
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the Month of September 2021

Commission file number 0-30070

AUDIOCODES LTD.

(Translation of registrant's name into English)

1 Hayarden Street • Airport City, Lod 7019900 • ISRAEL
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): _____

Note: Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): _____

Note: Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submitted to furnish a report or other document that the registrant foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's "home country"), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and, if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

The following documents are attached hereto and incorporated by reference herein:

Exhibit 99.1. Interim Condensed Consolidated Financial Statements as of June 30, 2021.

Exhibit 99.2. Operating Results and Financial Review in connection the Interim Condensed Consolidated Financial Statements for the six months ended June 30, 2021.

The Interim Condensed Consolidated Financial Statements of AudioCodes Ltd. as of June 30, 2021 attached as Exhibit 99.1 and the Operating Results and Financial Review in connection with the Interim Condensed Consolidated Financial Statements of AudioCodes Ltd. for the six months ended June 30, 2021 attached as Exhibit 99.2 to this Report on Form 6-K are hereby incorporated by reference into (i) the Registrant's Registration Statement on Form F-3ASR, File No. 333-238867; (ii) the Registrant's Registration Statement on Form S-8, File No. 333-11894; (iii) the Registrant's Registration Statement on Form S-8, File No. 333-13268; (iv) the Registrant's Registration Statement on Form S-8, File No. 333-105473; (v) the Registrant's Registration Statement on Form S-8, File No. 333-144825; (vi) the Registrant's Registration Statement on Form S-8, File No. 333-160330; (vii) the Registrant's Registration Statement on Form S-8, File No. 333-170676; (viii) the Registrant's Registration Statement on Form S-8, File No. 333-190437; (ix) the Registrant's Registration Statement on Form S-8, File No. 333-210438; and (x) the Registrant's Registration Statement on Form S-8, File No. 333-230388.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUDIOCODES LTD.
(Registrant)

By: /s/ NIRAN BARUCH
Niran Baruch
*Vice President Finance and
Chief Financial Officer*

Dated: September 13, 2021

EXHIBIT INDEX

Exhibit No.	Description
99.1	<u>Interim Unaudited Condensed Consolidated Financial Statements of AudioCodes Ltd. as of June 30, 2021.</u>
99.2	<u>Operating Results and Financial Review in connection with the Interim Condensed Consolidated Financial Statements of AudioCodes Ltd. for the six months ended June 30, 2021.</u>

AUDIOCODES LTD.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
AS OF JUNE 30, 2021
IN U.S. DOLLARS
UNAUDITED
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AUDIOCODES LTD.**INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands

	<u>June 30,</u> <u>2021</u> <u>Unaudited</u>	<u>December 31,</u> <u>2020</u> <u>Audited</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 116,421	\$ 40,934
Restricted cash	5,100	5,100
Short-term and restricted bank deposits	514	84,817
Short-term marketable securities and accrued interest	552	449
Trade receivables, net	37,003	34,518
Other receivables and prepaid expenses	6,478	8,631
Inventories	24,831	29,193
Total current assets	190,899	203,642
LONG-TERM ASSETS:		
Long-term and restricted bank deposits	94	94
Long-term marketable securities and accrued interest	69,252	54,895
Deferred tax assets, net	10,474	12,081
Operating lease right-of-use assets	22,325	25,430
Severance pay funds	21,140	20,597
Total long-term assets	123,285	113,097
PROPERTY AND EQUIPMENT, NET	4,403	4,593
INTANGIBLE ASSETS, NET	425	569
GOODWILL	36,222	36,222
Total assets	\$ 355,234	\$ 358,123

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

INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS (Cont.)
U.S. dollars in thousands, except share and per share data

	<u>June 30,</u> <u>2021</u> <u>Unaudited</u>	<u>December 31,</u> <u>2020</u> <u>Audited</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term bank loans	\$ 600	\$ 1,200
Trade payables	2,616	6,984
Other payables and accrued expenses	28,763	28,531
Short-term royalty buyout liability	11,625	11,684
Deferred revenues	41,246	37,182
Short-term operating lease liabilities	8,936	9,178
Total current liabilities	93,786	94,759
LONG-TERM LIABILITIES:		
Accrued severance pay	21,381	21,830
Deferred revenues and other liabilities	13,540	12,243
Long-term operating lease liabilities	15,828	19,436
Total long-term liabilities	50,749	53,509
Total liabilities	144,535	148,268
COMMITMENTS AND CONTINGENT LIABILITIES		
SHAREHOLDERS' EQUITY:		
Share capital -		
Ordinary shares of NIS 0.01 par value -		
Authorized: 100,000,000 shares as of June 30, 2021 (unaudited) and December 31, 2020; Issued: 62,787,188 shares as of June 30, 2021 (unaudited) and 62,489,428 shares as of December 31, 2020; Outstanding: 32,729,030 shares as of June 30, 2021 (unaudited) and 33,017,814 shares as of December 31, 2020		
	104	105
Additional paid-in capital	369,253	362,164
Treasury stock at cost - 30,058,158 shares as of June 30, 2021 (unaudited) and 29,471,614 shares as of December 31, 2020	(155,142)	(137,793)
Accumulated other comprehensive income (loss)	(54)	1,772
Accumulated deficit	(3,462)	(16,393)
Total shareholders' equity	210,699	209,855
Total liabilities and shareholders' equity	\$ 355,234	\$ 358,123

September 13, 2021

Date of approval of the
financial statements

Niran Baruch
Chief Financial Officer

Shabtai Adlersberg
President, Chief Executive Officer and Director

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

AUDIOCODES LTD.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Six months ended June 30,	
	2021	2020
	Unaudited	
Revenues:		
Products	\$ 74,813	\$ 70,701
Services	44,600	34,843
<u>Total revenues</u>	<u>119,413</u>	<u>105,544</u>
Cost of revenues:		
Products	26,970	27,793
Services	10,112	7,774
<u>Total cost of revenues</u>	<u>37,082</u>	<u>35,567</u>
Gross profit	82,331	69,977
Operating expenses:		
Research and development, net	24,772	22,806
Selling and marketing	29,679	25,586
General and administrative	7,625	6,578
<u>Total operating expenses</u>	<u>62,076</u>	<u>54,970</u>
Operating income	20,255	15,007
Financial income, net	996	454
Income before taxes on income	21,251	15,461
Taxes on income	(3,018)	(3,558)
Net income	<u>\$ 18,233</u>	<u>\$ 11,903</u>
Earnings per share:		
Basic	<u>\$ 0.55</u>	<u>\$ 0.40</u>
Diluted	<u>\$ 0.53</u>	<u>\$ 0.38</u>
Weighted average number of shares used in computations of earnings per share:		
Basic	<u>32,875,540</u>	<u>30,090,082</u>
Diluted	<u>34,085,877</u>	<u>31,627,192</u>

