Allocation Schedule and any future allocations of Purchase Price payments made pursuant to Section 1.2(b) shall be prepared in accordance with the rules under section 1060 of the United States Internal Revenue Code of 1986, as amended (the "Code"), and the Treasury Regulations promulgated thereunder and shall be set forth in writing. Any subsequent adjustments to the sum set forth on the Asset Allocation Schedule shall be allocated in a manner consistent with the Asset Allocation Schedule determined under this Section 1.3. Buyer shall (and Buyer shall cause each relevant Buyer Subsidiary to) and Seller shall (and Seller shall cause each Selling Subsidiary to) report the federal, state and local income and other Tax consequences of the transactions contemplated by this Agreement in a manner consistent with the Asset Allocation Schedule. Except as otherwise required by law, neither Buyer nor Seller (nor any relevant Buyer Subsidiary or any Selling Subsidiary) shall take a position inconsistent with such allocations on any Tax return, before any governmental agency charged with the collection of any Tax, or in any judicial proceeding that is inconsistent with the Asset Allocation Schedule. Each of Seller and Buyer shall cooperate with the other in preparing IRS Form 8594 or any equivalent statements for filing within a reasonable period before its filing due date.

1.4 The Closing.

(a) Time and Location. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Seller in Research Triangle Park, North Carolina, commencing at 8:30 a.m., local time, on such mutually agreeable date as soon as practicable after (but in no event more than five Business Days after) the first date on which the conditions to the obligations of the Parties to consummate the transactions contemplated hereby have been satisfied or waived (the "Closing Date"), and the Closing shall be deemed effective as of 11:59 p.m. on the Closing Date (the "Effective Time"). For purposes of this Agreement, a "Business Day" means any day other than a Saturday, Sunday or bank holiday in the State of New York.

(b) Actions at the Closing. At the Closing:

(i) Seller shall deliver to Buyer the various certificates, instruments and documents required to be delivered under Section 5.1;

(ii) Buyer shall deliver to Seller the various certificates, instruments and documents required to be delivered under Section 5.2;

(iii) Seller shall deliver to Buyer the executed Bill of Sale, and such other instruments of conveyance and transfer as are referred to in Section 1.1(c);

(iv) Buyer shall deliver to Seller an executed Assumption Agreement and such other instruments as Seller may reasonably request in order to effect the assumption by Buyer of the Assumed Liabilities;

(v) Buyer shall deliver to Seller the Closing Payment;

(vi) Buyer shall furnish to Seller, in proper form, all resale, exempt use or other certificates as may be applicable to the transactions contemplated by this Agreement;

(vii) Buyer and Seller and Buyer Parent and Seller Subsidiaries shall execute and deliver the following ancillary agreements:

(A) IP Agreement;

(B) Transition Services Agreement in the form attached hereto as Exhibit F ("Transition Services Agreement");

(C) OEM Agreement;

(D) Development Agreement; and

(E) Real Estate License Agreement in the form attached hereto as Exhibit H ("Real Estate License") (the agreements set forth in this Section 1.4(b)(vii), together with the Bill of Sale and Assumption Agreement, are sometimes referred to herein as the "Ancillary Agreements"); and

(viii) Buyer and Seller shall execute and deliver to each other a cross-receipt evidencing the purchase and sale of the Acquired Assets.

1.5 Taxes.

(a) The Parties agree that the Purchase Price is exclusive of any Transfer Taxes. Buyer shall pay directly to the appropriate taxing authority, within the time specified therefor all applicable Transfer Taxes payable in connection with the transactions contemplated in this Agreement; provided that if any such Transfer Taxes are required to be collected, remitted or paid by Seller or any Selling Subsidiary or any agent thereof (as requested by Seller or any Selling Subsidiary), they shall be paid by Buyer to Seller or any Selling Subsidiary or any such agent, as applicable, at the Closing, as applicable, or thereafter as requested of or by Seller. For greater certainty, Buyer shall remain liable in respect of any Transfer Taxes regardless of the date that the Acquired Assets are removed from the premises of Seller or any of Seller's suppliers. For purposes of this Agreement, "Tax" shall mean all taxes imposed of any nature including federal, state, provincial, local or foreign Transfer Taxes, net income tax, alternative or add-on minimum tax, profits or excess profits tax, franchise tax, gross income, adjusted gross income or gross receipts tax, employment related tax, real or personal property tax or ad valorem tax, sales tax, use tax, excise tax, any withholding or back up withholding tax, severance tax, prohibited transaction tax, premiums tax, environmental tax, intangibles tax, business license tax, occupation tax, customs tax, duties or other taxes, fees, assessments or charges, together with any interest or any penalty, addition to tax or additional amount imposed by any governmental authority (domestic or foreign) responsible for the imposition of any such tax. For purposes of this Agreement, "Transfer Taxes" shall mean all goods and services, sales, use, land transfer, documentary, value-added, stamp duties and all othe r similar taxes, duties, registration charges or other like charges together with any interest, penalties, additions to tax, or additional amounts imposed with respect thereto.

(b) If the Buyer (or Buyer Parent) wishes to claim any exemption relating to, or a reduced rate of, Transfer Taxes in connection with the transactions contemplated herein, the Buyer (or Buyer Parent, as the case may be) shall be solely responsible for ensuring that such exemption applies and, in that regard, shall provide the Seller and the Selling Subsidiaries prior to the Effective Time with its permit number and/or any appropriate certificate of exemption and/or other document or evidence to support the claimed entitlement to such exemption by the Buyer (or Buyer Parent, as the case may be); provided, however, that Seller shall provide any information regarding Seller Group required by Buyer to request such an exemption or a reduced rate.

(c)

If any member of Buyer Group is required for any reason to make any deduction or withholding for any Tax imposed by a governmental authority with respect to any payments made pursuant to this Agreement, Buyer shall promptly furnish Seller with such evidence as may be required by the applicable taxing authorities to establish that any such Tax has been paid.

(d) Buyer and Seller or any applicable Selling Subsidiary shall promptly inform each other in writing (within sixty (60) days after receiving notice thereof or a reasonable earlier time if an earlier response is required by law) of any assessment, notice of deficiency, determination, or other equivalent formal notification by a taxing authority of an asserted additional Tax liability in respect of all Taxes indemnified under Section 1.5(a), such that the Party so informed shall have the maximum amount of time within which to review and/or prepare any required response. Any legal proceedings or any other action by or against Seller or any Selling Subsidiary with respect to such asserted liability will be under Seller's or such Selling Subsidiary's direction but Buyer shall be reasonably consulted and neither the Seller nor the Selling Subsidiary shall settle or discharge any such claim without the prior written consent of Buyer (which consent shall not be unreasonably withheld or delayed).

ARTICLE II

REPRESENTATIONS AND WARRANTIES OF SELLER

For purposes of this Agreement, the terms "to Seller's Knowledge," "known by Seller" or other words of similar meaning, such as "aware," shall mean the actual knowledge of those persons listed on Schedule II(a) ("Seller's Persons With Knowledge") after Reasonable Investigation, and shall not refer to the knowledge of any other person or entity. Except as set forth in the disclosure schedule attached hereto (the "Disclosure Schedule"), Seller represents and warrants to Buyer as of the date hereof as follows; each exception set forth in the Disclosure Schedule is identified by reference to, or has been grouped under a heading referring to, the particular section or sections of Article II specified for such item. For purposes of this Article II, the term "Reasonable Investigation 8; shall mean (i) review of any documents (including e-mails sent to such individual) in the files or possession of a Person With Knowledge, and (ii) reasonable inquiry of the persons who report directly to such Persons With Knowledge regarding the facts, events, circumstances or other matters set forth in this Article II.

2.1 Organization, Qualification and Corporate Power. Seller and each of the Selling Subsidiaries is a legal entity duly organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization and is duly qualified to conduct business under the laws of each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its activities, makes such qualification necessary, except for any such failures to be qualified that would not reasonably be expected to have a Material Adverse Effect (as defined below). For purposes of this Agreement, "Material Adverse Effect" means any change, effect or circumstance that (i) is reasonably likely to be materially adverse to the business, operations, prospects, assets or liabilities of the Business, taken as a whole, or the Acquired Assets, inclu ding, without limitation, the failure of the Key Product Employees (as defined in this Agreement) to accept their Employment Offers, or (ii) materially impairs the ability of Seller to consummate the transactions contemplated by this Agreement; provided, however, that a "Material Adverse Effect" shall not include any adverse change, effect or circumstance that is the result of economic factors affecting the economy as a whole or of factors generally affecting the telecommunications industry or the specific markets in which the Products are sold.

2.2 Title to Acquired Assets.

(a) Seller or a Selling Subsidiary, as applicable, has good and marketable title to the property owned by Seller or a Selling Subsidiary included in the Acquired Assets, free and clear of any Security Interests or any rights to acquire any of the Acquired Assets or to obtain a license of any of the Acquired Assets other than as contemplated by this Agreement.

(b) For purposes of this Agreement, "Security Interest" means any mortgage, pledge, security interest, encumbrance, charge or other lien (whether arising by contract or by operation of law), other than (i) mechanic's, materialmen's, landlord's and similar liens, (ii) liens arising under worker's compensation, unemployment insurance, social security, retirement and similar legislation, (iii) liens on goods in transit incurred pursuant to documentary letters of credit, in each case arising in the ordinary course of business consistent with past custom and practice of the manufacture, sale and support of the Products, ("Ordinary Course of Business"), (iv) liens for Taxes not yet due and payable, (v) liens for Taxes which are being contested in good faith and by appropriate proceedings, (vi) liens arising solely by action of Buyer or Buy er Parent, and (vii) liens under the Canadian Guarantee and Security Agreement among Seller, Nortel Networks Inc., certain subsidiary guarantors and JP Morgan Chase Bank and the US Guarantee and Security Agreement among Nortel Networks Inc., Seller, certain subsidiary guarantors and JP Morgan Chase Bank, all of which liens described in this clause (vii) will cease on or prior to the Closing Date in accordance with the terms of their respective granting instrument.

2.3 Authority. Each of Seller and Selling Subsidiaries has all requisite power and authority to execute and deliver this Agreement and the Ancillary Agreements to which it is a party and to perform its obligations hereunder and thereunder. The execution and delivery of this Agreement by Seller and the performance by Seller of its obligations hereunder and the consummation by Seller of the transactions contemplated hereby have been duly and validly authorized by all necessary action on the part of Seller. The execution and delivery of the Ancillary Agreements by each of the Seller and Selling Subsidiaries, as applicable, and the performance by each of the Seller and Selling Subsidiaries, as applicable, of its obligations thereunder and the consummation by each of Seller and Selling Subsidiaries, as applicable, of the transactions contemplated thereby have been dul y and validly authorized by all necessary action on the part of each of Seller and Selling Subsidiaries, as applicable. This Agreement has been, and, when executed, each Ancillary Agreement will be, duly and validly executed and delivered by each of Seller and Selling Subsidiaries, as applicable, and, assuming this Agreement and each Ancillary Agreement constitutes or will constitute, as the case may be, the valid and binding agreement of Buyer and Buyer Parent, as applicable, such agreement constitutes or will constitute, as the case may be, a valid and binding obligation of each of Seller and Selling Subsidiaries, as applicable, enforceable against each of Seller and Selling Subsidiaries, as applicable, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and by equitable principles, including those limiting the availability of sp ecific performance, injunctive relief and other equitable remedies and those providing for equitable defenses.

2.4 Noncontravention. Neither the execution and delivery of this Agreement or the Ancillary Agreements by any member of Seller Group party thereto, nor the consummation by any member of Seller Group of the transactions contemplated hereby or thereby, will:

(a) Conflict with or violate any provision of the charter, bylaws or other organizational documents of Seller or any Selling Subsidiary;

(b) Require on the part of Seller or any Selling Subsidiary any material filing with, or any material permit, authorization, consent or approval of, any court, arbitrational tribunal, administrative agency or commission or other governmental or regulatory authority or agency (a "Governmental Entity");

(c) Result in the imposition of any Security Interest upon the Acquired Assets; or

(d) Violate any material order, writ, injunction, decree, statute, rule or regulation applicable to Seller or any Selling Subsidiary or any of their respective properties or assets.

2.5 Absence of Conflicting Agreements. Except as set forth on Section 2.5 of the Disclosure Schedule, Seller or any Selling Subsidiary is not a party to, bound or affected by or subject to any indenture, mortgage, lease, security, agreement or instrument, including without limitation the Material Contracts, which would be breached by, or under which any default occurs as a result of the execution, delivery and performance by it of this Agreement or any of the Ancillary Agreements, except for any breach or default that would not reasonably be expected to have a Material Adverse Effect.

2.6 No Options. No person other than Buyer has any right to purchase from the Seller or any Selling Subsidiary any of the Acquired Assets owned by Seller or any Selling Subsidiary other than purchase orders for Products accepted by the Seller or any Selling Subsidiary in the Ordinary Course of Business.

2.7 Material Contracts.

(a) The Seller has made available to Buyer either true and correct copies, or a pertinent excerpt, of the contracts listed on Section 2.7(a) of the Disclosure Schedule (the "Material Contracts"), as such may have been amended or modified prior to the date hereof.

(b) Each Material Contract is a valid, binding and enforceable obligation of Seller or a Selling Subsidiary, as applicable, and, to Seller's Knowledge, of each other party thereto (except as the foregoing may be limited by bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium or other similar laws relating to or affecting the rights of creditors generally and by equitable principles, including those limiting the availability of specific performance, injunctive relief, and other equitable remedies and those providing for equitable defenses), and there exists no defaults of Seller or any Selling Subsidiary, or, to Seller's Knowledge, any other party thereto, except for any such failures to be valid, binding and enforceable or defaults that would not reasonably be expected to have a Material Adverse Effect. As of the date of this Agreement, neither Seller nor any Selling Subsidiary has received written notice that any party to a Material Contract intends to terminate the Material Contract to which it is a party.

2.8 Litigation. Except as set forth in Section 2.8 of the Disclosure Schedule, as of the date of this Agreement, there is neither (a) any material judgment, order, decree, stipulation or injunction binding upon Seller or any Selling Subsidiary or their respective properties or businesses and relating to the Business or Acquired Assets, nor (b) any material claim, complaint, action, suit, proceeding, hearing, investigation or arbitration ("Complaint") relating to the Business or Acquired Assets of or in any Governmental Entity or before any arbitrator to which Seller or any Selling Subsidiary is a party or which has been threatened in writing against Seller or any Selling Subsidiary.

2.9 Labor Matters.

(a) Except as set out in Section 2.9(a) of the Disclosure Schedule, neither Seller nor any Selling Subsidiary is a party to or bound by any collective bargaining agreement relating to the Product Employees, nor has Seller or any Selling Subsidiary experienced, since January 1, 2002, any material strikes, collective bargaining grievances, claims of unfair labor practices or other collective bargaining disputes relating to the Product Employees. Seller has no Knowledge of any organizational effort being made or threatened since January 1, 2002 by or on behalf of any labor union with respect to Product Employees.

(b) Except as set out in Section 2.9(b) of the Disclosure Schedule, Seller and Selling Subsidiaries are in compliance in all respects with all laws relating to employment (including anti-discrimination, wage and hour, workplace health and safety and workers' compensation laws) that are applicable to the Product Employees, and there are no pending Complaints against the Seller Group relating to employment of the Product Employees, except for any such failure to be in compliance or Complaint which is not reasonably likely to have a Material Adverse Effect.

2.10 Employee Benefits.

(a) Section 2.10(a) of the Disclosure Schedule contains a complete and accurate list of all Seller Employee Plans. For purposes of this Agreement, "Seller Employee Plan" means any material pension plan, supplemental pension plan, profit-sharing plan, savings plan, retirement plan, retirement savings plan, bonus plan, incentive compensation plan, deferred compensation plan, stock purchase plan, stock option plan, stock bonus plan, restricted stock plan, deferred stock plan, flexible benefit plan, cafeteria plan, vacation plan, leave of absence plan, employee assistance plan, educational assistance plan, automobile leasing/subsidy/ allowance plan, financial counseling plan, severance or termination pay plan, relocation plan, family support plan, medical, health, hospitalization or life insurance plan, disability plan, sick leave plan, death benefit plan, fringe bene fit or any similar employee benefit or compensation plan, program, agreement, arrangement or policy (whether formal or informal, written or unwritten and whether or not covered by the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), which is sponsored, maintained, or contributed to, or required to be contributed to by Seller or any Selling Subsidiary or any of their Affiliates for the benefit of the Product Employees (or beneficiaries or alternate payees of any such individuals). For purposes of this Agreement, "Product Employees" means those certain employees of Seller or any Selling Subsidiary that are employed in the design and technical support of the Products on the date hereof, and who are listed on Section 2.10(c) of the Disclosure Schedule. Seller has provided Buyer with a true and complete copy of the plan document (including all amendments thereto) or summary plan description, if any, of each Seller Employee Plan or, if such plan document or summary plan description does not exist, an accurate written summary of such Seller Employee Plans. No promises or commitments have been made by Seller or any of its Affiliates to materially amend or terminate any Seller Employee Plan, to materially increase or decrease the compensation or benefits thereunder or to establish any new Seller Employee Plan, except as required by applicable law or as disclosed in the applicable plan document, summary plan description or written summary thereof. Each Seller Employee Plan has been administered in accordance with its terms and Seller and each Selling Subsidiary, as applicable, has met its obligations with respect to such Seller Employee Plan, except for any failure to so administer or so meet its obligations that would not reasonably be expected to have a Material Adverse Effect. Seller, each Selling Subsidiary and the Seller Employee Plans are in compliance with currently applicable laws, except for any failure to so comply that would not reasonably be expected to have a Material Adverse Effect.

(b) There are, with respect to the Product Employees, no Complaints (except claims for benefits payable in the normal operation of the Seller Employee Plans) against or involving any Seller Employee Plan or asserting any rights or claims to benefits under any Seller Employee Plan, or, to Seller's Knowledge, threatened Complaints by any Governmental Entity involving any Seller Employee Plan, except for any such Complaints that would not reasonably be expected to have a Material Adverse Effect.

(c) Section 2.10(c) to the Disclosure Schedule contains a complete and accurate list of the Product Employees on the date hereof setting forth with respect to each employee: (i) name, (ii) home address, (iii) position, (iv) base salary or hourly rate of pay, as applicable, (v) work location, (vi) service date (which shall reflect periods of prior service with Seller or any of its Subsidiaries), (vii) visa status (if any), (viii) leave status (if any) including the nature of the leave (e.g., short term disability, long term disability, military or personal leave) and expected date of return to work, (ix) target incentive compensation eligibility for the current year, (x) vacation accrual rate and (xi) any severance or change in control benefits for which such employee may be eligible.

(d) To Seller's Knowledge, no Product Employees are in violation of any term of any employment contract, patent disclosure agreement, noncompetition agreement, restrictive covenant or obligation with respect to the use of trade secrets or proprietary information to a former employer relating to the right of any such Product Employees to be employed by Seller or the Selling Subsidiaries in the Business as presently conducted by the Seller or the Selling Subsidiaries. To Seller's Knowledge, no Key Employees have given notice to the Seller or the Selling Subsidiaries that any such employee intends to terminate his or her employment with Seller or the Selling Subsidiaries.

(e) No Seller Employee Plan is a "multiemployer plan" within the meaning of Section 3(37) or 4001(a)(13) of ERISA and neither Seller nor any of its Affiliates has ever contributed to, been required to contribute to, or otherwise had any obligation or liability in connection with any "multiemployer plan," within the meaning of Section 3(37) of ERISA.

(f) Each Seller Employee Plan intended to be "qualified" within the meaning of Sections 401(a), 401(f) or 403(a) of the Code has been determined by the Internal Revenue Service to be so qualified, and a favorable determination letter is currently in effect for each such Seller Employee Plan. No circumstances exist that could reasonably be expected to result in the revocation of any such favorable determination. Each such Seller Employee Plan has been amended to comply with GUST (as such term is defined in footnote 1 of IRS Notice 2002-73) and has been submitted for a new determination letter.

2.11 Broker's Fees. Seller has no liability or obligation to pay any fees or commissions to any broker, finder or agent in connection with the transactions contemplated by this Agreement and the Ancillary Agreements.

2.12 Governmental Permits and Licenses. The Seller and the Selling Subsidiaries hold all licenses, franchises, permits, certificates, authorization and approvals ("Licenses") of any Governmental Entity necessary for the operation of the Business as currently operated and are in compliance with the terms thereof, except where the failure to hold such Licenses or be in compliance with the terms thereof would not reasonably be expected to have a Material Adverse Effect. Such Licenses are valid and in full force and effect, and there are no existing Complaints nor, to the Knowledge of the Seller, are there any pending or threatened Complaints which would result in the termination or impairment of any license or permit.

2.13 Intellectual Property.

(a) Except as set forth in Section 2.13(a) of the Disclosure Schedule, Seller has the right to grant the licenses under the IPR owned by Seller as granted in the IP Agreement.

(b) The Seller or the Selling Subsidiaries have paid all applicable registration, maintenance and renewal fees (if any) required to be paid as of the Closing Date with respect to the patent applications that are specified in the Patent Rights (as defined in the IP Agreement), except where the failure to pay such fees would not constitute or reasonably be expected to constitute a Material Adverse Effect.

(c) Except as set forth in Section 2.13(c) of the Disclosure Schedule, to Seller's Knowledge, neither the Seller nor any Selling Subsidiaries have received any written notice during the two (2) years prior to the Closing Date of claims that (i) the manufacture and/or sale of the Products (as each exists as a stand-alone product as of the Closing Date, not in combination with any other products(s) or system(s)) or (ii) any of the Technology (as defined in the IP Agreement) used by the Business as of the Closing Date to provide technical support and warranty service with respect to the Products (as each exists as a stand-alone product as of the Closing Date, not in combination with any other product(s) or system(s)) infringe the Intellectual Property Rights of any third party, except for any such infringement that would not reasonably be expected to have an Material Adverse Effe ct.

(d) To Seller's Knowledge, (i) the Technology (as defined in the IP Agreement) provided and licensed to Buyer pursuant to the IP Agreement and the Ancillary Agreements (1) is sufficient to enable a person reasonably skilled in the art to manufacture the Products (as each exists as a stand-alone product as of the Closing Date, not in combination with any other product(s) or system(s)) in the manner and to the extent that the manufacture of the Products is conducted by the Seller and Selling Subsidiaries as of the Closing Date, and (2) is materially sufficient, to sell, and provide technical support and warranty services that are necessary and specifically directed to, the Products (as each exists as a stand-alone product as of the Closing Date, not in combination with any other product(s) or system(s)), in the manner and to the extent that such activities are conducted b y the Seller and Selling Subsidiaries as of the Closing Date; and (ii) the license rights granted to Buyer pursuant to the IP Agreement (1) provide sufficient rights under Seller-owned Intellectual Property Rights directed to and covering the Technology (as defined in the IP Agreement) to enable Buyer to manufacture the Products (as each exists as a stand-alone product as of the Closing Date, not in combination with any other product(s) or system(s)) in the manner and to the extent the manufacture of the Products is conducted by Seller and Selling Subsidiaries as of the Closing Date without risk of Seller bringing an infringement suit against Buyer under Seller-owned Intellectual Property Rights directed to and covering the Technology (as defined in the IP Agreement) for manufacturing such Products (as each such Product is manufactured as a stand-alone product as of the Closing Date, not in combination with any other product(s) or system(s)), and (2) provide materially sufficient rights under Seller-own ed Intellectual Property Rights directed to and covering the Technology (as defined in the IP Agreement), to enable Buyer to sell, and provide technical support and warranty services that are necessary and are specifically directed to, the Products (as each exists as a stand-alone product as of the Closing Date, not in combination with any other product(s) or system(s)) in the manner and to the extent such activities are conducted by Seller and Selling Subsidiaries as of the Closing Date without risk of Seller bringing an infringement suit against Buyer under such Seller-owned Intellectual Property Rights directed to and covering the Technology (as defined in the IP Agreement). For the avoidance of doubt, no representation or warranty is made under this paragraph with respect to the infringement or misappropriation of third-party Intellectual Property Rights, the sole representation and warranty with respect to which is made in Section 2.13(c).