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

AUDIOCODES LTD.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

U.S. dollars in thousands

	Six months ended June 30,	
	2021	2020
	Unaudited	
Net income	\$ 18,233	\$ 11,903
Other comprehensive income related to:		
Change in unrealized losses on marketable securities, net of tax:		—
Loss on marketable securities recognized in other comprehensive income, net of tax	(625)	—
Other comprehensive losses related to unrealized loss on marketable securities available-for-sale	(625)	—
Change in unrealized gains (losses) on cash flow hedges, net of tax:		
Gain on derivatives recognized in other comprehensive income	401	1,833
Loss on derivatives (effective portion) recognized in income	(1,602)	(57)
Other comprehensive income (loss), related to unrealized gains on cash flow hedges, net of tax	(1,201)	1,776
Other comprehensive income (loss), net of tax	(1,826)	1,776
Total comprehensive income	\$ 16,407	\$ 13,679

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

INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
U.S. dollars in thousands

	Share capital	Additional paid-in capital	Treasury stock	Accumulated other comprehensive Income (loss)	Accumulated deficit	Total equity
Balance as of January 1, 2020	\$ 94	\$ 265,372	\$ (137,793)	\$ —	\$ (35,199)	\$ 92,474
Issuance of shares upon exercise of options and warrants and vesting of restricted stock units ("RSUs")	3	2,603	—	—	—	2,606
Issuance of ordinary shares in a public offering, net	8	85,418	—	—	—	85,426
Share-based compensation related to options and RSUs granted to employees and non-employees	—	8,771	—	—	—	8,771
Cash dividends paid	—	—	—	—	(8,442)	(8,442)
Other comprehensive income	—	—	—	1,772	—	1,772
Net income	—	—	—	—	27,248	27,248
Balance as of December 31, 2020	\$ 105	\$ 362,164	\$ (137,793)	\$ 1,772	\$ (16,393)	\$ 209,855
Issuance of shares upon exercise of options and warrants and vesting of restricted stock units ("RSUs") (unaudited)	1	736	—	—	—	737
Purchase of treasury stock (unaudited)	(2)	—	(17,349)	—	—	(17,351)
Share-based compensation related to options and RSUs granted to employees and non-employees (unaudited)	—	6,353	—	—	—	6,353
Cash dividend paid	—	—	—	—	(5,302)	(5,302)
Other comprehensive loss (unaudited)	—	—	—	(1,826)	—	(1,826)
Net income (unaudited)	—	—	—	—	18,233	18,233
Balance as of June 30, 2021 (unaudited)	<u>\$ 104</u>	<u>\$ 369,253</u>	<u>\$ (155,142)</u>	<u>\$ (54)</u>	<u>\$ (3,462)</u>	<u>\$ 210,699</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
U.S. dollars in thousands

	Six months ended June 30,	
	2021	2020
	Unaudited	
<u>Cash flows from operating activities:</u>		
Net income	\$ 18,233	\$ 11,903
Adjustments required to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,158	1,119
Amortization of marketable securities premiums and accretion of discounts, net	741	—
Share-based compensation related to options and RSUs granted to employees and non-employees	6,353	3,476
Increase in accrued interest and exchange rate effect of loans, marketable securities and bank deposits	23	1
Decrease in deferred tax assets, net	1,647	3,127
Increase in trade receivables, net	(2,485)	(2,643)
Decrease (increase) in other receivables and prepaid expenses	797	(17)
Decrease (increase) in inventories	3,954	(1,408)
Decrease in operating lease right-of-use assets	3,862	3,898
Decrease in operating lease liabilities	(4,607)	(4,184)
Increase (decrease) in royalty buyout liability, net	(59)	61
Decrease in trade payables	(4,368)	(2,017)
Increase in other payables and accrued expenses	232	369
Increase in deferred revenues	5,589	3,206
Increase (decrease) in accrued severance pay, net	(992)	624
Net cash provided by operating activities	30,078	17,515
<u>Cash flows from investing activities:</u>		
Purchase of property and equipment	(416)	(641)
Purchase of marketable securities	(17,525)	—
Proceeds from sale of marketable securities	510	—
Proceeds from redemption of marketable securities	1,053	—
Proceeds from short-term and restricted bank deposits	84,303	451
Proceeds from long-term and restricted bank deposits	—	150
Net cash provided by (used in) investing activities	\$ 67,925	\$ (40)

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

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

U.S. dollars in thousands

	Six months ended June 30,	
	2021	2020
	Unaudited	
<u>Cash flows from financing activities:</u>		
Purchase of treasury stock	\$ (17,351)	\$ —
Repayment of long-term bank loans	(600)	(1,238)
Cash dividends paid	(5,302)	(3,866)
Proceeds from issuance of shares upon exercise of options and warrants	737	1,051
Proceeds from issuance of shares in a public offering, net	—	85,654
Net cash provided by (used in) financing activities	(22,516)	81,601
Increase in cash, cash equivalents, and restricted cash	75,487	99,076
Cash, cash equivalents and restricted cash at the beginning of the period	46,034	69,773
Cash, cash equivalents and restricted cash at the end of the period	\$ 121,521	\$ 168,849
<u>Supplemental disclosure of cash flow activities:</u>		
Cash paid during the period for income taxes	\$ 879	\$ 306
Cash paid during the period for interest	\$ 11	\$ 51
<u>Significant non-cash transactions:</u>		
Inventory transferred to be used as property and equipment	\$ 408	\$ 214
Right-of-use asset recognized with corresponding lease liability	\$ 757	\$ 699
Decrease (increase) in other receivables due to hedging activities	\$ 1,356	\$ (1,776)

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

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)****U.S. dollars in thousands, except share and per share data**

NOTE 1:- GENERAL**a. Business overview:**

AudioCodes Ltd. (the “Company”) and its subsidiaries (together the “Group”) is a leading vendor of advanced communication, software, products and productivity solutions for the digital workplace. The Company’s products are deployed on-premises or delivered from the cloud. Providing software communications, cloud-based platforms, customer premise equipment and software applications, the Company’s solutions and products are geared to meet the growing needs of enterprises and service providers realigning their operations towards the transition to all-IP networks and hosted unified communications and collaboration business services. In addition, the Company offers a complete suite of professional and managed services that allow the Company’s partners and customers to choose a service packages (or complement their own offering) from a modular portfolio of professional services.