(e) The Seller and the Selling Subsidiaries have in place policies to implement reasonable security measures to safeguard the secrecy and confidentiality of their respective trade secrets and other confidential information, in accordance with protection procedures customarily used in the industry in the United States to protect rights of like importance.

(f) For purposes of this Section 2.13, "Intellectual Property Rights" means rights in and to patents, patent registrations and patent applications, copyrights, copyright applications, copyright registrations, integrated circuit topography applications or registrations and trade secret rights.

2.14 Solvency. Immediately after giving effect to the transactions contemplated by this Agreement), Seller and each relevant Seller Subsidiary shall be able to pay its debts as they become due and shall own property having a fair saleable value greater than the amounts required to pay its debts (including a reasonable estimate of the amount of all contingent liabilities). Immediately after giving effect to the transactions contemplated by this Agreement, Seller and each relevant Seller Subsidiary shall have adequate capital to carry on its business. No transfer of property is being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement with the intent to hinder, delay or defraud either present or future creditors of Seller or any Seller Subsidiary.

2.15 Product Sales. Section 2.15 of the Disclosure Schedule sets forth the total number of net units of the Products shipped to Seller's customers during the fiscal year ended December 31, 2002, and the period beginning January 1, 2003 and ended March 31, 2003, and such information is true and accurate as of the date made in all material respects.

2.16 Legal Intercept Functionality. (a) To Seller's Knowledge, except as set forth in Section 2.16 of the Disclosure Schedule, neither Seller nor any Selling Subsidiary has any present plan or intention of integrating or incorporating legal intercept functionality into any Media Gateway Products (as defined in the IP Agreement), and (b) to Seller's Knowledge, neither Seller nor any Selling Subsidiary is aware of any order, writ, injunction, decree, statute, rule or regulation of any Governmental Entity that would require the integration or incorporation of legal intercept functionality into any Media Gateway Products.

2.17 Product Performance. Seller has provided to Buyer reports extracted from Seller's repair and return tracking database for (a) installation returns through March 12, 2003 and (b) in-service returns for the twelve-month period ended March 12, 2003, which reports indicate Product returns, and incidence of Product failure for the periods covered. Attached as Section 2.17 of the Disclosure Schedule is a copy of a list, generated and current only as of and through April 3, 2003, that sets out a list of software bugs and other software trouble-shooting issues relating to the Products that are reported by customers. To Seller's Knowledge, the foregoing reports and list accurately reflect in all material respects the actual occurrences and actions covered thereby. Except as set forth on Section 2.17 of the Disclosure Schedule, Seller has no Knowledge of any epidemic malfunctions in the Products manufactured as of the Closing Date and in the six months prior to the

Closing Date. For the purposes of this Agreement, an epidemic malfunction is a hardware, software or firmware problem which causes more than 10% of the units of the Products during the relevant time period to fail to perform in accordance with the relevant specifications.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF BUYER

For purposes of this Agreement, the terms "to Buyer's knowledge," "known by Buyer" or other words of similar meaning, such as "aware," shall mean the actual knowledge of those persons listed on Schedule II(b) ("Buyer's Persons With Knowledge") after Reasonable Investigation, and shall not refer to the knowledge of any other person or entity. Buyer represents and warrants to Seller as of the date hereof as follows.

3.1 Organization. Each of Buyer and Buyer Parent is a legal entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation or organization.

3.2 Authorization of Transaction. Each of Buyer and Buyer Parent has all requisite power and authority to execute and deliver this Agreement and the Ancillary Agreements, and to perform its obligations hereunder and thereunder. The execution and delivery by Buyer of this Agreement, and the performance by Buyer of this Agreement and its obligations hereunder, and the consummation by Buyer of the transactions contemplated hereby, have been duly and validly authorized by all necessary action on the part of Buyer. The execution and delivery of the Ancillary Agreements by each of Buyer and Buyer Parent, as applicable, and the performance by each of Buyer and Buyer Parent, as applicable, of the Ancillary Agreements and its obligations thereunder and the consummation by each of Buyer and Buyer Parent, as applicable, of the transactions contemplated thereby have been dul y and validly authorized by all necessary action on the part of each of Buyer and Buyer Parent, as applicable. This Agreement has been, and, when executed, each Ancillary Agreement will be, duly and validly executed and delivered by each of Buyer and Buyer Parent, as applicable, and, assuming this Agreement and each Ancillary Agreement constitutes or will constitute, as the case may be, the valid and binding obligation of Seller and Selling Subsidiaries, as applicable, such agreement constitutes or will constitute, as the case may be, a valid and binding obligation of each of Buyer and Buyer Parent, as applicable, enforceable against each of Buyer and Buyer Parent, as applicable, in accordance with its terms, except as enforceability may be limited by bankruptcy, insolvency, reorganization, fraudulent transfer, moratorium or other similar laws relating to or affecting the rights of creditors generally and by equitable principles, including those limiting the availability of specific performance, injunc tive relief and other equitable remedies and those providing for equitable defenses.

3.3 Noncontravention. Neither the execution and delivery by Buyer of this Agreement or by Buyer and Buyer Parent, as applicable, of the Ancillary Agreements, nor the consummation by any member of Buyer Group of the transactions contemplated hereby or thereby, will:

(a) Conflict with or violate any provision of the charter, bylaws or other organizational documents of Buyer or Buyer Parent;

(b) Require on the part of Buyer or Buyer Parent Approval of any Governmental Entity except for any Approval which if not obtained or made would not reasonably be expected to have a Buyer Material Adverse Effect; or

(c) Violate any order, writ, injunction, decree, statute, rule or regulation applicable to Buyer or Buyer Parent or any of its properties, securities or assets, other than any violation which would not reasonably be expected to have a Buyer Material Adverse Effect. For purposes of this Agreement, "Buyer Material Adverse Effect" means any change, effect or circumstance that (i) is materially adverse to the assets, financial condition or results of operations of the Buyer Group, taken as a whole (other than changes that are the result of economic factors affecting the economy as a whole or changes that are the result of factors affecting the industry or specific markets in which the Buyer Group competes), or (ii) materially impairs the ability of the Buyer or Buyer Parent to consummate the transactions contemplated by this Agreement.

3.4 Broker's Fees. Buyer has no liability or obligation to pay any fees or commissions to any broker, finder or agent in connection with the transactions contemplated by this Agreement and the Ancillary Agreements.

3.5 Litigation. There are no Complaints pending against, or, to Buyer's Knowledge, threatened against, Buyer or Buyer Parent which would adversely affect Buyer's or Buyer Parent's performance under this Agreement or the Ancillary Agreement or the consummation of the transactions contemplated by this Agreement or the Ancillary Agreements.

3.6 Financing. Buyer has, and at the Closing will have, sufficient sources of financing in order to consummate the transactions contemplated by this Agreement and to fulfill its obligations hereunder, including payment to Seller of the Purchase Price.

3.7 Employee Benefit Plans. Schedule 3.7 contains a complete and accurate list of all Buyer Employee Plans. For purposes of this Agreement, "Buyer Employee Plan" means any material pension plan, supplemental pension plan, profit-sharing plan, savings plan, retirement plan, retirement savings plan, bonus plan, incentive compensation plan, deferred compensation plan, stock purchase plan, stock option plan, stock bonus plan, restricted stock plan, deferred stock plan, flexible benefit plan, cafeteria plan, vacation plan, leave of absence plan, employee assistance plan, educational assistance plan, automobile leasing/subsidy/allowance plan, financial counseling plan, severance or termination pay plan, relocation plan, family support plan, medical, health, hospitalization or life insurance plan, disability plan, sick leave plan, death benefit plan, fringe benefit or any similar employee benefit or compensation plan, program, agreement, arrangement or policy (whether formal or informal, written or unwritten and whether or not covered by ERISA), which is sponsored, maintained, or contributed to, or required to be contributed to by Buyer or Buyer Parent or any of their Affiliates for the benefit of employees of Buyer Group located in the United States (or beneficiaries or alternate payees of any such individuals). Buyer has provided Seller with a true and complete copy of the plan document (including all amendments thereto) or summary plan description, if any, of each Buyer Employee Plan or, if such plan document or summary plan description does not exist, an accurate written summary of such Buyer Employee Plans. No promises or commitments have been made by any member of Buyer Group to materially amend or terminate any Buyer Employee Plan, to materially increase or decrease the compensation or benefits thereunder or to establish any new Buyer Employee Plan, except as required by applicable law or as disclosed in the plan document, summary plan document or written summary thereof. Each Buyer Employee Plan has been administered in accordance with its terms and Buyer and each Buyer Subsidiary has met its obligations with regard to such Buyer Employee Plan, except for any failure to so administer or so meet its obligations that would not reasonably be expected to have a Buyer Material Adverse Effect. Buyer, the Buyer Parent and the Buyer Employee Plans are in compliance with the currently applicable laws, except for any failure to so comply that would not reasonably be expected to have a Buyer Material Adverse Effect.

3.8 Labor Matters. Neither Buyer nor Buyer Parent is a party to or bound by any collective bargaining agreement which shall apply to the terms and conditions of employment of the Transferred Employees on the Closing Date.

3.9 Solvency. Immediately after giving effect to the transactions contemplated by this Agreement (and the closing of any financing to be obtained by Buyer or any of its Affiliates in order to effect the transactions contemplated by this Agreement), Buyer and each relevant Buyer Subsidiary shall be able to pay its debts as they become due and shall own property having a fair saleable value greater than the amounts required to pay its debts (including a reasonable estimate of the amount of all contingent liabilities). Immediately after giving effect to the transactions contemplated by this Agreement and the closing of any financing to be obtained by Buyer or any of its Affiliates in order to effect the transactions contemplated by this Agreement, Buyer and each relevant Buyer Subsidiary shall have adequate capital to carry on its business. No transfer of property i s being made and no obligation is being incurred in connection with the transactions contemplated by this Agreement and the closing of any financing to be obtained by Buyer or any of its Affiliates in order to effect the transactions contemplated by this Agreement with the intent to hinder, delay or defraud either present or future creditors of Buyer or Buyer Parent.

ARTICLE IV

PRE-CLOSING COVENANTS

4.1 Efforts. Each of the Parties shall use Reasonable Commercial Efforts to take all actions and to do all things necessary, proper or advisable to consummate the transactions contemplated by this Agreement. For purposes of this Agreement, "Reasonable Commercial Efforts" means the exertion of such efforts as would normally be devoted by a prudent commercial party to accomplish a similar objective under similar financial and strategic circumstances. Reasonable Commercial Efforts will not mean that a Party commits that it will actually accomplish the applicable task, although it will remain motivated to do so as described above.

4.2 Competition Laws. Each of the Parties (a) has filed (or shall cause to be filed as expeditiously as reasonably practicable) any filings required to be made under applicable antitrust or competition laws and regulations, if any, (b) shall use Reasonable Commercial Efforts to obtain required clearances with respect to such filings, and (c) shall make any further filings or information submissions pursuant thereto that may be necessary, proper or advisable. Buyer and Seller shall furnish to each other such necessary information and reasonable assistance as the other may reasonably request in connection with its preparation of any filing or submission as is necessary under any applicable antitrust or competition laws, and shall keep each other apprised of the status of any inquiries or requests for additional information made by any Governmental Entity, and shall promp tly respond to any such inquiry or request. Buyer and Seller shall share equally the filing fees associated with such filings under any applicable antitrust or competition laws, unless otherwise required by the laws of the filing jurisdiction. Notwithstanding the foregoing, the Parties explicitly agree that this Section 4.2 shall not create an obligation on either Party to restructure the transactions contemplated herein or to agree to any requirement by a Governmental Entity related to the disposition of assets.

4.3 Conduct of Business Prior to Closing. During the period from the date of this Agreement to the Effective Time, Seller shall (and shall cause its Subsidiaries to) do the following:

(a) Dealings with Acquired Assets. Except as otherwise contemplated or permitted by this Agreement, (x) Seller shall not take (nor will it permit any Selling Subsidiary to take) any steps to sell any of the Acquired Assets; (y) Seller shall not, without the prior written consent of Buyer, take (nor will it permit any Selling Subsidiary to take) any steps to amend, terminate or otherwise alter the terms of any Material Contract as it relates to the Business, and (z) Seller will cause the Business to be operated in the Ordinary Course of Business and shall use Reasonable Commercial Efforts to preserve intact the business organization and relationships with third parties of the Business, and to keep available the services of the Product Employees.

(b) Encumbrances. Seller shall not suffer or permit (nor will it permit any Selling Subsidiary to suffer or permit) any Security Interest to be attached to the Acquired Assets.

4.4 Retention of Key Product Employees. During the period from the date of this Agreement to the Effective Time, the Seller shall not (nor shall it permit any Selling Subsidiary to) effect the involuntary termination of employment of any Product Employee listed in Schedule 4.4 (each a "Key Employee") without the prior written consent of the Buyer, which shall not be unreasonably withheld.

4.5 Agreement with Solectron. Seller shall use Reasonable Commercial Efforts to assist Buyer Group in negotiating and establishing an agreement, on or before the Closing, with Solectron, which agreement shall be reasonably satisfactory to Buyer and shall set forth with reasonable specificity the basic terms by which Buyer Group will purchase Products from Solectron, and Solectron will repurchase Products from Buyer Group for resale to Seller's Service Provider Customers (as such term is defined in Section 8.5(a)(i), including without limitation order and inventory process, delivery requirements, and pricing and payment terms, all as more fully set forth on Schedule 4.5 hereto.

ARTICLE V
CONDITIONS PRECEDENT TO CLOSING

5.1 Conditions to Obligations of Buyer. The obligation of Buyer to consummate the transactions contemplated by this Agreement is subject to the satisfaction (or waiver by Buyer) of the following conditions:

(a) Seller shall have obtained (or caused to be obtained) all of the waivers, permits, material consents, approvals or other authorizations, and effected all of the registrations, filings and notices, listed on Schedule 5.1(a) hereto;

(b) The representations and warranties of Seller set forth in Article II shall be true and correct at and as of the Closing Date as if made as of the Closing Date without giving effect to any limitation or qualification for materiality or Material Adverse Effect set forth in such representations or warranties, except (i) for changes contemplated or permitted by this Agreement, (ii) for those representations and warranties that address matters only as of a particular date (which shall be true and correct as of such date, subject to clause (iii) below), and (iii) where the failure of the representations and warranties to be true and correct would not reasonably be expected to have a Material Adverse Effect in the aggregate;

(c) Seller shall have performed or complied in all material respects with the agreements and covenants required to be performed or complied with by it under this Agreement as of or prior to the Closing;

(d) Seller shall have delivered to Buyer a certificate to the effect that each of the conditions specified in clauses (a) through (c) of this Section 5.1 is satisfied in all respects;

(e) Seller shall deliver to Buyer at least three (3) Business Days prior to the Closing Date an update of Schedules 1.1(a)(i), 2.9 and 2.10, and such updates shall amend and become a part of such Schedules; provided, however, that (i) Schedule 1.1(a)(i) shall not be updated so as to delete any of the items specified thereon as of the date hereof, and (ii) Schedule 2.10(c) shall not be updated so as to add any names of any Product Employees listed thereon as of the date hereof, in each case without the prior written consent of Buyer;

(f) No Complaint shall be pending by or before any Governmental Entity wherein an unfavorable judgment, order, decree, stipulation or injunction would reasonably be expected to (i) prevent consummation of any of the material transactions contemplated by this Agreement or (ii) cause any of the material transactions contemplated by this Agreement to be rescinded following consummation, and no such judgment, order, decree, stipulation or injunction shall be in effect;

(g) All required clearances under applicable antitrust or competition laws shall have been obtained;

(h) Buyer shall have received all of the items required to be delivered to it pursuant to Section 1.4(b);

(i) Consent to the assignment of the Assigned Contract by NMS shall have been obtained;

(j) Buyer Group and Solectron shall have reached an agreement in accordance with Section 4.5 which shall be evidenced by email or other written record of such agreement; and

(k) All actions to be taken by Seller at or prior to the Closing in connection with the consummation of the transactions contemplated hereby and all certificates, instruments and other documents required to effect the transactions contemplated hereby shall be reasonably satisfactory in form and substance to Buyer.

5.2 Conditions to Obligations of Seller. The obligation of Seller to consummate the transactions contemplated by this Agreement is subject to the satisfaction (or waiver by Seller) of the following conditions:

(a) Buyer shall have obtained (or caused to be obtained) all of the waivers, permits, consents, approvals or other authorizations, and effected all of the requisitions, filings and notices, listed on Schedule 5.2(a) hereto;

(b) The representations and warranties of Buyer set forth in Article III shall be true and correct at and as of the Closing Date as if made as of the Closing Date without giving effect to any limitation or qualification for materiality or Buyer Material Adverse Effect set forth in such representations or warranties, except (i) for changes contemplated or permitted by this Agreement, (ii) for those representations and warranties that address matters only as of a particular date (which shall be true and correct as of such date, subject to clause (iii) below), and (iii) where the failure of the representations and warranties to be true and correct would not reasonably be expected to have a Buyer Material Adverse Effect in the aggregate;

(c) Buyer shall have performed or complied in all material respects with its agreements and covenants required to be performed or complied with by it under this Agreement as of or prior to the Closing;

(d) Buyer shall have delivered to Seller a certificate to the effect that each of the conditions specified in clauses (b) and (c) of this Section 5.2 is satisfied in all respects;

(e) No Complaint shall be pending by or before any Governmental Entity wherein an unfavorable judgment, order, decree, stipulation or injunction would reasonably be expected to (i) prevent consummation of any of the material transactions contemplated by this Agreement or (ii) cause any of the material transactions contemplated by this Agreement to be rescinded following consummation, and no such judgment, order, decree, stipulation or injunction shall be in effect;

(f) All required clearances under applicable antitrust or competition laws shall have been obtained;

(g) Seller shall have received all of the items required to be delivered to it pursuant to Section 1.4(b); and

(h) All actions to be taken by Buyer at or prior to the Closing in connection with the consummation of the transactions contemplated hereby and all certificates, instruments and other documents required to effect the transactions contemplated hereby shall be reasonably satisfactory in form and substance to Seller.

ARTICLE VI

INDEMNIFICATION

6.1 Indemnification by Seller. Subject to the terms and conditions of this Article VI, from and after the Closing, Seller shall indemnify Buyer and the Buyer Parent and each of their Affiliates, successors and assigns and persons serving as officers, directors, partners, members, managers, stockholders, employees and agents thereof (collectively, the "Buyer Indemnified Parties") in respect of, and hold the Buyer Indemnified Parties harmless against, and agrees to reimburse any Buyer Indemnified Party for, any and all debts, obligations and other liabilities, monetary damages, fines, fees, penalties, interest obligations, deficiencies, losses, costs and expenses (including reasonable attorneys' fees and expenses) (collectively, "Damages") incurred or suffered by the Buyer Indemnified Parties resulting from, relating to or constituting:

(a) Other than Buyer Organizational Claims, Buyer Fraud Claims, Excluded Liability Claims and Pre-Closing Claims (each as defined below), any (i) misrepresentation or breach of warranty of Seller contained in this Agreement, the Transition Services Agreement or the Real Estate License without giving effect to any limitation or qualification for a Material Adverse Effect or (ii) failure to perform any covenant or agreement of Seller contained in this Agreement or any of the aforementioned agreements ("Buyer General Claims");

(b) Any breach of the organizational representations and warranties set forth in Sections 2.1 and 2.3 hereof without giving effect to any limitation or qualification for materiality or Material Adverse Effect set forth in such representations or warranties (the "Buyer Organizational Claims");

(c) Actual fraud by Seller or Selling Subsidiaries ("Buyer Fraud Claims");

(d) Any Excluded Liability ("Excluded Liability Claims"); or

(e) The conduct of the Business prior to the Closing ("Pre-Closing Claims").

6.2 Indemnification by Buyer. Subject to the terms and conditions of this Article VI, from and after the Closing, Buyer shall indemnify Seller, Selling Subsidiaries and their respective Affiliates, successors and assigns and persons serving as officers, directors, partners, members, managers, stockholders, employees and agents thereof (collectively, "Seller Indemnified Parties") in respect of, and hold the Seller Indemnified Parties harmless against, and agrees to reimburse any Seller Indemnified Party for, any and all Damages incurred or suffered by the Seller Indemnified Parties resulting from, relating to or constituting:

(a) Other than Post-Closing Claims, Assumed Liability Claims, Seller Organizational Claims or Seller Fraud Claims (each as defined below), any (i) misrepresentation or breach of warranty of Buyer contained in this Agreement, the Transition Services Agreement or the Real Estate License without giving effect to any limitation or qualification for materiality or Buyer Material Adverse Effect or (ii) failure to perform any covenant or agreement of Buyer contained in this Agreement or any of the aforementioned agreements ("Seller General Claims");

(b) The conduct of the Business from and after the Closing ("Post-Closing Claims");

(c) Any Assumed Liability ("Assumed Liability Claims");

(d) Any breach of the organizational representations and warranties set forth in Sections 3.1 and 3.2 hereof without giving effect to any limitation or qualification for materiality or Buyer Material Adverse Effect (the "Seller Organizational Claims"); or

(e) Actual fraud by Buyer or Buyer Parent ("Seller Fraud Claims").

6.3 Claims for Indemnification.

(a) Third-Party Claims. All claims for indemnification made under this Agreement resulting from, related to or arising out of a third-party claim against an Indemnified Party shall be made in accordance with the following procedures. A person entitled to indemnification under this Article VI (an "Indemnified Party") shall give prompt written notification to the person from whom indemnification is sought (the "Indemnifying Party") of the commencement of any action, suit or proceeding relating to a third-party claim for which indemnification may be sought or, if earlier, upon the written assertion of any such claim by a third party. As soon as practicable after delivery of such notification, and in any event no later than 30 days thereafter, the Indemnifying Party may, upon written notice thereof to the Indemnified Party, assume c ontrol of the defense of such action, suit, proceeding or claim with counsel reasonably satisfactory to the Indemnified Party. If the Indemnifying Party does not assume control of such defense, the Indemnified Party shall control such defense at the Indemnifying Party's expense. The party not controlling such defense may participate therein at its own expense; provided that if the Indemnifying Party assumes control of such defense and the Indemnified Party reasonably concludes, based on advice from counsel, that the Indemnifying Party and the Indemnified Party have conflicting interests with respect to such action, suit, proceeding or claim, the reasonable fees and expenses of counsel to the Indemnified Party shall be considered Damages for purposes of this Agreement; provided, however, that in no event shall the Indemnifying Party be responsible for the fees and expenses of more than one counsel for all Indemnified Parties. The party controlling such defense shall keep t he other party reasonably advised of the status of such action, suit, proceeding or claim and the defense thereof and shall consider recommendations made by the other party with respect thereto. The Indemnified Party shall not agree to any settlement of such action, suit, proceeding or claim without the prior written consent of the Indemnifying Party. The Indemnifying Party shall not agree to any settlement of such action, suit, proceeding or claim that does not include a complete release of the Indemnified Party from all liability with respect thereto or that imposes any liability or obligation or admission or concession of wrongdoing or culpability on the Indemnified Party without the prior written consent of the Indemnified Party, which shall not be unreasonably withheld.

(b) Procedure for Other Claims. An Indemnified Party wishing to assert a claim for indemnification under this Article VI which is not subject to Section 6.3(a) shall deliver to the Indemnifying Party a written notice (a "Claim Notice") which contains (i) a description and the amount (the "Claimed Amount") of any Damages incurred by the Indemnified Party, to the extent that such amount is then ascertainable (ii) a statement that the Indemnified Party is entitled to indemnification thereof under this Article VI and a reasonable explanation of the basis therefor, and (iii) a demand for payment in the amount of such Damages. As soon as practicable after delivery of a Claim Notice, and in any event no later than 30 days thereafter, the Indemnifying Party shall deliver to the Indemnified Party a written response in which the Indemnifying Pa rty shall: (1) agree that the Indemnified Party is entitled to receive all of the Claimed Amount (in which case such response shall be accompanied by a payment by the Indemnifying Party to the Indemnified Party of the Claimed Amount, by check or by wire transfer), (2) agree that the Indemnified Party is entitled to receive part, but not all, of the Claimed Amount (the "Agreed Amount") (in which case such response shall be accompanied by a payment by the Indemnifying Party to the Indemnified Party of the Agreed Amount, by check or by wire transfer), or (3) contest that the Indemnified Party is entitled to receive any of the Claimed Amount. If the Indemnifying Party in such response contests the payment of all or part of the Claimed Amount, the Indemnifying Party and the Indemnified Party shall use good faith efforts to resolve such dispute. If such dispute is not resolved within 60 days following the delivery by the Indemnifying Party of such response, the Ind emnifying Party and the Indemnified Party shall each have the right to submit such dispute to a court of competent jurisdiction in accordance with the provisions of Section 9.9.