The Company operates through its wholly-owned subsidiaries in the United States, Europe, Asia, Latin America, Australia and Israel.

b. The Group’s major customer in the six months ended June 30, 2021 and 2020 (unaudited), accounted for 13.4% and 14.2% of the Group’s revenues in those periods, respectively.**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 on 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. COVID- 19**

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. The outbreak has reached all of the regions in which we do business, and governmental authorities around the world have implemented numerous measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, border closings, quarantines, shelter-in-place orders, shutdowns, limitations or closures of non-essential businesses, and social distancing requirements. Companies around the world, including us, our customers, partners, and vendors, have implemented actions in response, including among others, office closings, site restrictions, and employee travel restrictions.

The global spread of COVID-19 and actions taken in response have caused and may continue to cause disruptions and/or delays in our supply chain, manufacturing and shipments, and caused significant economic and business disruption to the Group’s customers, partners and vendors. In response to these challenges, the Group quickly adjusted its operations to work from home and it believes its business continuity plan is working well. The extent of the impact of COVID-19 on the Group’s business and results of operations will depend on future developments, which are highly uncertain, including the duration and severity of the outbreak, the effects of subsequent waves and variants of COVID-19, the Group’s ability to maintain its supply chain and to continue to manufacture products and restrictions on its business and personnel that may be imposed by governmental rules and regulations implemented to contain or treat COVID-19.

The Company’s management is monitoring and assessing the impact of the COVID-19 pandemic daily, including recommendations and orders issued by government and public health authorities

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)****U.S. dollars in thousands, except share and per share data**

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2020, are applied consistently in these interim condensed consolidated financial statements, unless otherwise stated. For further information refer to the consolidated financial statements as of December 31, 2020 (the “2020 annual consolidated financial statements”).

a. Interim financial statements:

The interim condensed consolidated balance sheet as of June 30, 2021 and the related interim condensed consolidated statements of operations, comprehensive loss and cash flows for the six months ended June 30, 2021 and 2020, and the statements of changes in shareholders’ equity for the six months ended June 30, 2021, are unaudited. This unaudited information has been prepared by the Company in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial statements, and on the same basis as the audited annual consolidated financial statements. In management’s opinion, this unaudited information reflects all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial information, in accordance with generally accepted accounting principles, for interim financial reporting for the periods presented and accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for audited financial statements. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These interim condensed consolidated financial statements should be read in conjunction with the 2020 annual consolidated financial statements and the notes thereto. The interim condensed consolidated balance sheet data as of December 31, 2020 was derived from the 2020 annual consolidated financial statements, but does not include all disclosures required by U.S. GAAP.

b. Use of estimates:

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company’s management believes that the estimates, judgments and assumptions used are reasonable based upon information available at the time they are made. As applicable to these interim condensed consolidated financial statements, the most significant estimates and assumptions relate to revenue recognition and allowance for sales returns, allowance for doubtful accounts, inventories write-off, intangible assets, goodwill, income taxes and valuation allowance, share-based compensation and contingent liabilities. Actual results could differ from those estimates.

In light of the currently unknown extent and duration of the COVID-19 pandemic, the Company faces a greater degree of uncertainty than normal in making the judgments and estimates needed to apply certain of the Company’s significant accounting policies. The Company assessed certain accounting matters that generally require consideration of forecasted financial information in context with the information reasonably available to the Company and the unknown future impacts COVID-19 as of June 30, 2021 and through the date of issuance of this report. These estimates may change, as new events occur and additional information is obtained. Actual results could differ materially from these estimates under different assumptions or conditions.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**
U.S. dollars in thousands, except share and per share data
NOTE 3:- MARKETABLE SECURITIES AND ACCRUED INTEREST

The following is a summary of available-for-sale marketable securities:

	June 30, 2021			
	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Maturing between one to five years:				
Corporate bonds	\$ 67,361	\$ 245	\$ (460)	\$ 67,146
Governmental bonds	2,139	\$ —	(33)	2,106
Accrued interest	552	—	—	552
Balance as of June 30, 2021	<u>\$ 70,052</u>	<u>\$ 245</u>	<u>\$ (493)</u>	<u>\$ 69,804</u>
	December 31, 2020			
	Amortized cost	Unrealized gains	Unrealized losses	Fair Value
Maturing between one to five years:				
Corporate bonds	\$ 53,351	\$ 508	\$ (6)	\$ 53,853
Governmental bonds	1,055	\$ —	(13)	1,042
Accrued interest	449	—	—	449
Balance as of December 31, 2020	<u>\$ 54,855</u>	<u>\$ 508</u>	<u>\$ (19)</u>	<u>\$ 55,344</u>

These investments were issued by highly rated corporations, ranging from BBB to A+. Accordingly, the securities were not settled at a price less than the amortized cost of the Group's investment. On each reporting period, the Company evaluates whether declines in fair value below carrying value are due to expected credit losses, as well as the ability and intent to hold the investment until a forecasted recovery occurs, in accordance with Accounting Standards Codification ("ASC") 326, "Financial Instruments – Credit Losses". Allowance for credit losses on available-for-sale debt securities are recognized as a charge in financial expenses (income), net, on the consolidated statements of income, and any remaining unrealized losses, net of taxes, are included in accumulated other comprehensive income (loss) in shareholders' equity. The Company has not recorded credit losses for the six months ended June 30, 2021.