6.4 Survival.

(a) The representations and warranties of Seller and Buyer set forth in this Agreement shall survive the Closing and the consummation of the transactions contemplated hereby and continue until the date that is 18 months after the Closing Date, at which time they shall expire. Notwithstanding the foregoing, (i) the representations and warranties of Seller contained in Sections 2.1, 2.2(a), 2.3 and 2.14 and of Buyer contained in Sections 3.1, 3.2 and 3.9 shall survive the Closing and the consummation of the transactions contemplated hereby without limitation, and (ii) the representations and warranties of Seller contained in Section 2.13(a) shall survive the Closing and the consummation of the transactions contemplated hereby and continue until the date that is two years after the Closing Date, at which time they shall expire.

(b) Any valid claim that is properly asserted in writing pursuant to Section 6.3 prior to the expiration as provided in Section 6.4(a) of the representation or warranty that is the basis for such claim shall survive until such claim is finally resolved and satisfied.

6.5 Limitations.

(a) Except with respect to Buyer Fraud Claims and Seller Fraud Claims, the rights of the Indemnified Parties under this Article VI shall be the sole and exclusive remedies of the Indemnified Parties and their respective Affiliates for the recovery of money damages with respect to claims resulting from or relating to any misrepresentation, breach of warranty or failure to perform any covenant or agreement contained in this Agreement, the Transition Services Agreement or the Real Estate License provided, that nothing in this Agreement shall be deemed to limit or adversely effect in any manner any right or remedy of any Indemnified Party regarding specific performance or non-monetary damages under this Agreement or such other agreements; and provided, further that nothing herein shall be deemed to limit any remedies of any Indemnified Parties under the Ancillary Agreem ents other than the Transition Services Agreement and Real Estate License. Without limiting the generality of the foregoing sentence, in no event shall Seller or Buyer, its successors or permitted assigns be entitled to claim or seek rescission of the transactions consummated under this Agreement.

(b) Notwithstanding anything to the contrary contained in this Agreement:

(i) The aggregate liability of Seller Group for the sum of all Damages payable to the Buyer Indemnified Parties under this Article VI shall not exceed an amount equal to the amounts that have actually been paid to Seller under Section 1.2 of this Agreement (including any amounts paid after the date on which any claim is made); provided, however, that the foregoing limitation shall not apply to any Excluded Liability Claims, Pre-Closing Claims, Buyer Organizational Claims or Buyer Fraud Claims or any breach of Seller's obligation to pay Taxes;

(ii) The aggregate liability of Buyer for the sum of all Damages payable to Seller Indemnified Parties under this Article VI shall not exceed an amount equal to the amounts that have actually been paid to Seller under Section 1.2 of this Agreement (including any amounts paid after the date on which any claim is made); provided, however, that the foregoing limitation shall not apply to any Post-Closing Claims, Assumed Liability Claims, Seller Organizational Claims, Seller Fraud Claims or any breach of Buyer's obligation to pay Taxes;

(iii) No claims for indemnification shall be made under this Article VI against Seller Group, and no indemnification shall be payable to any Buyer Indemnified Party, with respect to Buyer General Claims until the aggregate amount of all Damages relating to Buyer General Claims exceeds $150,000, at which point Seller shall be obligated to indemnify the Buyer Indemnified Parties for all Damages and not only amounts in excess of $150,000, provided, however, that the foregoing threshold shall not apply to the indemnities referred to in Sections 6.1(c), (d) and(e); and

(iv) No claims for indemnification shall be made under this Article VI against Buyer, and no indemnification shall be payable to any Seller Indemnified Party, with respect to Seller General Claims until the aggregate amount of all Damages relating to Seller General Claims exceeds $150,000, at which point Buyer shall be obligated to indemnify the Seller Indemnified Parties for all Damages and not only amounts in excess of $150,000, provided, however, that the foregoing threshold shall not apply to any breach of Buyer's obligation to pay Taxes pursuant to Section 1.5 or the indemnities referred to in Sections 6.2(b), (c) and (e).

(c) In no event shall any Indemnifying Party be responsible and liable for any Damages or other amounts under this Article VI that are consequential, in the nature of lost profits, diminution in value, damage to reputation or the like, special or punitive or otherwise not actual Damages.

6.6 Treatment of Indemnification Payments. All indemnification payments made under this Article VI shall be treated by the Parties as an adjustment to the Purchase Price. Buyer may elect to set-off any amounts that Buyer owes to Seller under Section 1.2 of this Agreement against any indemnification payments owed by Seller to Buyer under this Article VI, provided that Seller has agreed in writing to a settlement of any claim that gives rise to such indemnification payments, or such claim has been finally adjudicated by a court of competent jurisdiction, and in such event Seller shall only be obligated to pay liabilities under this Article VI in excess of amounts so set-off.

ARTICLE VII

TERMINATION

7.1 Termination of Agreement. The Parties may terminate this Agreement prior to the Closing as provided below:

(a) The Parties may terminate this Agreement by mutual written consent;

(b) Except as provided in Section 7.1(d), Buyer may terminate this Agreement by giving written notice to Seller if the Closing shall not have occurred on or before May 30, 2003 by reason of the failure of any condition precedent under Section 5.1 hereof (unless the failure results primarily from a breach by Buyer of any representation, warranty, covenant or agreement contained in this Agreement); and

(c) Except as provided in Section 7.1(d), Seller may terminate this Agreement by giving written notice to Buyer if the Closing shall not have occurred on or before May 30, 2003 by reason of the failure of any condition precedent under Section 5.2 hereof (unless the failure results primarily from a breach by Seller of any representation, warranty, covenant or agreement contained in this Agreement).

(d) In the event the Closing shall not have occurred on or before May 30, 2003, either party may terminate this Agreement by reason of the failure to obtain required clearances under antitrust or competition laws.

7.2 Effect of Termination.

(a)

Except as set forth in Sections 7.2 (b) and 7.2(c), if any Party terminates this Agreement pursuant to Section 7.1, all obligations of the Parties hereunder shall terminate without any liability of any Party to the other Party.

(b) Termination of this Agreement pursuant to clause (b) of Section 7.1 by reason of a breach prior to the time of such termination of any covenant or agreement contained in this Agreement (but not by reason of a breach of any representation and warranty) shall not relieve a defaulting or breaching Party (whether or not it is the terminating Party) from any liability to the other Party.

(c) Notwithstanding any other provision contained in this Agreement to the contrary, the Confidentiality Agreement (as defined in Section 8.2(e)) shall survive the termination of this Agreement for any reason.

ARTICLE VIII

FURTHER AGREEMENTS

8.1 Warranties on Products. Buyer shall perform warranty and maintenance work with respect to Products manufactured, sold or supported by any member of Seller Group on or prior to the Closing Date solely in accordance with the OEM Agreement.

8.2 Access to Information; Record Retention; Cooperation.

(a) Access to Information. Subject to compliance with applicable laws and regulations regarding classified information and security clearance, each party's applicable contractual commitments and Section 8.2(c), following the Closing, each Party shall afford to the other Party and to the other Party's authorized accountants, counsel and other designated representatives (but not any employee of such Party) reasonable access (including using reasonable efforts to give access to third parties possessing information and providing reasonable access to its own employees who are in possession of relevant information) and duplicating rights during normal business hours in a manner so as not unreasonably to interfere with the conduct of business to all non-privileged records, books, contracts, instruments, documents, correspondence, computer data and other data and informat ion (excluding records, documents and data pertaining to employees of Seller or Selling Subsidiaries, other than Employee Information) (collectively, "Information") within the possession or control of such Party or its Affiliates, relating to the manufacture, sale or support of the Products prior to the Closing, insofar as such access is reasonably required by the other Party (including financial reporting and accounting purposes, preparing financial statements, preparing securities law or exchange filings, prosecuting, defending or settling any litigation, environmental matter or insurance claim, performing this Agreement and the transactions contemplated hereby, and all other proper business purposes) provided, however, that Buyer shall not be afforded access to Information of the Seller for purposes of preparing or filing any Tax returns, prosecuting any claims for refund or defending any Tax claims or assessment. Buyer shall promptly destroy or return to Seller (i) Co nfidential Information (as such term is defined in the Confidentiality Agreement) obtained by Buyer Group in connection with this Agreement and the transactions contemplated hereby to the extent such Confidential Information is not related solely to the Business, and (ii) all Information obtained pursuant to this Section 8.2(a) to the extent such Information is not related solely to the Business.

(b) Access to Personnel. Prior to the Closing Date, Seller will afford Buyer reasonable access to all Product Employees in order to permit Buyer (i) to properly plan the transition of the Business to Buyer, and (ii) make presentations to the Product Employees regarding Buyer's business and to make Employment Offers (as defined below) to Product Employees, provided that Seller has an opportunity to review and approve such presentation at least two (2) Business Days in advance of its delivery, which approval shall not be unreasonably withheld, and such Employment Offer has been reviewed and approved by Seller as provided in Section 8.4(c). Following the Closing, each Party shall use reasonable efforts to make available to the other Party, upon written request, such Party's and its Affiliates' officers, directors, employees and agents to the extent that su ch persons may reasonably be required in connection with any legal, administrative or other proceedings in which the requesting Party may from time to time be involved relating to the Business prior to the Closing or for any other matter referred to in Section 8.2(a).

(c) Contact Persons. Buyer shall make all requests for Information or access to personnel of Seller Group under Sections 8.2(a) or (b) solely to Ken Parham, telephone: (919) 997-8603, email: kparham@nortelnetworks.com (or his successor designated by Seller in accordance with Section 9.8), and Seller shall make all requests for Information or access to personnel of Buyer Group under Sections 8.2(a) or (b) solely to Benjamin Rabinowitz, telephone: (773) 695-9871, email: ben.rabinowitz@audiocodes.com (or his successor designated by Buyer in accordance with Section 9.8).

(d) Confidentiality. Seller and Buyer acknowledge that Seller and Buyer have entered into a Non-Disclosure Agreement dated September 27, 2002 relating to the transactions contemplated by this Agreement (the "Non-Disclosure Agreement"), which shall remain in full force and effect after and notwithstanding the execution and delivery of this Agreement, and the information obtained from Buyer by Seller or its representatives or Affiliates or by Buyer or its representatives or Affiliates from Seller or any Selling Subsidiary, pursuant to Section 8.2(a) or otherwise, shall be subject to the provisions of the Confidentiality Agreement.

8.3 Reserved.

8.4 Employee Matters.

(a) Pre-Closing Conduct. Prior to the Closing Date, Seller shall not, and shall cause its Affiliates to not, without the prior written consent of Buyer, take any actions to offer alternate employment to any Product Employee or discourage or prevent any Product Employee from becoming a Transferred Employee (as defined below).

(b) Employment Related Liabilities.

(i) Seller shall be responsible for and shall indemnify the Buyer Indemnified Parties from and against any Damages incurred or suffered by the Buyer Indemnified Parties resulting from, relating to or arising from or in connection with (A) the employment of any Transferred Employee by Seller Group that exist or accrue prior to the date on which Buyer employs such Transferred Employee pursuant to this Agreement ("Transfer Date"), including any vacation accrued by any Transferred Employee prior to such Transfer Date, (B) the employment or termination of employment by Seller Group of any employee who is not a Transferred Employee, including any Product Employee who does not accept Buyer's Employment Offer, (C) all Seller Employee Plans and all obligations and liabilities associated with or arising out of any Seller Employee Plans or (D) Seller's breach of an y of its obligations under Section 8.4.