NOTE 4:- INVENTORIES

	June 30, 2021	December 31, 2020
	Unaudited	Audited
Raw materials	\$ 15,312	\$ 13,376
Finished products	9,519	15,817
	<u>\$ 24,831</u>	<u>\$ 29,193</u>

In the six months ended June 30, 2021 and 2020 (unaudited), the Group wrote-off inventories in a total amount of \$1,190 and \$633, respectively.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**
U.S. dollars in thousands, except share and per share data
NOTE 5:- FAIR VALUE MEASUREMENTS

In accordance with ASC 820, the Group measures its foreign currency derivative instruments and marketable securities, at fair value. Investments in foreign currency derivative instruments and marketable securities are classified within Level 2 of the fair value hierarchy. This is because these assets (liabilities) are valued using alternative pricing sources and models utilizing market observable inputs.

The Group's financial assets and liabilities measured at fair value on a recurring basis, consisted of the following types of instruments as of the following dates:

	June 30, 2021	
	Unaudited	
	Fair value measurements using input type	
	Level 2	Total
Marketable securities	\$ 69,804	\$ 69,804
Financial assets related to foreign currency derivative hedging contracts	133	133
Total financial net assets as of June 30, 2021	\$ 69,937	\$ 69,937
	December 31, 2020	
	Unaudited	
	Fair value measurements using input type	
	Level 2	Total
Marketable securities	\$ 55,344	\$ 55,344
Financial assets related to foreign currency derivative hedging contracts	1,489	1,489
Total financial net assets as of December 31, 2020	\$ 56,833	\$ 56,833

NOTE 6:- LEASES
a. Lease commitments:

The Group's facilities are leased under several lease agreements for periods ending up to 2027, with options to extend the leases ending up to 2029.

In addition, the Company has various operating lease agreements with respect to motor vehicles.

Lease expenses of office rent and vehicles for the six months ended June 30, 2021 and 2020 (unaudited) were approximately \$4,159 and \$4,011 respectively. Lease expenses for the six months ended June 30, 2021 and 2020 (unaudited) include an offset for sublease rental of \$762 and \$691, respectively.

The Company's capitalized operating lease agreements have remaining lease terms ranging from 1 year to 8.01 years, including agreements with options to extend the leases for up to 5 years.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**

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

NOTE 6:- LEASES (Cont.)

The following table represents the weighted-average remaining lease term and discount rate:

	<u>Six months ended June 30, 2021</u> <u>Unaudited</u>
Weighted average remaining lease term	2.98 years
Weighted average discount rate	2.08 %

The discount rate was determined based on the estimated collateralized borrowing rate of the Company, adjusted to the specific lease term and location of each lease.

As of June 30, 2021, maturities of operating lease liabilities were as follows:

	<u>Unaudited</u>
2021 (remainder of the year)	\$ 4,664
2022	8,417
2023	8,000
2024	1,723
2025 and on	3,529
Total lease payments (*)	<u>26,333</u>
Less - imputed interest	(1,569)
Present value of lease liabilities	<u>\$ 24,764</u>

(*)Total lease payments have not been reduced by sublease rental payments of \$2,385 (unaudited) due in the future under non-cancelable subleases.

In connection with the Company's offices lease agreement in Israel, the lessor has a lien of \$5,100 (unaudited), which is included in short-term and restricted bank deposits.

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**
U.S. dollars in thousands, except share and per share data
NOTE 7: COMMITMENTS AND CONTINGENT LIABILITIES
a. Royalty commitment to the IIA:

In November 2019, the Company and one of its Israeli subsidiaries, AudioCodes Development Ltd., entered into a royalty buyout agreement (the "Royalty Buyout Agreement") with the Israel Innovation Authority ("IIA") relating to certain grants they had received from the IIA. The contingent net royalty liability to the IIA at the time of the Royalty Buyout Agreement with respect to these grants was \$49,008 (the "Debt"), including interest to the date of the Royalty Buyout Agreement. As part of the Royalty Buyout Agreement, the Company agreed to pay \$32,178 to the IIA (to settle the Debt in full) in three annual installments starting in 2019. The annual installments are linked to the NIS and bear interest. Pursuant to the Royalty Buyout Agreement, the Company eliminated all royalty obligations related to its future revenues with respect to these grants.

As of June 30, 2021 (unaudited), and December 31, 2020, the Company's other Israeli subsidiaries have a contingent obligation to pay royalties in the amount of approximately \$11,625 and \$11,684, respectively.

b. Royalty commitments to third parties:

The Group has entered into technology licensing fee agreements with third parties. Under the agreements, the Group agreed to pay the third parties royalties, based on sales of relevant products.

c. Inventory purchase commitments:

The Group is obligated under certain agreements with its suppliers to purchase specified items of excess inventory. As of June 30, 2021 (unaudited), non-cancelable purchase obligations were approximately \$30,542.

d. Legal proceedings:

In January 2021, a complaint for patent infringement was filed against the Company's U.S. subsidiary. The proceedings were served and no monetary demands were made at this stage. The Company is still assessing the merits of this case and at this stage does not believe that reserve is required.

NOTE 8:- BASIC AND DILUTED NET LOSS PER SHARE

	Six months ended June 30,	
	2021	2020
	Unaudited	
Numerator:		
Net income available to ordinary shareholders	\$ 18,233	\$ 11,903
Denominator:		
Denominator for basic earnings per share - weighted average number of ordinary shares, net of treasury stock	32,875,540	30,090,082
Effect of dilutive securities:		
Employee stock options, warrants and RSUs	1,210,337	1,537,110
Denominator for diluted net earnings per share - adjusted weighted average number of shares	34,085,877	31,627,192

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)**
U.S. dollars in thousands, except share and per share data
NOTE 9:- DERIVATIVE INSTRUMENTS

The Group enters into hedge transactions with a major financial institution, using derivative instruments, primarily forward contracts and options to purchase and sell foreign currencies, in order to reduce the net currency exposure associated with anticipated expenses (primarily salaries and rent expenses) in currencies other than the dollar. The Group currently hedges such future exposures for a maximum period of one year. However, the Group may choose not to hedge certain foreign currency exchange exposures for a variety of reasons, including but not limited to immateriality, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange rates.

The Group records all derivatives in the consolidated balance sheet at fair value. The effective portions of cash flow hedges are recorded in other comprehensive income until the hedged item is recognized in earnings. The ineffective portions of cash flow hedges are adjusted to fair value through earnings in financial income or expense.