(ii) Buyer shall be responsible for and shall indemnify the Seller Indemnified Parties from and against any Damages incurred or suffered by the Seller Indemnified Parties resulting from, relating to or arising from or in connection with (A) the offer of employment to any Product Employee by Buyer (or the Buyer Parent) including any severance or termination pay or benefits arising from the Buyer's breach of its obligations set forth herein with respect to the Employment Offer, (B) the employment or termination of employment of any Transferred Employee on or after the applicable Transfer Date by Buyer, Buyer Parent or their Affiliates, (C) all Buyer Employee Plans and all obligations and liabilities associated with or arising out of any Buyer Employee Plans or (D) Buyer's breach of any of its obligations under Section 8.4.

(iii) During the eighteen-month period following the Closing Date, Buyer shall not, and shall cause its Affiliates to not, without Seller's prior written consent, solicit or hire a Product Employee who rejects the Employment Offer or an employee who continues employment in or voluntarily terminates employment after the Closing Date from Seller's organization located in Raleigh, North Carolina, which reports directly or indirectly to Ms. Sue Spradley; provided, however, that nothing in this provision shall prevent Buyer or any of its Affiliates from conducting generalized employment searches, by advertisements, by engaging firms to conduct searches or other methods, which are not focused on such employees or former employees, and employing such employees or former employees identified through such searches.

(iv) During the eighteen-month period following the Closing Date, Seller shall not, and shall cause its Affiliates to not, without Buyer's prior written consent, solicit or hire (i) any Transferred Employee who continues employment with or voluntarily terminates employment after the Closing Date from Buyer or its Affiliates or (ii) any employee who is to Seller's Knowledge employed by or has voluntarily terminated employment from Buyer or its Affiliates and is located in the United States; provided, however, that nothing in this provision shall prevent the Seller or any of its Affiliates from conducting generalized employment searches by advertisements, by engaging firms to conduct searches or other methods, which are not focused on such employees or former employees, and employing such employees or former employees identified through such searches.

(v) It is expressly understood and agreed that neither Buyer nor any Affiliate thereof is, by virtue of this Agreement or otherwise, assuming any Seller Employee Plan or any liability or obligation of any kind under any such Seller Employee Plan.

(c) Offers of Employment.

(i) Within ten (10) Business Days after the date hereof or such earlier date as may be required to provide Product Employees the period to consider their Employment Offer that is specified in Section 8.4(c)(ii), Buyer shall, or shall cause Buyer Parent to, deliver an Employment Offer to all Product Employees listed on Schedule 2.10(c). Buyer shall provide Seller a copy of each Employment Offer two (2) Business Days in advance of such delivery for Seller's review and approval, which shall not be unreasonably withheld. Such Employment Offer shall be accompanied by such additional information as Buyer and Seller mutually agree is necessary for the Product Employee's proper consideration of the offer.

(ii) Except as provided in paragraph (iii) below related to Leave Employees, Buyer shall, or shall cause Buyer Parent to, offer employment commencing immediately following the Effective Time to all Product Employees on terms and conditions of employment as specified in Section 8.4 by means of a letter substantially in the form set out in Exhibit G ("Employment Offer"). Without limiting the generality of the foregoing, such Employment Offer shall provide for employment of each Transferred Employee (A) at a base salary or hourly rate, as applicable, that is not less than the base salary or hourly rate specified for such employee in Section 2.10(c) of the Disclosure Schedule, (B) at a work location not more than twenty-five (25) miles from the work location specified for such employee in Section 2.10(c) of the Disclosure Schedule and (C) in a posi tion for which such employee is qualified. Such Product Employees shall have at least five (5) Business Days to consider such offer. Such Employment Offer shall not be conditional upon any such Product Employee satisfactorily completing a background investigation, drug test or other similar Buyer employment screening processes; provided, however, that Buyer may require each such Product Employee to provide evidence that such employee is legally permitted to be employed, if such evidence is required by applicable law. Except as provided in paragraph (iii) below with respect to Leave Employees, Buyer shall, or shall cause Buyer Parent to, employ Product Employees accepting the Employment Offer immediately following the Effective Time.

(iii) Leave Employees. Any Product Employee who is on a Seller-approved leave of absence shall receive an Employment Offer at the time provided in and in accordance with Section 8.4(c)(i) above. Any such employee who accepts the Employment Offer ("Leave Employee") and is released to return to work within twelve (12) months following the commencement of such leave or, if such Leave Employee is on a military leave covered by the Uniformed Services Employment and Re-employment Rights Act of 1994 ("USERRA"), by the date, if later, prior to

which such Employee's re-employment rights, if any, with Buyer or Buyer Parent expire, shall commence employment with Buyer or Buyer Parent upon such Leave Employee's release to return to work by Seller and the terms and conditions of employment, set out in Section 8.4 shall apply to such Leave Employee at such time. Seller remains responsible for the adjudication of such Leave Employee's claims under the Seller Employee Plans and for any costs and liability associated with such Leave Employee's period of leave from the Closing Date until such Leave Employee's commencement of employment with Buyer or one of its Affiliates. Buyer shall cooperate with Seller regarding the return to work from leave in respect of any Leave Employee.

(d) Post-Closing Treatment of Transferred Employees.

(i) Those Product Employees who accept the Employment Offer and who commence employment with Buyer or the Buyer Parent pursuant to Section 8.4(c) shall hereafter be referred to as "Transferred Employees". Buyer shall, or shall cause Buyer Parent to, employ such Transferred Employees on the terms and conditions specified in Section 8.4, including the Employment Offer, as of the applicable Transfer Date. Through the six-month anniversary following the Closing Date ("Severance Period"), Buyer shall provide to any Transferred Employee whose employment is involuntarily terminated other than for Cause by Buyer Group or its Affiliates severance pay and benefits equal to the base pay and benefits that such Transferred Employee would have received from Buyer Group or its Affiliates had such Transferred Employee been employed by Buyer Group or its Aff iliates through the Severance Period, plus an additional lump sum amount equal to such Transferred Employee's base pay for a sixty (60) day period. For purposes of this Section 8.4(d)(i), "Cause" shall mean the applicable employee's (i) material, intentional or willful misconduct; (ii) conviction of a felony or any other crime involving moral turpitude; (iii) substance abuse; (iv) misappropriation of funds or any other act of dishonesty related to employment; (v) material failure to perform his or her job responsibilities; or (vi) failure to perform any reasonably assigned duties after written notice, which failure is not cured within ten (10) Business Days of such employee's receipt of such written notice.

(ii) Until the first anniversary of the Closing Date, Buyer shall, and shall cause Buyer Parent and Affiliates of Buyer or Buyer Parent to, maintain terms and conditions of employment with respect to the Transferred Employees which are substantially the same in the aggregate to those terms and conditions of employment on which such Transferred Employees are employed by Buyer or Buyer Parent immediately following the Effective Time pursuant to Section 8.4; provided, however, that (x) the involuntary termination of a Transferred Employee by Buyer Group or its Affiliates shall not be deemed to be a breach of the foregoing obligation and (y) Buyer shall be deemed to be in breach of this provision if prior to the first anniversary of the Closing Date the work location of any Transferred Employee is moved more than twenty-five (25) miles from the work location for such empl oyee as set out in Section 2.10(c) of the Disclosure Schedule.

(iii) Service Credit. Buyer shall, or shall cause Buyer Parent or Affiliates of Buyer or Buyer Parent to, recognize the service date of each Transferred Employee, as set out in Section 2.10(c) of the Disclosure Schedule, for all purposes under Buyer Employee Plans including vesting, benefit accrual and entitlement to benefits; provided, however, that such service date shall not be recognized for vesting purposes under any Buyer Employee Plan through which stock options are granted.

(iv) Participation in Buyer Employee Plans. Buyer shall cause each Transferred Employee (and their eligible dependents, as applicable) to be eligible to participate in and accrue benefits under the Buyer Employee Plans as of such Transferred Employee's Transfer Date. With respect to each Transferred Employee (and their eligible dependants, as applicable), Buyer shall cause such plans to (A) waive any exclusions for pre-existing conditions, waiting periods, evidence of insurability requirements or other limitations to participation; and (B) provide each Transferred Employee with credit in satisfying any applicable deductible or out-of-pocket maximum under any Buyer Employee Plan for the plan year that includes such employee's Transfer Date to the same extent credit was given under the applicable Seller Employee Plan prior to such Transfer Date, for any deducti bles or out-of-pocket maximums paid by such Transferred Employee for which evidence of payment is provided by the Transferred Employee to Buyer; provided that the foregoing shall not apply to the extent it would result in duplication of benefits. Nothing in this Agreement shall prohibit Buyer from amending or terminating any Buyer Employee Plan after the Closing, provided that Buyer meets its obligations as set out in Section 8.4(d)(ii).

(v) Vacation. Buyer shall, or shall cause Buyer Parent or the Affiliates of Buyer or Buyer Parent to, provide each Transferred Employee with the vacation accrual rate set out with respect to such employee in Section 2.10(c) of the Disclosure Schedule. Additionally, Buyer shall, or shall cause Buyer Parent or the Affiliates of Buyer or Buyer Parent to, provide any Transferred Employee with a reasonable amount of unpaid time off during the year in which the applicable Transfer Date occurs upon such Transferred Employee's request, if such Transferred Employee has accrued an insufficient number of vacation days with Buyer or Buyer Parent to cover any planned vacation.

(vi) Discretionary Annual Bonus. Buyer shall cause the Transferred Employees to be eligible to participate immediately upon their Transfer Date in an annual bonus program providing a potential bonus payment to each Transferred Employee of 100% of the target bonus amount set forth beside such employee's name in Schedule 8.4(d)(vi) upon the achievement of certain Buyer performance and individual performance goals; provided, however, that Buyer has the discretion to exceed the target bonus amount.

(vii) Special Performance Bonus.

(A) Buyer shall cause the Key Employees to be eligible to participate immediately upon their Transfer Date in a special performance bonus program that shall provide to each Key Employee a special performance bonus based upon the percentage of attainment of certain performance goals as set forth beside each Key Employee's name on Schedule 8.4(d)(vii). Such special performance bonus program shall provide that Buyer has the discretion to provide bonus payments in excess of the amounts provided in Sections 8.4(d)(vii)(B) or (C) if a Key Employee fails to achieve 100% of the applicable performance goals as a result of circumstances beyond the control of the Key Employee.

(B) As soon as practicable following November 30, 2003, but in no event more than thirty calendar days thereafter, Buyer shall, in good faith, determine the percentage of the performance goals that has been attained as of November 30, 2003, and shall pay to such Key Employee a performance bonus equal to (1) the percentage of the performance goals that have been attained, times (2) the total special performance bonus amount stated on Schedule 8.4(d)(vii). A Key Employee shall not receive the special performance bonus provided in this Section 8.4(d)(vii)(B) unless such Key Employee is employed by Buyer Group or their Affiliates on November 30, 2003; provided, however, that a Key Employee who was involuntarily terminated without Cause after a portion of the performance goals were attained but before November 30, 2003, shall receive a bonus based on the percentage of the performance goals that were attained before such Key Employee's termination.

(C) As soon as practicable following May 31, 2004, but in no event more than thirty calendar days after May 31, 2004, Buyer shall, in good faith, determine the percentage of the performance goals that has been attained as of May 31, 2004, and shall pay to such Key Employee a performance bonus equal to (1) the percentage of the performance goals that have been attained, times (2) the total special performance bonus amount stated on Schedule 8.4(d)(vii), minus (3) the amount of such special performance bonus paid after November 30, 2003, pursuant to Section 8.4(d)(vii)(B). A Key Employee shall not receive the special performance bonus provided in this Section 8.4(d)(vii)(C) unless such Key Employee is employed by Buyer Group or their Affiliates on May 31, 2004; provided, however, that a Key Employee who was involuntarily terminated without Cause after a portion of the performance goals were attained but before May 31, 2004, shall receive a bonus based on the percentage of the performance goals that were attained before such Key Employee's termination.

(D) For purposes of this Section 8.4(d)(vii), "Cause" shall mean (i) the Key Employee's failure or refusal to perform the Key Employee's duties required by his employment agreement as determined by the Buyer in its sole discretion, (ii) the Key Employee's engaging in conduct which would constitute any crime or the misuse of money or other property of the Buyer or its affiliates, or (iii) the Key Employee's engaging in conduct that is injurious to the Buyer or its business, as determined by the Buyer in its sole discretion.

(viii) Stock Options. Within thirty (30) calendar days following the applicable Transfer Date, Buyer shall, or shall cause Buyer Parent to, grant an option to each Transferred Employee pursuant to the Option Plan of Buyer Parent ("Plan") to purchase the number of shares of Buyer Parent common stock which is set forth beside such employee's name in Schedule 8.4(d)(viii). Such option shall vest over a four (4) year period as provided in the Plan and the exercise price of such option shall be the fair market value of such stock on the date of the grant.

8.5 Non-Competition.

(a) Until the earlier of the occurrence of any Buyer Event of Default (as defined below) or the third anniversary of the Closing Date ("Seller Non-Compete Period"):

(i) Buyer will be Seller's sole supplier of Carrier Media Server Products. "Carrier Media Server Products" means media server products that (A) provide conferencing, announcements, and/or legal intercept capability ("Media Server Functionalities"); and (B) are provided by Seller's Wireline Business Unit to Service Provider Customers for use in conjunction with Seller's Succession CS2K and CS2K Compact products (and their successor products) (collectively "Wireline Succession Products") by such customers to provide voice-over-packet ("VoP") telephony services. For the sake of clarity and the avoidance of doubt, the term Wireline Succession Products shall expressly exclude (x) any Interactive Multimedia Server ("IMS") products, and (y) products similar and/or identical to Carri er Media Server Products sold by any of Seller's other business units, including, but not limited to Seller's Enterprise or Wireless Business Units (or their respective successor businesses) ("Other Business Units"). As used herein, the term "Wireline Business Unit" means that business unit of Seller (and any successor business) selling voice, data and/or multimedia services using packet-based technologies to Service Provider Customers; and, as used herein, the term "Service Provider Customers" means all entities or sub-divisions of such entities that are primarily in the business of providing telecommunications services, including, but not limited to, Post Telephone and Telegraph companies, Incumbent Local Exchange Carriers, other independent telephone companies, Competitive Local Exchange Carriers, Alternate Operators, Inter-exchange Carriers, and Internet Service Providers; and

(ii) Seller shall not, directly or indirectly, (x) purchase or acquire from any third party any Carrier Media Server Products or (y) internally develop or manufacture a Carrier Media Server Product, in either case (x) or (y) for resale in conjunction with the Wireline Succession Products; and

(b) Until the earlier of the occurrence of any Buyer Event of Default (as defined below) or the first anniversary of the Closing Date ("Non-License Period"), Seller shall not license a third party to use the UAS Software (as defined in the IP Agreement) in and with such a third party's Media Server Product (as defined the IP Agreement), which is the same as or essentially the same as the first Carrier Media Server Product that (A) incorporates the UAS Software (as defined in the IP Agreement) or any of the other Technology (as defined in the IP Agreement) and (B) is manufactured or sold by or for Buyer to or for Seller.

(c) Until the earlier of the occurrence of any Seller Event of Default (as defined below) or the third anniversary of the Closing Date, Buyer shall not sell any Carrier Media Server Products directly to Service Provider Customers unless directed to do so by Seller (the "Buyer Non-Compete Period").

(d) Notwithstanding Sections 8.5(a) and 8.5(b) to the extent they may be contrary to the following, during the Seller Non-Compete Period, Seller retains the right to:

(i) enable third-party developed Carrier Media Server Products ("Alternate Products") to interoperate with Seller's Wireline Succession Products if such Alternate Products are explicitly requested or required by a customer; and

(ii) incorporate any one or more of the Media Server Functionalities into any one or more of Seller's Succession portfolio of products if Seller determines that such integration is required (x) to comply with any existing or prospective regulatory requirements in a particular jurisdiction applicable to legal intercept functionality, or (y) to satisfy a particular

customer's explicit and bona fide requirement to provide the legal intercept functionality from other than a Carrier Media Server Product, in a particular jurisdiction or in such additional jurisdictions as such customer specifically requires; and

(iii) incorporate the Carrier Media Server Products and/or Media Server Functionalities in any of the products promoted, offered, sold, licensed and/or provided to customers by Seller's Other Business Units; and

(iv) license (A) any intellectual property rights (including the Technology IPR (as defined in the IP Agreement)) and/or any of its technology (including the Technology (as defined in the IP Agreement), other than the UAS Software (as defined in the IP Agreement)) for any purpose, and/or (B) the UAS Software (as defined in the IP Agreement) to any third party for any purpose other than as set forth in Section 8.5(b), it being understood and agreed that nothing in this Section 8.5(c)(iv) shall relieve Seller of its obligations under Section 8.5(b); and

provided that in any instance described in subsections (d)(i) and (d)(ii)(y) above, Seller agrees to disclose such instance to Buyer in writing, within twenty (20) Business Days after Seller becomes aware of same, including, for example, the fact that there is a customer (without disclosing such customer's name) meeting the descriptions set forth in subsections (d)(i) or (d)(ii)(y) above and, in the case of subsection (d)(ii)(y), the jurisdictions in which such customer requires such functionality. Buyer acknowledges that Seller is not required to disclose any information that is or may become subject to confidentiality agreements between Seller and its customers.

(e) Sections 8.5(a) and 8.5(b) will terminate and no longer be of any force or effect upon the occurrence of any of the following (each, a "Buyer Event of Default"):

(i) Buyer (x) files for voluntary dissolution in bankruptcy; (y) files a petition for voluntary reorganization in bankruptcy (e.g., Chapter 11 in the U.S.), which is then converted to involuntary proceedings for dissolution based on a petition by a member of the creditor's committee representing the creditors in the voluntary proceeding (or its equivalent in non-U.S. jurisdictions) and such proceedings are not dismissed within 90 days; or (z) is declared insolvent under applicable bankruptcy/insolvency laws or other similar laws of any jurisdictions; or

(ii) A consistent, repetitive and material failure or refusal by Buyer Parent for a period of ninety (90) days to comply with the terms of the OEM Agreement, which failure or refusal is not otherwise excused under the OEM Agreement, and is not cured by Buyer Parent prior to the end of such 90-day period.

(iii) Buyer ceases to carry on normal business operations. For purposes of this sub-part (iii), a merger, reorganization or other permitted assignment of all or substantially all of Buyer's assets will not be considered an Event of Default as long as the resulting reorganized entity, assignee or merged entity carries on normal business operations (i.e., the manufacture and sale of Carrier Media Server Products to Seller). Notwithstanding the foregoing, a merger, reorganization or assignment will be considered an Event of Default whether or not normal business operations are carried on, if the surviving entity in a merger is, or the assignee is, one of the six companies listed on Schedule 9.5 or their successors-in-interest.

(f) In the event that:

(i) Buyer is solely at fault and responsible for a material breach of an obligation to deliver a feature under the Development Agreement within the relevant time periods set forth therein; and

(ii) Seller and Buyer have previously agreed in writing at the time of Seller's final product specification process for SN 08 or SN 09 that: (A) such feature (as is described in subsection (f)(i) above) is in fact critical; and (B) Seller notifies Buyer of the contracted-for First Customer Shipment date as part of Seller's Succession product version SN08 or SN 09 intended for delivery to one of Seller's Major Customers, as defined below ("FCS"), and (C) a failure to deliver such critical feature within 90 of Seller's FCS will put Seller at risk of losing such Major Customer (subsections (i) and (ii)(A)-(C) together shall mean "Feature"); and

(iii) Seller is contractually obligated to deliver such Feature as part of Seller's Succession product version SN 08 or SN 09 to a named major customer ("Major Customer"); and

(iv) Buyer is unable to provide Seller with a materially equivalent functionality that includes the same or essentially the same Feature (as specified in Section 2.3 of Exhibit A-1 of the Supply Agreement;

then only on one occasion in respect of Seller's SN 08 release and only on one occasion in respect of Seller's SN 09 release, Buyer agrees that notwithstanding Seller's obligation under Section 8.5 (a) and (b), Seller shall:

(x) be allowed to purchase Carrier Media Service Products (or similar substitute - in this Section "Substitute") that contain the Feature from a third party, for resale, or lease to such Major Customer as part of SN 08 or SN 09, as the case may be, pursuant to such Major Customer's first order; and

(y) provided, that Seller enters into a written agreement with such third party manufacturer of the Substitute which is equivalent in its duration to the remainder of the unexpired term of the Buyer Non-Compete Period restricting such third party in equivalent scope and terms to the restriction imposed on Buyer in Section 8.5(c) above, so that without limiting the foregoing such third party shall agree not to sell the Substitute or any functionally equivalent product to a Service Provider Customer during such period and Seller shall strictly enforce such non-compete obligation against the third party. A copy of such agreement shall be provided within five (5) days of its execution to Buyer.

(v) Except as provided in subsection (f)(x), Seller's obligations under this Section 8.5 shall remain with full force and effect as if the limited exception provided for in this Section 8.5(f) never occurred.

(g) Section 8.5(c) will terminate and no longer be of any force or effect upon the occurrence of any of the following (each a "Seller Event of Default"):

(i) Seller (x) files for voluntary dissolution in bankruptcy; (y) files a petition for voluntary reorganization in bankruptcy (e.g., Chapter 11 in the U.S.), which is then converted to involuntary proceedings for dissolution based on a petition by a member of the creditor's committee representing the creditors in the voluntary proceeding (or its equivalent in non-U.S. jurisdictions) and such proceedings are not dismissed within 90 days; or (z) is declared insolvent under applicable bankruptcy/insolvency laws or other similar laws; or

(ii) Failure by Seller to place an aggregate of at least $500,000 of Net Orders (as defined in Section 1.2(c)) per quarter in any two (2) consecutive quarters during the Buyer Non-Compete Period.

(iii) Seller ceases normal business operations in its Wireline Business Unit (or successor business).

(h) If any provision contained in this Section 8.5 shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Section, but this Section shall be construed as if such invalid, illegal or unenforceable provision had never been contained therein. It is the intention of the parties that if any of the restrictions or covenants contained herein is held to cover a geographic area or to be for a length of time that is not permitted by applicable law, or in any way construed to be too broad or to any extent invalid, such provision shall be construed to be null, void and of no effect, but to the extent such provision would be valid or enforceable under applicable law, a court of competent jurisdiction shall construe and interpret or reform this Section to provide for a covenant having the maximum enforceable geographic area, time period and other provisions (not greater than those contained herein) as shall be valid and enforceable under such applicable law. Seller acknowledges that Buyer would be irreparably harmed by any breach of this Section 8.5 and that there would be no adequate remedy at law or in damages to compensate Buyer for any such breach. Notwithstanding anything to the contrary contained in this Agreement, Seller agrees that Buyer shall be entitled to equitable relief in the form of preliminary and permanent injunctive relief requiring specific performance by Seller of its obligations under this Section 8.5 without the necessity of proving actual damages or the posting of a bond, and Seller consents to the entry thereof.

(i) Senior executives of the Parties shall meet from time to time as necessary to discuss any problems or issues that may arise with respect to this Section 8.5.

8.6 Deletion of Non-Assigned Software. Buyer agrees that, following the Closing, Buyer shall not use any items of third-party software loaded on the Equipment as of the Closing Date which is not licensed to Buyer pursuant to the IP Agreement or under the Transition Services Agreement. Buyer shall, as soon as is reasonably practicable, and in any event no later than forty-five (45) days (or such longer period as may be indicated on Schedule 1.1 to the Transition Services Agreement) following the Closing delete all such non-licensed software from any of the Equipment on which it is installed.

8.7 Further Assurances.

(a) At any time and from time to time after the Closing, as and when requested by a Party hereto and at such Party's expense, the other Party shall promptly execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as such other Party may reasonably request to evidence and effectuate the transactions contemplated by this Agreement.

(b) From and after the Closing, Seller shall use Reasonable Commercial Efforts to ensure the continuity of supply of components materially necessary to the manufacture and support of the Products, and Buyer shall use Reasonable Commercial Efforts to cooperate with Seller with respect thereto, provided, however, that the foregoing provisions of this sentence shall not impose on either Party (or its respective Affiliates) any obligation to make any payments or agree to any material undertakings with respect to any component supplier in order to effectuate the foregoing.