As of June 30, 2021 (unaudited) and December 31, 2020, the Group had outstanding forward and options collar (cylinder) contracts in the amount of \$6,700 and \$10,500, respectively, which were designated as payroll and rent hedging contracts. In addition, as of June 30, 2021 (unaudited) and December 31, 2020, the Group had outstanding forward contracts in the amount of \$3,500 which are not designated as hedging contracts.

The fair value of the Group's outstanding derivative instruments and the effect of derivative instruments in cash flow hedging relationship on other comprehensive income for the periods ended June 30, 2021 and December 31, 2020 are summarized below:

Foreign exchange forward and options contracts	Balance sheet	June 30, 2021 Unaudited	December 31, 2020 Audited
Fair value of foreign exchange forward and options collar (cylinder) contracts	Other receivables and prepaid expenses	\$ 133	\$ 1,489
Gains recognized in other comprehensive income (effective portion)	Other comprehensive income (loss)	\$ 118	\$ 1,319

The effect of derivative instruments in cash flow hedging relationship on income for the six months ended June 30, 2021 and 2020 is summarized below:

Foreign exchange forward and options contracts	Comprehensive Income (loss)	Six months ended June 30, 2021 Unaudited	2020 Unaudited
Comprehensive income from derivatives before reclassifications	Other comprehensive income (loss)	\$ 401	\$ 1,833
Loss reclassified from accumulated other comprehensive income (loss) (effective portion)	Operating expenses (income)	\$ (1,602)	\$ (57)

**NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)****U.S. dollars in thousands, except share and per share data**

NOTE 10:- SHAREHOLDERS' EQUITY**a. Treasury stock:**

During the year ended December 31, 2014, the Company's Board of Directors approved a program to repurchase up to \$3,000 of its ordinary shares (the "Share Repurchase Program"), which is the amount that the Company could repurchase according to Israeli law without further approval from an Israeli court. During the seven years ended December 31, 2020, the Company received Israeli court approvals to purchase up to an additional \$176,000 of its ordinary shares. The most recent court approvals also permitted the Company to declare a dividend of any part of the related permitted amount during the approved validity period. In addition, in January 2021, the Company received Israeli court approval to repurchase up to an aggregate amount of \$30 million of additional ordinary shares. The court approval also permits the Company to declare a dividend of any part of this amount. The approval was valid through July 19, 2021.

As of June 30, 2021, pursuant to the Company's Share Repurchase Program, the Company had repurchased a total of 30,058,158 of its ordinary shares at a total cost of which 586,544 shares were repurchased during the six month ended June 30, 2021 for aggregate consideration of \$17,351 (unaudited). See also Note 11a.

b. Cash Dividend:

On February 4, 2021, the Company declared a cash dividend of \$0.16 per share. The dividend, in the aggregate amount of approximately \$5.3 million, was paid on March 4, 2021 to all of the Company's shareholders of record on February 18, 2021. See also Note 11b.

c. Issuance of ordinary shares:

On June 8, 2020, the Company sold in a public offering 2,600,000 of its ordinary shares, at a price of \$35 per share. The Company's net proceeds from this offering were \$85,426, after deducting underwriters' discounts and commissions and other offering expenses.

NOTE 11:- SUBSEQUENT EVENT

- a. On July 4, 2021, the Company received Israeli court approval of distribution in an aggregate amount of up to \$35 million of additional ordinary shares. The court approval also permits the Company to declare a dividend of any part of this amount. The court approval will expire on January 3, 2022.
- b. On July 27, 2021, the Company declared a cash dividend of \$0.17 cents per share. The dividend, in the aggregate amount of approximately \$5.6 million was paid on August 26, 2021 to all of the Company's shareholders of record on August 11, 2021.

OPERATING RESULTS AND FINANCIAL REVIEW IN CONNECTION WITH THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30, 2021.

The following discussion and analysis should be read in conjunction with our interim condensed consolidated financial statements as of and for the six months ended June 30, 2021, appearing elsewhere in this Form 6-K, our audited consolidated financial statements and other financial information as of and for the year ended December 31, 2020 appearing in our Annual Report on Form 20-F for the year ended December 31, 2020 and Item 5—"Operating and Financial Review and Prospects" of that Annual Report.

Forward-Looking Statements

Statements in this Report on Form 6-K may constitute "forward-looking statements" within the meaning of the United States Federal securities laws. These forward-looking statements can generally be identified as such because the context of the statement will include words such as "may," "might," "will," "could," "would," "intends," "plans," "believes," "anticipates," "expects," "seeks," "estimates," "predicts," "potential," "continue," "contemplate" or "opportunity," the negative of these words or words of similar import. Similarly, statements that describe our business outlook or future economic performance, anticipated revenues, expenses or other financial items, introductions and advancements in development of products, and plans and objectives related thereto, and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are also forward-looking statements. Forward-looking statements are subject to 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 our Annual Report on Form 20-F for the year ended December 31, 2020, as well as those discussed elsewhere in that Annual Report and in our other filings with the Securities and Exchange Commission.

Overview

AudioCodes is a leading vendor of advanced communications software, products and productivity solutions for the digital workplace. Our products are deployed on-premises or delivered from the cloud. Providing software communications, cloud-based platforms, customer premise equipment and software applications, our solutions and products are geared to meet the growing needs of enterprises and service providers realigning their operations towards the transition to all-IP networks and hosted unified communications and collaboration business services. In addition, we offer a complete suite of professional and managed services that allow our partners and customers to choose a service packages (or complement their own offering) from a modular portfolio of professional services.

Our products are deployed globally in enterprise and service provider cloud networks. Our products include session border controllers (SBC), life cycle management solutions, VoIP network routing solutions, media gateways, multi-service business routers, IP phones, value added applications and professional services. Our high-definition VoIP technologies and products provide enhanced intelligibility and a better end user experience in emerging voice communications services. We have tens of millions of SBC, media gateway and media server sessions deployed in over 100 countries across the globe. Our high availability platforms cover the spectrum of low, mid and high-density applications for service providers and large enterprises.

With over 25 years in the telecommunications market, we offer a broad range of solutions and services for both enterprise and service provider deployments. These solutions are built around our field-proven VoIP product range. Our VoIP technology contains voice quality enhancements and best-of-breed VoIP network elements and applications, and has a proven track record in product and network interoperability with the industry's leading companies. With full support for industry standard protocols such as SIP, and proven interoperability with industry leading soft switches, private branch exchanges (PBXs), IP-PBXs, unified communications and contact center platforms, we deliver innovative solutions for virtually any voice communications environment, offering reduced total cost of ownership, enhanced features, and superior voice quality.

We have invested significant development resources in complying with Microsoft's requirements for the purpose of becoming a Microsoft recognized partner for their unified communication solutions for the enterprise market, which are known as Microsoft Skype for business and Microsoft Teams. We have adapted some of our gateway products, IP phones, session border controllers, survivable branch applications, value added applications and professional services to operate in the Microsoft Skype for business and Microsoft Teams environment. Our products to the Skype for Business and Microsoft Teams Unified Communications market are sold primarily to our channel partners that distribute and integrate the Skype for business solution to enterprises.

In November 2019, we and our former Israeli subsidiary, AudioCodes Development Ltd. (which was merged into our company effective January 1, 2020), entered into a royalty buyout agreement (the "Royalty Buyout Agreement") with the Israel Innovation Authority ("IIA") relating to certain grants they had received from the IIA. The contingent net royalty liability to the IIA at the time of the Royalty Buyout Agreement with respect to these grants was approximately \$49 million (in this section, the "Debt"), including interest to the date of the Royalty Buyout Agreement. As part of the Royalty Buyout Agreement, we agreed to pay approximately \$32.2 million to the IIA (to settle the Debt in full) in three annual installments starting in 2019. The annual installments are linked to the NIS and bears interest. Pursuant to the Royalty Buyout Agreement, we eliminated all royalty obligations related to our future revenues with

respect to these grants. In December 2020 and November 2019, we paid the two first installments of approximately \$11.6 and \$10.7 million, respectively, due under the Royalty Buyout Agreement.

We offer a comprehensive professional services program intended to provide responsive, preventive, and consultative support of our networking products. Our professional services support networking devices, applications and infrastructures, allowing large organizations and service providers to realize the potential of a high-performance multi-service network.

Our headquarters and research and development facilities are located in Israel with research and development extensions in the U.S. and China. We have other offices located in Europe, Asia, Latin America and Australia.

Historically, a substantial portion of our revenue has been derived from large purchases by a limited number of original equipment manufacturers (OEMs), network equipment providers (NEPs), systems integrators and distributors. Westcon Group, our largest customer in the six months ended June 30, 2021, accounted for 13.4% and 13.0% of our revenues in the six months ended June 30, 2021 and 2020, respectively. In addition, ScanSource Communications, our largest customer in the six months ended June 30, 2020, accounted for 9.6% and 14.2% of our revenues in the six months ended June 30, 2021 and 2020, respectively. Our top five customers accounted for 39.8% and 41.2% of our revenues in the six months ended June 30, 2021 and 2020, respectively. 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 six months ended June 30, 2021 and 2020 are as follows:

	Six Months Ended June 30,	
	2021	2020
Americas	46.1 %	49.1 %
Far East	17.4	13.3
Europe	35.0	34.2
Israel	1.5	3.4
Total	100.0 %	100.0 %

Beyond repeated business from distributors and service providers, we believe that prospective customers are generally required to make a significant commitment of resources to test and evaluate our products and to integrate them into their larger systems. 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 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 premeasurement 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 demand for VoIP technology has increased during recent years. In recent years, 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 developed countries, traditional and alternative service providers have adopted bundled triple play (voice, video and data) and quadruple play (voice, video, data and mobile) offerings. This trend, enabled by voice and multimedia over IP, has fueled competition among cable, wireline, ISP and mobile operators, increasing the pressure for adopting and deploying VoIP networks. In addition, underdeveloped markets without basic wire line service in countries such as China and India and certain countries in Eastern Europe are adopting the use of VoIP technology to deliver voice and data services that were previously unavailable.

The general economic uncertainty, including disruptions in the world credit and equity markets, has had and continues to have a negative impact on business around the world. This economic environment has had an adverse impact on the technology industry and our major customers. Conditions may continue to be uncertain or may be subject to deterioration which could lead to a reduction in consumer and customer spending overall, which could have an adverse impact on sales of our products. A disruption in the ability of our significant customers to access liquidity could cause serious disruptions or an overall deterioration of their businesses which could lead to a significant reduction in their orders of our products and the inability or failure on their part to meet their payment obligations to us, any of which could have a material adverse effect on our results of operations and liquidity. In addition, any disruption in the ability of customers to access liquidity could lead customers to request longer payment terms from us or long-term financing of their purchases from us. Granting extended payment terms or a significant adverse change in a customer's financial and/or credit position could also require us to assume greater credit risk relating to that customer's receivables or could limit our ability to collect receivables related to purchases by that customer. As a result, our allowance for doubtful accounts and write-offs of accounts receivable could increase.

Impact of COVID-19 on Our Business and Operations

The COVID-19 pandemic has affected businesses around the world since early 2020. Governmental authorities of many countries around the world, including Israel and the United States, implemented significant measures to control the spread of the virus, including temporary closure of businesses, severe restrictions on travel and the movement of people, and other material limitations on the conduct of businesses, and continue to reassess these measures as COVID-19 related developments unfold. We implemented remote working and workplace protocols for our employees in Israel in accordance with Israeli Ministry of Health requirements and similar arrangements in other countries in which we operate.

The COVID-19 pandemic has had multiple impacts on our business. The outbreak disrupted supply chains and affected production and sales across a range of industries. Some of our materials and products are sourced from suppliers located in China, we manufacture most our products in China and we have more than 50 employees in China. Around the middle of the first quarter of 2020, we experienced delays in the manufacturing of our hardware products in China due to the COVID-19 outbreak. Although we were able to ship all of our products as planned during the quarter, COVID-19 has caused and may continue to cause disruptions and/or delays in our supply chain, manufacturing and shipments. We cannot estimate the duration or negative impact of the COVID-19 pandemic on our business. However, depending on the duration and scope of the pandemic, it could have a material adverse effect on our business and results of operations.

The lockdown, shelter in place and social distancing policies adopted by governments worldwide to manage the COVID-19 pandemic led to an acceleration in the adoption of work from home (Work from Home or WFH) policies and technologies, a global trend that had already been gaining momentum in the past few years. To ensure business continuity, companies and contact centers were compelled to transition their employees quickly from an office to a working-from-home environment. This in turn led to increased demand for UCaaS and video conferencing solutions such as Microsoft Teams and Zoom, as well as Work from Home agent solutions for contact centers. As a result, AudioCodes experienced an increased demand for our related products and solutions.

In response, we launched Work from Home promotions and solutions aimed at helping companies offer reliable and high-quality voice communications for Work from Home employees and contact center agents. We expect businesses that previously were unable to transition to WFH, or faced challenges in their implementation of WFH arrangements due to aging or inappropriate communications solutions, to adopt policies and technologies to better prepare them for future foreseeable and unforeseeable events that prevent employees from working in a company's offices. We also believe that numerous businesses may decide to transition to WFH, either fully or partially, as a continuing alternative to the manner in which they conducted their operations before the COVID-19 outbreak.

The worldwide scale, rapid development and fluidity of the COVID-19 pandemic and its material adverse impact on the global economy restricts our ability to predict how COVID-19 could impact our business and operations going forward. The extent of the impact of COVID-19 on our business and results of operations will depend on future developments, which are highly uncertain, including the duration and severity of the global pandemic, the effects of subsequent waves and variants of COVID-19 such as the Delta variant, the timing and effectiveness of initial and booster shot vaccination campaigns in the countries in which we operate, our ability to maintain our supply chain and to continue to manufacture products and restrictions on our business and personnel that may be imposed by governmental rules and regulations implemented to contain or treat COVID-19.

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:

Statement of Operations Data:	Six Months Ended June 30,	
	2021	2020
Revenues	100.0 %	100.0 %
Cost of revenues	31.1	33.7
Gross profit	68.9	66.3
Operating expenses:		
Research and development, net	20.7	21.6
Selling and marketing	24.9	24.2
General and administrative	6.4	6.3
Total operating expenses	52.0	52.1
Operating income	17.0	14.2
Financial income, net	0.8	0.4
Income before taxes on income	17.8	14.6
Income tax expense	(2.5)	(3.3)
Net income	15.3	11.3 %

Revenues. Revenues increased 13.1% to \$119.4 million in the six months ended June 30, 2021, from \$105.5 million in the same period in 2020.

Our revenues from products in the six months ended June 30, 2021 increased by 5.8% to \$74.8 million, or approximately 62.7% of total revenues, from \$70.7 million, or 67% of total revenues, in the same period in 2020. The increase in revenues from sales of products was primarily attributable to our enterprise activities related to the UCaaS and Contact Center markets, the increased adoption of unified communications and collaboration solutions by businesses/enterprises (specifically, Microsoft Teams), which account for a large portion of our revenues and the increased migration by Contact Center customers moving to IP and acquiring Work from Home solutions. The increased adoption of UC and CC solutions and the migration to all-IP voice networks positively affected the demand for our products, specifically supporting high growth of our SBC products.

Our revenues from sales of services in the six months ended June 30, 2021 increased by 28.0% to \$44.6 million, or approximately 37.3% of total revenues, from \$34.8 million, or 33.0% of total revenues, in the same period in 2020. The increase in revenues from sales of services was primarily driven by strength in our professional and managed services offerings. At the core of this growth is our continued progress in pivoting to recurring revenues with strong execution in our AudioCodes Live offering operations. The growth in product support services was attributable to sales of products in prior periods that resulted from an increase of our renewal rate of support agreements in some regions and from support services for a larger number of products being supported. The growth in sales of professional services was attributable to offering more managed services with larger contract value as part of a broader portfolio of professional services offered by us and an increase in demand for such services in the Enterprise UC market (mainly Microsoft Teams).

Cost of Revenues and Gross Profit. Cost of revenues includes the cost of hardware, quality assurance, overhead related to professional and support customer services, overhead related to manufacturing activity, technology licensing and royalty fees payable to third parties and to the IIA. Gross profit increased to \$82.3 million in the six months ended June 30, 2021, from \$70 million in the same period in 2020. Gross profit as a percentage of total revenues increased to 68.9% in the six months ended June 30, 2021, from 66.3% in the same period in 2020. The increase in the gross profit as a percentage of total revenues is primarily attributable to increase in our revenues from sales of software products and services, which have a significantly higher average gross margin. In addition, our gross profit percentage benefited from our fixed overhead costs being spread over increased revenues. In the six months ended June 30, 2021, expenses included in cost of revenues related to share-based compensation were \$154,000, compared to \$99,000 in the same period in 2020.

Cost of revenues related to sales of products decreased by 3.0% to \$27.0 million in the six months ended June 30, 2021, from \$27.8 million in the same period in 2020. Gross margin percentage from products was 64.0% in the six-month period ended June 30, 2021 and 60.7% in the same period in 2020. The increase in the gross margin percentage is explained by the more favorable mix in the sale of our products, including software sales exceeding hardware sales in the six-month period ended June 30, 2021.

Cost of revenues related to sales of services increased by 30.1% to \$10.1 million in the six months ended June 30, 2021, from \$7.8 million in the same period in 2020. This increase is primarily attributable to higher support personnel expenses associated with providing services and implementation of our products with service providers as well as enterprise customers. Gross margin percentage from services was 77.3% in the six-month period ended June 30, 2021 and 77.7% in the same period in 2020.

Research and Development Expenses, net. Research and development expenses, net, consist primarily of salaries 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, net increased by 8.6% to \$24.8 million in the six months ended June 30, 2021, from \$22.8 million in the same period in 2020. As a percentage of total revenues, Research and development expenses, net decreased to 20.7% in the six months ended June 30, 2021, from 21.6% in the same period in 2020. The increase on an absolute basis is due to an increase in the expenses related to share-based compensation and an increase in the number of employees and related expenses associated with the additional employees. Expenses included in research and development expenses related to share-based compensation were \$1.2 million, compared to \$0.5 million in the same period in 2020.

Selling and Marketing Expenses. Selling and marketing expenses consist primarily of salaries and related costs (including sales commissions) of sales and marketing personnel, as well as exhibition, travel and related expenses. Selling and marketing expenses increased by 16% in the six months ended June 30, 2021 to \$29.7 million, from \$25.6 million in the same period in 2020 and increased as a percentage of revenues to 24.9% in the six months ended June 30, 2021, from 24.2% in the same period in 2020. The increase on an absolute basis is due to an increase in the expenses related to share-based compensation and an increase in the number of employees and related expenses associated with the additional employees. We added employees in an effort to increase our market share in the areas in which we sell our products and services, mainly due to our continued progress in pivoting to recurring revenues. This increase was partially offset by a decrease in travel, conferences and exhibitions expenses due to COVID-19. Expenses included in research and development expenses related to share-based compensation were \$2.8 million, compared to \$1.6 million in the same period in 2020.

General and Administrative Expenses. General and administrative expenses consist primarily of salaries and related costs of finance, human resources and general management personnel, rent, network and allowance for doubtful accounts, as well as insurance and consultant services expenses. General and administrative expenses increased by 15.9% to \$7.6 million in the six months ended June 30, 2021, from \$6.6 million in the same period in 2020. As a percentage of revenues, general and administrative expenses increased to 6.4% in the six months ended June 30, 2021, from 6.3% in the same period in 2020. The increase on an absolute basis is primarily due to an increase in the expenses related to share-based compensation. Expenses included in general and administrative expenses related to share-based compensation were \$2.1 million, compared to \$1.3 million in the same period in 2020.

Financial Income (expenses), Net. Financial Income, net consists primarily of interest earned on cash and cash equivalents, marketable securities and bank deposits, net of interest on our bank loans and bank charges. Financial income, net, in the six months ended June 30, 2021 was \$1 million, compared to \$0.5 million in the same period in 2020. The increase in financial income, net in the six months ended June 30, 2021 was primarily due to interest income recorded with respect to marketable securities.

Taxes on Income. We had net income tax expenses of \$3.0 million in the six months ended June 30, 2021 compared to \$3.6 million in the same period in 2020. The decrease in net income tax expenses in the six months ended June 30, 2021 is mainly resulted from the decrease in deferred tax asset due to utilization against income before taxes on income.

Liquidity and Capital Resources

We finance our operations primarily from our cash and cash equivalents, bank deposits, bank borrowings and cash from operations. In addition, in June 2020 we realized net proceeds of approximately \$85.4 million as a result of a public offering.

As of June 30, 2021, we had \$191.9 million in cash and Cash and cash equivalents, long and short-term bank deposits and long and short-term marketable securities, compared to \$186.3 million as of December 31, 2020. This increase is the result of cash provided by operating activities offset, in part, by the use of cash to repurchase our ordinary shares pursuant to our share repurchase program and the payment of a cash dividend in the first quarter of 2021. We were restricted with respect to using approximately \$5.7 million of our cash as a result of provisions in our loan agreements and lease agreement.

Share Repurchase Program and Cash Dividends

On February 4, 2021, we declared a cash dividend of \$0.16 per share. The dividend, in the aggregate amount of approximately \$5.3 million, was paid on March 4, 2021 to all of the Company's shareholders of record on February 18, 2021.

During the six months ended June 30, 2021, we acquired 586,544 of our ordinary shares under our share repurchase program for a total consideration of \$17.4 million.

In July 2021, we received court approval in Israel to purchase up to an aggregate amount of \$35 million of additional ordinary shares. The court approval also permits AudioCodes to declare a dividend of any part of this amount. The approval is valid through January 3, 2022.

On July 27, 2021, we declared a cash dividend of \$0.17 per share. The dividend, in the aggregate amount of approximately \$5.6 million, was paid on August 26, 2021 to all of our shareholders of record on August 11, 2021.

Bank Loans

As of June 30, 2021, we were required to maintain an aggregate of \$0.6 million of compensating bank deposits with respect to our bank loans. The amount of the compensating balances we are required to keep decreases over time as we repay these loans.

The loan agreements require us, among other things, to meet certain financial covenants such as maintaining shareholders' equity, cash balances, and liabilities to banks at specified levels, as well as achieving certain levels of operating income.

As of June 30, 2021, we were in compliance with the financial covenants contained in our loan agreements.

Cash Flows from Operating Activities

Our operating activities provided cash in the amount of \$30.1 million in the six months ended June 30, 2021, primarily due to net income of \$18.2 million, an increase of \$5.6 million in deferred revenues, a decrease of \$1.6 million in deferred tax assets, a decrease of \$4.0 million in inventories and non-cash charges of \$1.2 million for depreciation and amortization and \$6.4 million for share-based compensation expenses, partially offset by decrease of \$4.4 million in trade payables and an increase of \$2.5 million in trade receivables.

Cash Flows from Investing Activities

In the six months ended June 30, 2021, our investing activities provided cash in the amount of \$67.9 million from proceeds from short-term and restricted bank deposits in the amount of \$84.4 million, proceeds from sale of marketable securities of \$0.5 million and from redemption of marketable securities of \$1.1 million, partially offset by purchase of property and equipment in the amount of \$0.4 million and purchase of marketable securities in the amount of \$17.5 million.

Cash Flows from Financing Activities

In the six months ended June 30, 2021, we used \$22.5 million of cash in financing activities, primarily as a result of \$17.4 million used to repurchase our shares, \$5.3 million used to pay cash dividends to our shareholders and \$0.6 million used for repayment of bank loans, offset by \$0.7 million of proceeds from the issuance of shares upon exercise of stock options.

Financing Needs

We anticipate that our operating expenses will be a material use of our cash resources for the foreseeable future. We believe that our current working capital is sufficient to meet our operating cash requirements for at least the next twelve months, including payments required under our existing bank loans. 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 additional 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.

Research and Development, Patents and Licenses, Etc.

See "Overview" and "Results of Operations" above for a discussion of our Royalty Buyout Agreement.

Trend Information

In addition to the information included in this Form 6-K, including, without limitation, the section "Impact of COVID-19 on Our Business and Operations" above, see "Item 5—Operating and Financial Review and Prospects—D. Trend Information" in our Annual Report on Form 20-F for the year ended December 31, 2020.

Critical Accounting Estimates

See "Item 5—Operating and Financial Review and Prospects—Critical Accounting Policies and Estimates" in our Annual Report on Form 20-F for the year ended December 31, 2020.