8.8 Acknowledgments by Buyer.

(a) EACH PARTY ACKNOWLEDGES THAT THE REPRESENTATIONS AND WARRANTIES OF THE OTHER PARTY CONSTITUTE THE SOLE AND EXCLUSIVE REPRESENTATIONS AND WARRANTIES OF THE OTHER PARTY IN CONNECTION WITH THE TRANSACTIONS CONTEMPLATED HEREBY, AND EACH PARTY UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT ALL OTHER REPRESENTATIONS AND WARRANTIES OF ANY KIND OR NATURE WHETHER EXPRESS, IMPLIED OR STATUTORY (INCLUDING ANY SET FORTH IN THE CONFIDENTIAL INFORMATION MEMORANDUM PREVIOUSLY DELIVERED TO BUYER) ARE SPECIFICALLY DISCLAIMED BY THE OTHER PARTY. EACH PARTY ACKNOWLEDGES THAT ITS SOLE AND EXCLUSIVE RECOURSE IN RESPECT OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT IS TO ASSERT RIGHTS OF THE PARTY PURSUANT TO ARTICLE VI.

(b) The Buyer acknowledges and agrees that except as otherwise expressly provided herein, the Acquired Assets sold, transferred and assigned pursuant to this Agreement are being sold, transferred and assigned on an "as is, where is" basis on the Closing Date, but effective as at and from the Effective Time, and that no representations or warranty is given by the Seller Group with respect to the condition or state of repair of the Acquired Assets. THE BUYER EXPRESSLY ACKNOWLEDGES THAT, EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, THE BUYER IS ACQUIRING THE ACQUIRED ASSETS WITHOUT ANY EXPRESS OR IMPLIED WARRANTIES AS TO THE FITNESS, MERCHANTABILITY, NO INFRINGEMENT OR CONDITION OF THE ACQUIRED ASSETS OR AS TO ANY OTHER MATTER.

8.9 Transfer of Equipment. The Parties agree that, except as otherwise expressly provided for in the Transition Services Agreement, the Buyer shall be responsible, at its sole expense, for disassembling, packaging and removing the Equipment from the premises of the Seller and the Selling Subsidiaries by the date that is 90 days after the Closing Date, and that the Buyer shall use its Reasonable Commercial Efforts to minimize the disruption to the respective businesses of those persons that occupy such premises. Within 30 days after the Closing Date, the Buyer and the Seller shall jointly prepare a migration plan for the removal of the Equipment from Seller's premises. The Parties further agree that in the event that any of the Equipment has not been removed by the Buyer within 30 days of the date provided in such plan, and the Buyer does not remove such Equi pment within 60 days of receipt of a written request from the Seller to remove such Equipment, such Equipment shall be deemed to be abandoned by the Buyer and the Seller shall be permitted to take whatever steps with respect to such Equipment that the Seller, in its sole discretion, determines to be appropriate.

8.10 Risk of Loss. The Parties agree that at the Effective Time, all risk of loss or damage to the property included in the Acquired Assets shall be borne by Buyer notwithstanding the presence of the Acquired Assets on property of the Seller Group. Buyer acknowledges that it has sole responsibility for insuring the Acquired Assets and forever releases Seller and the Selling Subsidiaries for any and all acts or omissions with respect to such Acquired Assets, except for negligence and intentional misconduct of Seller or any Selling Subsidiary. This Section 8.10 shall not constitute a waiver by Buyer of any tort claims.

8.11 Seller References. Except as may be specifically permitted by the Ancillary Agreements, no written or printed sales, promotional or selling materials, including any catalogue or brochure, and no other tangible asset acquired by any member of Buyer Group from any member of Seller Group pursuant to this Agreement that contains the name of or references to any member of Seller Group or their Affiliates shall be used publicly or distributed by any member of Buyer Group or their Affiliates until such names or references are deleted or covered by a sticker reasonably acceptable to Seller. Buyer shall not permit the name of any member of Seller Group or their Affiliates (or any variance thereof) to be used in any electronic form by any member of Buyer Group or their Affiliates, including email or other electronic addresses or sites.

8.12 Reports; Audits of Certain Payments.

(a) Buyer Parent shall furnish to Seller, together with each payment under Section 1.2(c) or within thirty (30) days after the last day of each calendar quarter if no payment is due, a written statement, in a form reasonably acceptable to Seller, setting forth the Media Products sold and Qualified Net Revenue recognized by Buyer Parent in the previous quarter and the calculation of the payment due under Section 1.2(c).

(b) Buyer Parent shall, at all times and at its own expense, keep, and for a period of at least four (4) years following the sale of Media Products retain accurate account records in accordance with GAAP setting out at least:

(i) the quantity, price and date such Media Products were sold; and

(ii) all other information reasonably necessary to accurately and completely calculate the payments of Purchase Price due to Seller based on the Qualified Net Revenue from such sales.

(c) Seller shall have the right, through independent certified public accountants designated by Seller, and reasonably acceptable to Buyer, to examine and audit, during normal business hours, semi-annually, and on not less than ten (10) Business Days' advance notice, all records and accounts of Buyer which contain information relating to the Purchase Price payments due and payable pursuant to Section 1.2(c) of this Agreement. Such examinations and audits shall be completed at Seller's expense, unless a discrepancy or error representing an underpayment exceeding five percent (5%) of the amount actually due is found in conjunction with such examination and audit, in which case, the reasonable cost of such examination and audit shall be borne by Buyer. To the extent an examination and audit reveals any error(s) and/or omission(s) having been made, an appropriate adjus tment shall be made promptly.

ARTICLE IX

MISCELLANEOUS

9.1 Press Releases and Announcements. Except as otherwise expressly provided in this Agreement, no Party shall issue (and each Party shall cause its Affiliates not to issue) any press release or public disclosure, including communications to its respective employees or to Product Employees, relating to the subject matter of this Agreement without the prior written approval of the other Party; provided, however, that any Party may make any public disclosure it believes in good faith is required by law, regulation or stock exchange rule (in which case the disclosing Party shall advise the other Party and the other Party shall have the right to review such press release or announcement prior to its publication).

9.2 No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any person (including with respect to any employee or former employee of Seller, the Selling Subsidiaries, Buyer or any of their Affiliates, any Transferred Employees and any Product Employees, any right to employment or contractual employment for any specified period) other than the Parties and their respective successors and permitted assigns and, to the extent specified herein, their respective Affiliates; provided, however, that the provisions of Article VI are intended for the benefit of the entities and individuals specified therein and their respective legal representatives, successors and assigns.

9.3 Action to be Taken by Affiliates. The Parties shall cause their respective Affiliates to comply with all of the obligations specified in this Agreement to be performed by such Affiliates. For purposes of this Agreement, "Affiliate" shall have such meaning as defined in Rule 12b-2 of the United States Securities Exchange Act of 1934, as amended.

9.4 Entire Agreement. This Agreement (including the Confidentiality Agreement, the Ancillary Agreements and the other documents referred to herein) constitutes the entire agreement between Buyer, on the one hand, and Seller, on the other hand. This Agreement (including the Confidentiality Agreement, the Ancillary Agreements and the other documents referred to herein) supersedes any prior understandings, agreements, or representations by or between Buyer, on the one hand, and Seller, on the other hand, whether written or oral, with respect to the subject matter hereof.

9.5 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement (and for purposes of this Section 9.5, a merger of such Party with and into a third party, the sale of substantially all of the assets of a Party to a third Party or other assignment by operation of law shall each be deemed to be an assignment) or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party, such consent not to be unreasonably withheld, provided, however, that, subject to the next sentence, such consent shall not be required by a Party in the event of (i) a merger of such Party with and into a third party or (ii) upon the sale of all or substantially all of the assets of a Party to a third p arty. Notwithstanding the foregoing, Buyer may not assign this Agreement (by operation of law or otherwise) to one of the direct competitors of Seller listed on Schedule 9.5 or their successors-in-interest, without the prior written consent of Seller, which consent may be unreasonably withheld, conditioned or delayed.

9.6 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but both of which together shall constitute one and the same instrument.

9.7 Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

9.8 Notices. All notices, requests, demands, claims and other communications hereunder shall be in writing. Any notice, request, demand, claim or other communication hereunder shall be deemed duly delivered one Business Day after it is sent by (a) a reputable courier service guaranteeing delivery within one Business Day or (b) telecopy, provided electronic confirmation of successful transmission is received by the sending Party and a confirmation copy is sent on the same day as the telecopy transmission by certified mail, return receipt requested, in each case to the intended recipient as set forth below:

If to Buyer:
AudioCodes Inc.
Suite 200, 2890 Zanker Road
San Jose, CA 95134
Attn: Chief Financial Officer
Tel: (408) 577-0492
notices@audiocodes.com

Copies to:
AudioCodes Limited
4 Hahoresh Road
56470 Yehud
Israel
Attn: Chief Financial Officer
Tel: 97235394044
notices@audiocodes.com

If to Seller:
Nortel Networks Limited
8200 Dixie Road
Suite 100
Brampton, Ontario
LET 5P6
Telecopy: (905) 863-8386
Attention: Secretary

Copies to:
Nortel Networks Inc.
200 Athens Way
Nashville, TN 37228
Telecopy: (615) 432-4067
Attention: Assistant Secretary

Any Party may give any notice, request, demand, claim, or other communication hereunder using any other means (including personal delivery, expedited courier, messenger service, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim or other communication shall be deemed to have been duly given unless and until it actually is received by the

Party for whom it is intended. Any Party may change the address to which notices, requests, demands, claims and other communications hereunder are to be delivered by giving the other Parties notice in the manner herein set forth.

9.9 Governing Law; Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without reference to any conflicts of law principles applicable therein. The exclusive venue for any disputes arising under or in respect to this Agreement shall be New York, New York, and the Parties irrevocably submit to the exercise of personal jurisdiction by the courts thereof. All proceedings shall be conducted in English.

9.10 Amendments and Waivers. The Parties may mutually amend or waive any provision of this Agreement at any time. No amendment or waiver of any provision of this Agreement shall be valid unless the same shall be in writing and signed by both of the Parties. No waiver by either Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

9.11 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction. If the final judgment of a court of competent jurisdiction declares that any term or provision hereof is invalid or unenforceable, the Parties agree that the body making the determination of invalidity or unenforceability shall have the power to reduce the scope, duration or area of the term or provision, to delete specific words or phrases, or to replace any invalid or unenforceable term or provision with a term or provision that is valid and enforceable and that comes closest to expressing the intention of the invalid or unenforc eable term or provision, and this Agreement shall be enforceable as so modified after the expiration of the time within which the judgment may be appealed.

9.12 Expenses. Except as may be otherwise specifically provided to the contrary in this Agreement, each of the Parties shall bear its own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby.

9.13 Currency of Payments. All payments to be made by either Party under this Agreement shall be made in US Dollars and all references to “$”, “Dollars” or “US$” refer to currency of the United States of America.

9.14 Currency Conversion. Unless otherwise provided herein, all conversions of foreign currency to the currency of the United States of America for purposes of complying with any provision of this Agreement shall be made at the conversion rate published in The Wall Street Journal, New York edition, on the Business Day immediately preceding the day the relevant payment or calculation, as applicable, is to be made.

9.15 Construction. The language used in this Agreement shall be deemed to be the language chosen by the Parties hereto to express their mutual intent, and no rule of strict construction shall be applied against any Party. Any reference to any federal, state, local or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. When a reference is made in this Agreement to Articles, Sections, Exhibits, Schedules or Disclosure Schedule, such reference shall be to the Article or Section of, or Exhibit or Schedule or Disclosure Schedule to, this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and are not part of this Agreement. Whenever the words “include”, “includes” o r “including” are used in this Agreement, they shall be deemed to be followed by the words “without limitation”. Any reference to “herein” or “hereof” or similar terms shall refer to the agreement as a whole rather than to the individual paragraph, Section or Article. In this Agreement, words importing the singular include the plural and vice versa and words importing gender include all genders.

9.16 Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

9.17 Facsimile Signature. This Agreement may be executed by facsimile signature.

-#-

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

Nortel Networks Limited

By: _____

Name: _____

Title: _____

Nortel Networks Limited

By: _____

Name: _____

Title: _____

AudioCodes Ltd

By: _____

Name:

Title:

AudioCodes Inc.

By: _____

Name:

Title: