AUDIOCODES LTD. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2022

IN U.S. DOLLARS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders and Board of Directors of
AUDIOCODES LTD. AND ITS SUBSIDIARIES

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AudioCodes Ltd. and its subsidiaries (the "Company") as of December 31, 2022 and 2021 the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 24, 2023, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

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Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

	Revenue Recognition
Description of the Matter	As described in Note 2 to the consolidated financial statements, the Company generates revenues mainly from sales of products and services. The Company's contracts with customers often contain multiple goods and services that are accounted for separately if they are distinct performance obligations. In such contracts, the transaction price is then allocated to the distinct performance obligations on a relative standalone selling price basis and revenue is recognized when control of the distinct performance obligation is transferred. Auditing the Company's revenue recognition involved a high degree of auditor judgment due to the effort to evaluate (a) the identification and determination of whether products and services, such as software licenses and related services, are considered distinct performance obligations, which should be accounted for separately and (b) the determination of standalone selling prices for each distinct performance obligation.
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of internal controls related to the identification of distinct performance obligations, and the determination of stand-alone selling prices for each distinct performance obligation. Our audit procedures also included, among others, selecting a sample of customer contracts and reading contract source documents for each selection, including the executed contract and purchase order and evaluating the appropriateness of management's application of significant accounting policies on the contracts. We tested management's identification of significant terms for completeness, including the identification and determination of distinct performance obligations. We also evaluated the reasonableness of management's estimate of stand-alone selling prices for products and services and tested the mathematical accuracy of management's calculations of revenue. Finally, we assessed the appropriateness of the related disclosures in the consolidated financial statements.

Kost Forer Gabbay & Kasierer,
a Member of Ernst & Young Global

We have served as the Company's auditor since 1997.
Tel-Aviv, Israel
April 24, 2023

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Shareholders and Board of Directors of
AUDIOCODES LTD. AND ITS SUBSIDIARIES

Opinion on Internal Control over Financial Reporting

We have audited AudioCodes Ltd. and its subsidiaries' internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AudioCodes Ltd. and its subsidiaries (collectively, the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2022, and the related notes and our report dated April 24, 2023 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Kost Forer Gabbay & Kasierer,
a Member of Ernst & Young Global

Tel-Aviv, Israel
April 24, 2023

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	December 31, 2022	December 31, 2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 24,535	$ 79,423
Restricted cash	-	5,100
Short-term and restricted bank deposits	5,210	220
Short-term marketable securities	2,120	669
Short-term financial investments	15,258	-
Trade receivables (net of allowance for credit losses of $463 and $233 as of December 31, 2022 and 2021, respectively)	56,424	48,956
Other receivables and prepaid expenses	10,006	9,197
Inventories	36,377	23,988
Total current assets	149,930	167,553
LONG-TERM ASSETS:		
Long-term and restricted bank deposits	-	94
Long-term trade receivables	13,099	-
Long-term marketable securities	75,946	89,307
Long-term financial investments	1,242	-
Deferred tax assets	9,073	8,905
Operating lease right-of-use assets	13,517	16,457
Severance pay funds	17,933	22,724
Total long-term assets	130,810	137,487
PROPERTY AND EQUIPMENT, NET	3,965	4,394
INTANGIBLE ASSETS, NET	1,566	2,370
GOODWILL	37,560	37,560
Total assets	$ 323,831	$ 349,364

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

CONSOLIDATED BALANCE SHEETS (Cont.)

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

	December 31,	
	2022	**2021**
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables	11,338	7,863
Other payables and accrued expenses	38,316	38,350
Deferred revenues	36,634	41,591
Short-term operating lease liabilities	8,169	8,139
Total current liabilities	94,457	95,943
LONG-TERM LIABILITIES:		
Accrued severance pay	17,755	22,895
Deferred revenues and other liabilities	16,308	13,637
Long-term operating lease liabilities	5,551	11,391
Total long-term liabilities	39,614	47,923
COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)		
Total liabilities	134,071	143,866
SHAREHOLDERS' EQUITY:		
Share capital:		
Ordinary shares of NIS 0.01 par value - Authorized: 100,000,000 shares as of December 31, 2022 and 2021; Issued: 63,998,443 and 63,294,907 shares as of December 31, 2022 and 2021, respectively; Outstanding: 31,688,544 and 32,498,215 shares as of December 31, 2022 and 2021, respectively	109	107
Additional paid-in capital	394,941	378,766
Treasury stock at cost – 32,309,899 and 30,796,692 shares as of December 31, 2022 and 2021, respectively	(217,744)	(179,645)
Accumulated other comprehensive income (loss)	(10,953)	(223)
Retained earnings (accumulated deficit)	23,407	6,493
Total shareholders' equity	189,760	205,498
Total liabilities and shareholders' equity	$ 323,831	$ 349,364

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Year Ended December 31,		
	2022	**2021**	**2020**
Revenues:			
Products	$ 164,302	$ 155,089	$ 145,332
Services	110,791	93,831	75,442
Total revenues	275,093	248,920	220,774
Cost of revenues:			
Products	63,686	52,750	54,384
Services	32,629	25,279	16,574
Total cost of revenues	96,315	78,029	70,958
Gross profit	178,778	170,891	149,816
Operating expenses:			
Research and development, net	59,842	53,396	46,072
Selling and marketing	70,123	62,057	51,217
General and administrative	17,494	15,914	14,177
Total operating expenses	147,459	131,367	111,466
Operating income	31,319	39,524	38,350
Financial income (expenses), net	2,864	123	(1,703)
Income (loss) before taxes on income	34,183	39,647	36,647
Taxes on income	5,717	5,896	9,399
Net income	$ 28,466	$ 33,751	$ 27,248
Earnings per share:			
Basic	$ 0.89	$ 1.03	$ 0.87
Diluted	$ 0.88	$ 1.00	$ 0.83
Weighted average number of shares used in computations of earnings per share:			
Basic	31,849,422	32,703,478	31,440,093
Diluted	32,500,141	33,845,559	32,915,683

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year Ended December 31,		
	2022	**2021**	**2020**
Net income	$ 28,466	$ 33,751	$ 27,248
Other comprehensive income (loss) related to:			
Change in unrealized gains (losses) on marketable securities available-for-sale, net of tax:			
Gain (loss) on marketable securities recognized in other comprehensive income	(5,434)	(1,395)	453
Other comprehensive income (loss) related to unrealized gains (losses) on marketable securities available-for-sale	(5,434)	(1,395)	453
Change in unrealized gains (losses) on cash flow hedges, net of tax:			
Gain (loss) on derivative instruments recognized in other comprehensive income,	(8,979)	1,538	3,445
Gain (loss) on derivative instruments recognized in income	3,683	(2,138)	(2,126)
Other comprehensive income (loss), related to unrealized gains (losses) on cash flow hedges, net of tax	(5,296)	(600)	1,319
Other comprehensive income (loss), net of tax	(10,730)	(1,995)	1,772
Total comprehensive income	$ 17,736	$ 31,756	$ 29,020

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Share capital	Additional paid-in capital	Treasury stock	Accumulated other comprehensive income (loss)	Retained earnings (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 vesting of 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
Purchase of treasury stock	-	-	(41,852)	-	-	(41,852)
Issuance of shares upon exercise of options and vesting of RSUs	2	2,438	-	-	-	2,440
Share-based compensation related to options and RSUs granted to employees and non-employees	-	14,164	-	-	-	14,164
Cash dividends paid	-	-	-	-	(10,865)	(10,865)
Other comprehensive loss	-	-	-	(1,995)	-	(1,995)
Net income	-	-	-	-	33,751	33,751
Balance as of December 31, 2021	107	378,766	(179,645)	(223)	6,493	205,498
Purchase of treasury stock	-	-	(38,099)	-	-	(38,099)
Issuance of shares upon exercise of options and vesting of RSUs	2	1,053	-	-	-	1,055
Share-based compensation related to options and RSUs granted to employees and non-employees	-	15,122	-	-	-	15,122
Cash dividends paid	-	-	-	-	(11,552)	(11,552)
Other comprehensive loss	-	-	-	(10,730)	-	(10,730)
Net income	-	-	-	-	28,466	28,466
Balance as of December 31, 2022	109	394,941	(217,744)	(10,953)	23,407	189,760

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,		
	2022	**2021**	**2020**
Cash flows from operating activities:			
Net income	$ 28,466	$ 33,751	$ 27,248
Adjustments required to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,984	2,432	2,268
Amortization of marketable securities premiums and accretion of discounts, net	1,513	1,589	172
Share-based compensation related to options and RSUs granted to employees and non-employees	15,122	14,164	8,771
Cash financial expenses (income), net	(892)	54	(26)
Decrease in deferred tax assets, net	1,780	3,406	8,329
Increase in trade receivables, net	(20,567)	(14,438)	(7,017)
Increase in other receivables and prepaid expenses	(1,621)	(1,221)	(1,516)
Decrease (increase) in inventories	(12,653)	4,504	(1,525)
Decrease in operating lease right-of-use assets	6,639	7,445	7,913
Decrease in operating lease liabilities	(9,509)	(7,556)	(6,717)
Decrease in royalty buyout liability	-	(11,684)	(9,815)
Increase in trade payables	3,475	879	356
Increase (decrease) in other payables and accrued expenses	(4,077)	9,601	3,839
Increase (decrease) in deferred revenues	(2,030)	5,480	5,906
Increase (decrease) in accrued severance pay, net	(349)	(1,062)	290
Net cash provided by operating activities	8,281	47,344	38,476
Cash flows from investing activities:			
Purchase of property and equipment	(1,487)	(1,174)	(1,530)
Purchase of marketable securities	-	(43,808)	(54,977)
Purchase of financial investments	(16,615)	-	-
Proceeds from redemption of marketable securities	1,123	3,240	-
Proceeds from redemption of financial investments	1,052	-	-
Proceeds from sale of marketable securities	2,250	2,571	-
Investment in short-term and restricted bank deposits	(5,000)	-	(84,000)
Proceeds from short-term and restricted bank deposits	10	84,597	599
Proceeds from long-term and restricted bank deposits	94	-	600
Net cash paid for acquisition of subsidiary	(1,100)	(2,804)	-
Net cash provided by (used in) investing activities	$ (19,673)	$ 42,622	$ (139,308)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

U.S. dollars in thousands

	Year Ended December 31,		
	2022	**2021**	**2020**
Cash flows from financing activities:			
Purchase of treasury stock	$ (38,099)	$ (41,852)	$ -
Repayment of long-term bank loans	-	(1,200)	(2,497)
Cash dividends paid	(11,552)	(10,865)	(8,442)
Proceeds from issuance of shares upon exercise of options	1,055	2,440	2,606
Proceeds from issuance of shares in a public offering, net	-	-	85,426
Net cash provided by (used in) financing activities	(48,596)	(51,477)	77,093
Increase (decrease) in cash, cash equivalents and restricted cash	(59,988)	38,489	(23,739)
Cash, cash equivalents and restricted cash at the beginning of the year	84,523	46,034	69,773
Cash, cash equivalents and restricted cash at the end of the year	$ 24,535	$ 84,523	$ 46,034
Supplemental disclosure of cash flow activities:			
Cash paid during the year for income taxes	$ 4,024	$ 1,584	$ 835
Cash paid during the year for interest	$ -	$ 455	$ 204
Significant non-cash transactions:			
Inventory transferred to be used as property and equipment	$ 264	$ 701	$ 607
Operating lease right-of-use asset recognized with corresponding lease liability	$ 3,699	$ (1,528)	$ 3,655

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

NOTE 1:- GENERAL

a. Business overview:

AudioCodes Ltd. (the "Company") and its subsidiaries (together with the Company, 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. Material customers and suppliers:

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

During the years ended December 31, 2022, 2021 and 2020, the Group had a major customer which accounted for 15.1%, 15.4% and 13.0%, respectively, of total revenues in those years. In addition, during the years ended December 31, 2022, 2021 and 2020, the Group had an additional major customer which accounted for 10.0%, 10.9% and 13.5%, respectively, of total revenues the years ended December 31, 2022, 2021 and 2020. No other customer accounted for more than 10% of the Group's revenues in the years ended December 31, 2022, 2021 and 2020.

c. COVID-19:

The COVID-19 pandemic has impacted, and continues to impact, the markets that the Group serves. In particular, the COVID-19 pandemic resulted in an unprecedented shift to work-from-home for many enterprises and contact centers, and a need to enable remote teams and agents to communicate and collaborate, regardless of their location. Moreover, there has also been a significant increase in the consumption of online services resulting from lockdowns in many countries, thus increasing the load on support centers. The COVID-19 pandemic has disrupted supply chains and affected production and sales across a range of industries, including the industry in which the Group operates. While the Group has previously managed, and will continue to actively manage, the Group’s business in an attempt to mitigate the impacts of the COVID-19 pandemic, the Group cannot at this time

NOTE 1:- GENERAL (Cont.)

estimate the duration or full magnitude that the COVID-19 pandemic could ultimately have on the Group's business, results of operations and financial condition.

d. Ongoing conflict in Ukraine:

In February 2022, Russia launched a large-scale invasion of Ukraine, and Russia and Ukraine continue to engage in active and armed conflict. Such conflict has resulted, and will likely continue to result in, significant destruction of Ukraine's infrastructure and substantial casualties amongst military personnel and civilians. As a result of Russia's invasion of Ukraine, the governments of several nations have implemented commercial and economic sanctions against Russia (as well as certain banks, companies, government officials, and other individuals in Russia and Belarus). In addition to governmental entities, actors in the private sector, including, among others, tech firms, consumer brands and major manufacturers, have stopped, or publicly announced that they intend to stop, operations in Russia and cease their partnerships with Russian firms, and shippers, insurance companies and refiners have similarly indicated that they will no longer purchase or ship crude oil from Russia.

In March 2022, Israel's then Foreign Minister Mr. Yair Lapid indicated that Israel would not function as a route to bypass sanctions imposed on Russia by the United States and other western countries, and Israeli banks have elected to sever relationships with sanctioned Russian banks. Israel has not, as of the date of this Annual Report, imposed explicit sanctions on Russia or Belarus; however, it has publicly rejected Russia's annexation of the four occupied regions of Ukraine and voiced support for Ukraine's sovereignty and territorial integrity. Moreover, Israeli companies that maintain ties to the United States, the United Kingdom and the European Union could be indirectly subject to the measures imposed by such nations.

While it is not possible to predict or determine the ultimate consequences and impact of the conflict in Ukraine, such conflict could result in, among other things, significant regional instability and geopolitical shifts, and material and adverse effects on global macroeconomic conditions, financial markets, exchange rates and supply chains. To the extent negotiations between Russia and Ukraine are ultimately unsuccessful, the conflict in Ukraine could have a lasting impact in the near- and long-term on the financial condition, business and operations of the Group's business (and the businesses of the counterparties with whom the Group engages), and the global economy at large.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"), applied on a consistent basis as follows:

a. 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 consolidated financial statements. The Company's management believes

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

that the estimates, judgments and assumptions used are reasonable based upon information available at the time they were made. As applicable to these consolidated financial statements, the most significant estimates and assumptions relate to revenue recognition and allowance for sales returns, allowance for credit losses, inventories write-off, intangible assets, goodwill, income taxes and valuation allowance, share-based compensation and contingent liabilities. Actual results could differ from those estimates.

b. Financial statements in U.S. dollars ("dollars"):

A majority of the Group's revenues is generated in dollars. In addition, most of the Group's costs are denominated and determined in dollars and in new Israeli shekels ("NIS"). Management believes that the dollar is the currency in the primary 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 dollars in accordance with Accounting Standards Codification ("ASC") 830, "Foreign Currency Matters". All transaction gains and losses of the remeasured monetary balance sheet items are reflected in the consolidated statements of operations as financial income or expenses, as appropriate.

c. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances, including profits from intercompany sales not yet realized outside the Group, have been eliminated upon consolidation.

d. Cash equivalents:

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

e. Short-term and restricted bank deposits:

Short-term and restricted bank deposits are deposits with maturities of more than three months, but less than one year. The deposits are mainly in dollars and bear interest at an average annual rate of 1.06% and 0.28% for the years ended December 31, 2022 and 2021, respectively. Short-term and restricted deposits are presented at cost. Any accrued interest on these deposits is included in other receivables and prepaid expenses.

	December 31, 2022	December 31, 2021
Cash and cash equivalents	$ 24,535	$ 79,423
Restricted cash	-	5,100
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 24,535	$ 84,523

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

f. Marketable securities:

The Group accounts for investments in debt securities in accordance with ASC 320, "Investments - Debt Securities".

Management determines the appropriate classification of its investments in marketable debt securities at the time of purchase and reevaluates such determinations at each balance sheet date.

As of December 31, 2022, the Group classified all of its marketable securities as available-for-sale ("AFS"). AFS securities are carried out at fair value, with the unrealized gains and losses, net of tax, reported in "accumulated other comprehensive loss" in shareholders' equity. Realized gains and losses on sale of investments are included in "financial income (expenses), net" and are derived using the specific identification method for determining the cost of securities. The amortized cost of debt securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization, together with interest on securities, is included in "financial income (expenses), net".

The Group periodically evaluates its AFS debt securities for impairment in accordance with Accounting Standards Update ("ASU”) 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". If the amortized cost of an individual security exceeds its fair value, the Company considers its intent to sell the security or whether it is more likely than not that it will be required to sell the security before recovery of its amortized basis. If either of these criteria are met, the Company writes down the security to its fair value and records the impairment charge in the Consolidated Statements of operations. If neither of these criteria are met, the Company assesses whether credit loss exists. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss may exist, the present value of the cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses will be recorded, limited by the amount that the fair value is less than the amortized cost basis. Any additional impairment not recorded through an allowance for credit losses is recognized in other comprehensive income.

During the years ended December 31, 2022, 2021 and 2020, the Group's credit losses were immaterial.

g. Long-term and restricted bank deposits:

Bank deposits and the related accrued interest with maturities of more than one year are included in long-term investments and presented at their cost. Accrued interest that is payable within a one-year period is included in other receivables and prepaid expenses.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Inventories:

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

Raw materials - using the "weighted average cost" method; and

Finished products - using the "weighted average cost" method with the addition of direct manufacturing costs.

The Group periodically evaluates the quantities on hand relative to current and historical selling prices, historical and projected sales volume and technological obsolescence. Based on these evaluations, inventory write-offs are taken based on slow moving items, technological obsolescence, excess inventories, discontinuation of product lines, and market prices lower than cost.

i. 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% to 20% (mainly 15%)
Leasehold improvements	Over the shorter of the term of the lease, or the useful life of the assets

The Group's long-lived assets (asset group) to be held and used, including right of use assets and intangible that are subject to amortization are reviewed for impairment in accordance with ASC 360, "Property, Plant and Equipment" whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. If such assets are considered to be impaired, recoverability of assets (asset group) to be held and used is measured by a comparison of the carrying amount of an asset (asset group) to the future undiscounted cash flows expected to be generated by the asset. The impairment to be recognized is measured by the amount by which the carrying amount of the assets (asset groups) exceeds the fair value of the assets (asset groups).

During the years ended December 31, 2022, 2021 and 2020, no impairment losses have been identified.

j. Intangible assets:

Intangible assets are comprised of acquired technology, customer relations and licenses. Intangible assets that are not considered to have an indefinite useful life are amortized using the straight-line basis over their estimated useful lives, which range from 4 to 10 years.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Leases:

The Group evaluates the contracts it enters into to determine whether such contracts contain leases. A contract contains a lease if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Group determines if an arrangement is a lease at inception of the contract, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. The commencement date of the lease is the date that the lessor makes an underlying asset available for the lessee's use. At commencement, contracts containing a lease are further evaluated for classification as an operating or finance lease where the Company is a lessee, or as an operating, sales-type or direct financing lease where the Company is a lessor, based on their terms.

As the Group's lease arrangements as a lessee do not provide an implicit rate, the Group uses its incremental estimated borrowing rate at lease commencement to measure ROU assets and lease liabilities. Operating lease expense is generally recognized on a straight-line basis over the lease term. For leases with a term of one year or less, the Group elected not to record the ROU asset or liability. The Group elected to not recognize a lease liability or ROU asset for leases with a term of twelve months or less. The Group also elected the practical expedient to not separate lease and non-lease components for its leases.

A portion of the Group's sales of equipment to customers are made through bundled lease arrangements which typically include software license, equipment and services. Revenues under these bundled lease arrangements are allocated considering the relative standalone selling prices of the lease and non-lease components included in the bundled arrangement. The two primary accounting provisions the Group use to classify transactions as sales-type or operating leases are: (i) a review of the lease term to determine if it is for the major part of the economic life of the underlying equipment; and (ii) a review of the present value of the lease payments to determine if they are equal to or greater than substantially all of the fair market value of the equipment at the inception of the lease. Equipment included in arrangements meeting these conditions are accounted for as sales-type leases and revenue is recognized at lease commencement. Equipment included in arrangements that do not meet these conditions are accounted for as operating leases and revenue is recognized over the term of the lease. For the year ended December 31, 2022, equipment leases that were classified as operating leases were immaterial.

l. Goodwill:

Goodwill and certain other purchased intangible assets have been recorded in the Group's financial statements as a result of acquisitions.

Goodwill represents the excess of the purchase price over the estimated fair value of net assets of a business acquired in a business combination. Under ASC 350, "Intangibles - Goodwill and Other", goodwill is not amortized, but rather is subject to an impairment test at least annually.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Group performs an annual impairment test of goodwill in the fourth quarter of each fiscal year, or more frequently. if events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is tested for impairment at the reporting unit level, by first performing a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If the reporting unit does not pass the qualitative assessment, the Company carries out a quantitative test for impairment of goodwill, by comparing the fair value of the reporting unit with the carrying amount of the reporting unit that includes goodwill. The Company may bypass the qualitative assessment and proceed directly to performing the quantitative goodwill impairment test. The Company operates as one reporting segment, and this segment comprises its only reporting unit. Therefore, goodwill is tested for impairment at that level. The Company did not record goodwill impairment charges during the years ended December 31, 2022, 2021 and 2020.

m. Revenue recognition:

The Group generates its revenues primarily from the sale of software licenses, equipment, and related services through a direct sales force and sales representatives. The Group's products are delivered to its customers, which include original equipment manufacturers, network equipment providers, systems integrators, enterprises, carriers and distributors in the telecommunications and networking industries, all of whom are considered end-users.

Revenues are recognized in accordance with ASC 606, "Revenue from Contracts with Customers”. As such, the Group identifies a contract with a customer, identifies the performance obligations in the contract, determines the transaction price, allocates the transaction price to each performance obligation in the contract and recognizes revenues when (or as) the Group satisfies its performance obligations.

The Group enters into contracts that can include combinations of products and services that are capable of being distinct and accounted for as separate performance obligations. The software licenses and equipment are distinct as the customer can derive the economic benefit of it without any additional services. The Group allocates the transaction price to each performance obligation, based on its relative standalone selling price out of the total consideration of the contract.

Software license and equipment revenues are recognized at the point of time when control is transferred,

Revenues from maintenance and support services are recognized over time ratably over the term of the contract.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

As the Group generally does not sell the products separately on a standalone basis, the standalone selling prices are not directly observable. Therefore, the Group makes estimates, based on reasonably available information. The estimated selling price is established considering multiple factors such as historical selling prices, internal pricing practices, gross margin objectives and discount policy.

The Group grants to certain customers a right of return or the ability over a limited period of time to exchange for other products a specific percentage of the total price paid for products they have purchased. The Group maintains a provision for product returns and exchanges and other incentives, based on its experience with historical sales returns, analysis of credit memo data and other known factors, all in accordance with ASC 606. This provision is deducted from revenues and amounted to $2,704 and $3,509 as of December 31, 2022 and 2021, respectively. This provision was recorded as part of other payables and accrued expenses.

In instances of contracts where revenue recognition differs from the timing of invoicing, the Company generally determined that those contracts do not include a significant financing component. The primary purpose of the invoicing terms is to provide customers with simplified and predictable ways of purchasing the Company's products and services, not to receive or provide financing. The Company uses the practical expedient and does not assess the existence of a significant financing component when the difference between payment and revenue recognition is a year or less.
Deferred revenues include amounts invoiced to customers for which revenue has not yet been recognized. Deferred revenues are recognized as (or when) the Group performs the performance obligations under the contract.

The Group pays sales commissions to sales and marketing personnel, based on their attainment of certain predetermined sales goals. Amortization expenses related to these costs are included in selling and marketing expenses in the consolidated statements of operations.

The Group has included as part of other receivables and prepaid expenses in its consolidated balance sheet, costs to obtain a contract in the amount of $829 and $635, as of December 31, 2022 and 2021, respectively.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Remaining performance obligations represents contracted revenues that have not yet been recognized, which includes deferred revenues and non-cancelable contracts that will be recognized as revenue in future periods. The following table represents the remaining performance obligations as of December 31, 2022, which are expected to be satisfied and recognized in future periods:

	Year Ending December 31,		
	2023	2024	2025 and thereafter
Products	$ 72	$ 12	$ 1
Services	36,562	8,711	7,228
	$ 36,634	$ 8,723	$ 7,229

Significant changes in the balances of deferred revenues during the years are as follows:

	Year Ended December 31,	
	2022	2021
Balance, at the beginning of the year	$ 54,616	$ 49,136
Revenue recognized	(38,625)	(31,456)
Increase in deferred revenues and customer advances	36,595	36,936
Balance, at the end of the year	52,586	54,616
Less current portion at the end of the year	(36,634)	(41,591)
Long-term portion at the end of the year	$ 15,952	$ 13,025

n. Warranty costs:

The Group usually provides an assurance-type warranty for a 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 liability and adjusts the amount as necessary. As of December 31, 2022 and 2021, the provision for warranty amounted to $212 and $187, respectively.

o. Research and development costs:

ASC 985-20, "Costs of Software to Be Sold, Leased, or Marketed", requires capitalization of certain software development costs subsequent to the establishment of technological feasibility.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Based on the Company's product development process, technological feasibility is established upon the completion of a working model. The Company does not incur material costs between the completion of a working model and the point at which the product is ready for general release. Therefore, research and development costs are charged to the consolidated statement of operations, as incurred.

Participation grants from the Israel Innovation Authority (the "IIA") for research and development activity are recognized at the time the Company is entitled to such grants based on the costs incurred and included as a deduction from research and development costs. Research and development grants recognized during the years ended December 31, 2022, 2021 and 2020 were $624, $570 and $388, respectively.

p. Income taxes:

The Group accounts for income taxes in accordance with ASC 740, "Income Taxes". ASC 740 prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between the financial reporting and tax bases of assets and liabilities and for carryforward tax losses. Deferred taxes are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Group records a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value if it is more-likely-than-not that some portion of or the entire amount of the deferred tax asset will not be realized.

In addition, ASC 740 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The first step is to evaluate the tax position taken or expected to be taken in a tax return. This is done by determining if the weight of available evidence indicates that it is more-likely-than-not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

Interest and penalties assessed by taxing authorities on an underpayment of income taxes are included as a component of income tax expense in the consolidated statements of operations.

q. Accumulated other comprehensive income (loss) ("AOCI"):

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income", which establishes standards for the reporting and presentation of comprehensive income (loss) and its components in a full set of general purpose financial statements. Comprehensive income (loss) generally represents all changes in shareholders' equity during the period except those resulting from investments by, or distributions to, shareholders.

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The components of AOCI were as follows:

	Gains (losses) on available-for-sale marketable securities	Gains (losses) on cash flow hedges	Total
Balance as of January 1, 2022	$ (942)	$ 719	$ (223)
Other comprehensive loss before reclassifications, net of tax	(5,434)	(8,979)	(14,413)
Amounts reclassified from AOCI	-	3,683	3,683
Other comprehensive income (loss), net of tax	(5,434)	(5,296)	(10,730)
Balance as of December 31, 2022	$ (6,376)	$ (4,577)	$ (10,953)

	Year Ended December 31,		
	2022	2021	2020
Amounts reclassified from AOCI			
Cost of revenues	$ 814	$ (513)	$ (497)
Research and development, net	1,735	(990)	(937)
Selling and marketing	708	(406)	(375)
General and administrative	426	(229)	(317)
Total operating expenses (income), before income taxes	$ 3,683	$ (2,138)	$ (2,126)

The effects on net income of amounts reclassified from AOCI in the year ended December 31, 2022 derive from realized losses on cash flow hedges recorded in operating expenses and from realized losses on available-for-sale marketable securities recorded in financial income (expenses), net.

r. Concentrations of credit risk:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, bank deposits, trade receivables, marketable securities and foreign currency derivative contracts.

The majority of the Group's cash and cash equivalents, bank deposits and foreign currency derivative contracts are invested in dollar denominated instruments with major banks in Israel and in the United States. The Group is exposed to credit risk in the event of default by financial institutions to the extent of the amounts recorded on the accompanying consolidated balance sheets exceed federally insured limits. Management believes that the financial institutions that hold the Group's investments are corporations with high credit standing.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Accordingly, management believes that low credit risk exists with respect to these financial investments.

Marketable securities include investments in dollar-denominated corporate bonds. Marketable securities consist of highly liquid debt instruments with high credit standing. The Company's investment policy, approved by the Board of Directors, limits the amount the Group may invest in any one type of investment or issuer, thereby reducing credit risk concentrations. Management believes that the Group's portfolio is well diversified and, accordingly, minimal credit risk exists with respect to these marketable debt securities.

The trade receivables of the Group are derived from sales to customers located primarily in the Americas, Eastern Asia, Israel and Europe. Under certain circumstances, the Group may require letters of credit, other collateral, additional guarantees or advance payments.

Regarding certain credit balances, the Group is covered by foreign trade risk insurance. The Group performs ongoing credit evaluations of its customers and establishes an allowance for credit losses.

s. Earnings per share:

Basic earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year, plus potential dilutive ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings per Share".

Certain outstanding options and restricted share units ("RSUs") have been excluded from the calculation of the diluted earnings per share since such securities are anti-dilutive for all years presented. The total weighted average number of shares related to the outstanding options and RSUs that have been excluded from the calculation of diluted earnings per share was 153,191, 26,686 and 64,312 for the years ended December 31, 2022, 2021 and 2020, respectively.

t. Accounting for share-based compensation:

The Company accounts for share-based compensation in accordance with ASC 718, "Compensation-Stock Compensation". ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated statement of operations.

The weighted-average estimated fair value of employee stock options granted during the years ended December 31, 2022, 2021 and 2020, was $8.99, $10.64, and $8.55 per share, respectively, using the Black-Scholes option pricing model. Fair values were estimated using the following weighted-average assumptions (annualized percentages):

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

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

	Year Ended December 31,		
	2022	2021	2020
Dividend yield	1.13%	0.88%	1.01%-1.17%
Expected volatility	47.64%	49.45%	37.89%-43.09%
Risk-free interest	2.83%	0.5%	0.29%-1.43%
Expected life	4.10 years	3.61 years	3.57-4.23 years

The Company used its historical volatility in accordance with ASC 718. The computation of volatility uses historical volatility derived from the Company's exchange traded shares. The expected term of options granted is estimated based on historical experience and represents the period of time that options granted are expected to be outstanding. The risk free interest rate assumption is the implied yield currently available on United States treasury zero-coupon issues with a remaining term equal to the expected life of the Company's options. The dividend yield assumption is based on the Company's historical

experience and expectation of future dividend payouts and may be subject to substantial change in the future. The Company paid its first cash dividend during the third quarter of 2018 and has been paying cash dividends on a bi-annual basis since then. The Company currently expects to continue pay cash dividends in the future, subject to receipt of required Israeli court approvals, although there can be no assurance that it will do so. See also Note 12.

The total share-based compensation expenses relating to all of the Company's share-based awards recognized for the years ended December 31, 2022, 2021 and 2020 were included in items of the consolidated statements of operations, as follows:

	Year Ended December 31,		
	2022	2021	2020
Cost of revenues	$ 425	$ 411	$ 181
Research and development expenses, net	3,481	2,772	1,535
Selling and marketing expenses	6,032	6,170	3,635
General and administrative expenses	5,184	4,811	3,420
Total share-based compensation expenses	$ 15,122	$ 14,164	$ 8,771

u. Treasury stock:

The Company repurchases its ordinary shares from time to time in the open market and holds such repurchased shares as treasury stock. The Company presents the cost to repurchase treasury stock as a reduction of shareholders' equity. See also Note 12a.

v. Severance pay:

The liability for severance pay for Israeli employees is calculated pursuant to the Israeli Severance Pay Law, 1963 (the "Severance Pay Law"), based on the most recent salary of

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

the employees multiplied by the number of years of employment as of the balance sheet date for all employees in Israel. Employees who have been employed for more than a one-year period 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 for by monthly deposits with severance pay funds, pension funds, insurance policies and by an accrual. The value of these deposits is recorded as an asset in the Company's consolidated balance sheet.

The deposited funds include profits accumulated up to the consolidated balance sheets date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to the Severance Pay Law or labor agreements.

Since March 2011, the Group's agreements with new Israeli employees are under Section 14 of the Severance Pay Law. The Group's contributions for severance pay have replaced its severance pay obligation. Upon contribution of the full amount of the employee's monthly salary for each year of service, no additional calculations are conducted between

the parties regarding the matter of severance pay and no additional payments are made by the Group to the employee upon termination. The Group is legally released from the obligations to employees once the deposit amounts have been paid, and therefore the severance pay liability is not reflected in the balance sheet.

Severance pay expenses for the years ended December 31, 2022, 2021 and 2020, amounted to $3,907, $2,373 and $3,078, respectively.

w. Employee benefit plan:

The Group has 401(k) defined contribution plans covering employees in the United States. All eligible employees may elect to contribute a portion of their annual compensation to the plan through salary deferrals, subject to the IRS limit of $20.5 during the years ended December 31, 2022 and 2021, plus a catch-up contribution of $6.5 for participants aged 50 or over. The Group matches 50% of employees' contributions, up to a maximum of 6% of the employees' annual pay. In the years ended December 31, 2022, 2021 and 2020, the Group matched contributions in the amount of $531, $431 and $386, respectively.

x. Advertising expenses:

Advertising expenses are charged to the consolidated statements of operations as incurred. Advertising expenses for the years ended December 31, 2022, 2021 and 2020 amounted to $1,733, $582 and $371, respectively.

y. Fair value of financial instruments:

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820, "Fair Value Measurements and Disclosures"

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Observable inputs, other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs which are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. See also Note 8.

The estimated fair value of financial instruments has been determined by the Group using available market information and valuation methodologies. Considerable judgment is required in estimating fair values. Accordingly, the estimates may not be indicative of the amounts the Group could realize in a current market exchange.

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, bank deposits, trade receivables, trade payables, other receivables and other payables and accrued expenses approximate their fair value due to the short-term maturity of such instruments. The carrying value of long-term bank loans also approximates its fair value, since it bears interest at rates close to the prevailing market rates.

The fair value of foreign currency contracts is estimated by obtaining current quotes from banks and market observable data of similar instruments.

The fair value of marketable securities is estimated by obtaining the fair value of the marketable securities from the bank, which is based on current quotes and market value provided by external service providers.

The fair value of financial investments consists of investments in limited partnerships, that are valued at the net asset value ("NAV") which is a practical expedient to their estimate fair value. The NAV is provided by the fund administrator and is based on the value of the underlying assets owned less its liabilities.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Derivative instruments and hedging:

The Group accounts for derivative instruments and hedging based on ASC 815, "Derivatives and Hedging".

The Group accounts for its derivative instruments as either assets or liabilities and carries them at fair value. Derivative instruments that are not designated and qualified as hedging instruments must be adjusted to fair value through earnings. The changes in the fair value of such instruments are included as gain or loss in "financial income (expenses), net" at each reporting period.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive loss in equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings and is classified as payroll and rent expenses.

To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions.

aa. Recently adopted accounting standards:

In December 2019, the Financial Accounting Standards Board (the "FASB") issued ASU 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes", which simplifies the accounting for income taxes. This guidance became effective for the first quarter of 2021 on a prospective basis. The implementation of ASU 2019-12 in the year ended December 31, 2021, did not have a material impact on the Company’s consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805)". ASU 2021-08 creates an exception to the general recognition and measurement principle for contract assets and contract liabilities from contracts with customers acquired in a business combination. Under this exception, an acquirer applies ASC 606 to recognize and measure contract assets and contract liabilities on the acquisition date. ASC 805 generally requires the acquirer in a business combination to recognize and measure the assets it acquires and the liabilities it assumes at fair value on the acquisition date. The ASU 2021-08 will become effective for fiscal years beginning after December 15, 2022. The adoption of this ASU is not expected to have a material impact on the Company’s consolidated financial statements.

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

NOTE 3:- ACQUISITION OF CALLVERSO LTD. ("CALLVERSO")

On November 10, 2021 (the "Closing Date"), the Company entered into a share purchase agreement (the "Share Purchase Agreement"), pursuant to which the Company acquired 100% of the outstanding shares of Callverso, a leading Israeli developer and provider of conversational AI solutions for contact centers. Following the transaction. Immediately following the transaction, Callverso became a wholly-owned subsidiary of the Company.

The acquisition of Callverso was accounted for using the purchase method. The $3,000 purchase price for the acquisition was composed of the following amounts: (i) a $2,900 payment in cash payable on the Closing Date, of which $300 was deposited in escrow for a period of 12 months following the Closing Date; and (ii) $100 retained as security for any liabilities of Callverso as of the Closing. The foregoing amount was paid in full in January 2022.

As part of the Share Purchase Agreement, the Company also agreed to pay an earn-out amount, based on the sales of the Company's products related to Callverso technology and subject to the employment of the former shareholders of Callverso. The maximum earn-out amount is $6,000 and is to be paid over three years as follows: (i) up to $2,000 was payable on January 31, 2023 ,based on sales in 2022; (ii) up to $2,000 is payable on January 31, 2024, based on sales in 2023; and (iii) up to $2,000 is payable on January 31, 2025, based on sales in 2024 (collectively, the "Earn-Out Payments").

The Earn-Out Payments and the Deferred Payments will be recorded as payroll expenses since the payments are subject to continuing employment.

The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed as of the Closing Date:

Current assets	$ 152
Technology	1,958
Customer relationships	201
Total identifiable assets acquired	2,311
Current liabilities	(152)
Deferred tax liability	(497)
Total identifiable liabilities assumed	(649)
Net identifiable assets acquired	1,662
Goodwill	1,338
Net assets acquired	$ 3,000

NOTE 3:- ACQUISITION OF CALLVERSO LTD. (Cont.)

The fair values of the acquired technology and customer relationships were valued using the income approach. This method utilized a forecast of expected cash inflows, cash outflows and contributory charges for economic returns on tangible and intangible assets employed.

The excess of the purchase price over the preliminary assessment of the net tangible and intangible assets acquired resulted in goodwill of $1,338. The goodwill is primarily attributable to expected synergies resulting from the acquisition. The acquired technology and customer relationships are being amortized on a straight-line basis over a period of 4 and 4.5 years, respectively.

On December 22, 2021, a merger agreement was entered into by the Company and Callverso in connection with an internal restructuring. The merger was made effective as of January 1, 2022.

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

NOTE 4:- MARKETABLE SECURITIES

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

	December 31, 2022			
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Maturing within one year:				
Corporate bonds	$ 1,531	$ -	$ (32)	$ 1,499
Maturing between one to five years:				
Corporate bonds	81,866	-	(7,897)	73,969
Governmental bonds	2,880	-	(282)	2,598
Balance as of December 31, 2022	$ 86,277	$ -	$ (8,211)	$ 78,066

	December 31, 2021			
	Amortized cost	Gross Unrealized gains	Gross Unrealized losses	Fair Value
Maturing between one to five years:				
Corporate bonds	$ 88,327	$ 54	$ (1,248)	$ 87,133
Governmental bonds	2,880	-	(37)	2,843
Balance as of December 31, 2021	$ 91,207	$ 54	$ (1,285)	$ 89,976

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2022, and the length of time that those investments have been in a continuous loss position:

	Less than 12 months		12 months and greater	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
As of December 31, 2022	$ 3,411	$ (225)	$ 74,655	$ (7,986)

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

NOTE 5:- INVENTORIES

	December 31, 2022	December 31, 2021
Raw materials	$ 14,541	$ 15,263
Finished products	21,836	8,725
	$ 36,377	$ 23,988

During the year ended December 31, 2022, the Group's inventory write off was immaterial. The Group wrote off inventory in a total amount of approximately $1.7 million and $4.2 million in the years ended December 31, 2021, and 2020, respectively.

NOTE 6:- PROPERTY AND EQUIPMENT, NET

	December 31, 2022	December 31, 2021
Cost:		
Computers and peripheral equipment	$ 25,840	$ 24,561
Office furniture and equipment	12,858	12,578
Leasehold improvements	3,375	3,184
	42,073	40,323
Accumulated depreciation:		
Computers and peripheral equipment	23,984	22,644
Office furniture and equipment	11,291	10,689
Leasehold improvements	2,833	2,596
	38,108	35,929
Depreciated cost	$ 3,965	$ 4,394

Depreciation expenses amounted to $2,181, $2,074 and $1,936 for the years ended December 31, 2022, 2021 and 2020, respectively.

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

NOTE 7:- INTANGIBLE ASSETS, NET

	Useful life (years)	December 31, 2022	December 31, 2021
a. Cost:			
Acquired technology and license	4 - 10	$ 21,815	$ 21,815
Customer relationship	4.5 - 9	4,951	4,951
		26,766	26,766
Accumulated amortization:			
Acquired technology and license		20,399	19,639
Customer relationship		4,801	4,757
		25,200	24,396
Amortized cost		$ 1,566	$ 2,370

b. Amortization expenses related to intangible assets amounted to $804, $358 and $332 for the years ended December 31, 2022, 2021 and 2020, respectively.

c. Expected amortization expenses are as follows:

Year ending December 31,	
2023	$ 545
2024	532
2025 and thereafter	489
	$ 1,566

NOTE 8:- 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:

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

NOTE 8:- FAIR VALUE MEASUREMENTS (Cont.)

	December 31, 2022			
	Fair value measurements using input type			
	Level 2	Total	NAV	Total
Marketable securities	$ 78,066	$ 78,066	$ -	$ -
Financial investments	-	-	16,500	16,500
Financial assets related to foreign currency derivative hedging contracts	(5,143)	(5,143)	-	-
Total financial net assets as of December 31, 2022	$ 72,923	$ 72,923	$ 16,500	$ 16,500

	December 31, 2021	
	Fair value measurements using input type	
	Level 2	Total
Marketable securities	$ 89,976	$ 89,976
Financial assets related to foreign currency derivative hedging contracts	812	812
Total financial net assets as of December 31, 2021	$ 90,788	$ 90,788

	December 31, 2022		
	Fair Value	Redemption Frequency	Redemption Notice Period
Financial Investments:			
Secured Bridge Loans Fund	$ 15,258	Monthly (Eligible)	90 days
Secured Bridge Loans Fund	1,242	-	-
	$ 16,500		

This class includes several Secured Bridge Loans Funds that offer short-term loans to various companies which are mostly secured by real-estate assets. The fair values of the investments in this class have been estimated using the net asset value ("NAV") of the Company's ownership interest in partners' capital. Almost all investments funds (except one) can be redeemed by the investees after 12 months from the investment date and upon 90 days’ advance notice.

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

NOTE 8:- FAIR VALUE MEASUREMENTS (Cont.)

There is one investment in equity fund which is locked-up until its maturity after five years from investment date. Gains from the financial investments amounted to $937 for the year ended December 31, 2022.

NOTE 9:- OTHER PAYABLES AND ACCRUED EXPENSES

	December 31,	
	2022	2021
Payroll and other employee related accruals	$ 17,999	$ 21,000
Forward liability	5,150	-
Accrued expenses	9,511	9,344
Government authorities	2,806	4,226
Provision for returns	2,704	3,509
Other	146	271
	$ 38,316	$ 38,350

NOTE 10:- LEASES

a. Lease agreements:

The Group as a lessee:

The Group's facilities are leased under several lease agreements for periods ending up to 2033, with options to extend the leases ending up to 2038. In addition, the Group has various operating lease agreements with respect to motor vehicles.

Lease expenses of office rent and vehicles for the years ended December 31, 2022, 2021 and 2020 were approximately $8,015, $8,297 and $8,000, respectively. Sublease income for the years ended December 31, 2022, 2021 and 2020 were approximately $1,516, $1,547 and $1,405, respectively.
The Group's operating lease agreements have remaining lease terms ranging from one year to 10.26 years, including agreements with options to extend the leases for up to five years.

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

	Year ended December 31, 2022
Weighted average remaining lease term	1.83 years
Weighted average discount rate	2.14%

The following table presents supplemental cash flows information related to the lease costs for operating leases:

	December 31, 2022
Cash paid for amounts included in measurement of lease liabilities:	
Operating cash flows for operating leases (*)	$ 8,852

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

NOTE 10:- LEASES (Cont.)

(*) Total operating cash flows for operating leases have been reduced by lease receipt in the amount of $743 in connection with lease modification agreement of the Company's U.S. subsidiary, due to lease termination prior to its scheduled expiration date.

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

Maturities of operating lease liabilities were as follows:

Year ending December 31,		
2023	$	8,199
2024		2,112
2025		1,103
2026		847
2027 and thereafter		2,200
Total lease payments	$	14,461
Less - imputed interest	$	(743)
Present value of lease liabilities	$	13,718

In November 2022, the Company entered into a new lease agreement in Park Naymi, which is located near Messubim Junction in Israel (the "New Lease Agreement"). The New Lease Agreement will replace the current lease agreement in Israel which is scheduled to expire in January 2024. Pursuant to the New Lease Agreement, the Company will lease from the landlord an approximately 10,000 square foot facility (the "Premises"). The lease of the Premises, which is still under construction, is expected to commence in 2023. The initial lease term under the New Lease Agreement is for seven years, commencing upon the transfer of possession of the Premises. The Company additionally hold options under the New Lease Agreement to extend the lease term for additional periods of up to 12 years.

The Group as a lessor:

Revenue from sales-type leases is presented on a gross basis when the Group enters into a lease to realize value from a product that it would otherwise sell in its ordinary course of business. Interest income for the year ended December 31, 2022, was 75, and was included in financial income (expenses), net in the Consolidated Statement of Operations.

The Group recognized 19,802 and 2,152 of product revenue and cost of product revenue at the commencement date of sales-type leases for the year ended December 31, 2022. The Group's short term and long-term net investment in a lease receivable as of December 31, 2022, were 7,972 and 13,099, respectively and are presented within Trade receivables and Long-term trade receivables in the Consolidated Balance Sheets.

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

NOTE 10:- LEASES (Cont.)

The following table illustrates the Group's future sales-type lease receipts as of December 31, 2022:

Year ending December 31,		
2023	$	7,972
2024		6,632
2025		4,382
2026		1,460
2027 and thereafter		625
Total Future Minimum receipts	$	21,071
Less - Unearned interest income	$	(463)
Total	$	20,608

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Purchases commitments:

1. The Group is obligated under certain agreements with its suppliers to purchase specified items of excess inventory which are expected to be utilized in 2023. As of December 31, 2022, non-cancelable purchase obligations were approximately $39,756.

2. In addition, the Group is obligated under certain agreements with its suppliers to purchase software as a service (SaaS) subscription services.

b. Royalty commitment to the IIA:

Under the research and development agreements of the Company and its Israeli subsidiaries with the IIA and pursuant to applicable laws, the Company and its Israeli subsidiaries were required to pay royalties at the rate of 1.3%-5% on sales to end customers of products developed with funds provided by the IIA, up to an amount equal to 100% of the IIA research and development grants received, linked to the dollar plus interest on the unpaid amount received based on the 12-month LIBOR rate (from the year the grant was approved) applicable to dollar deposits. The Company and its Israeli subsidiaries were obligated to repay the IIA for the grants received only to the extent that there are sales of the funded products.

In November 2019, the Company and its former Israeli subsidiary, AudioCodes Development Ltd. (which was merged into the Company effective January 1, 2020), entered into a royalty buyout agreement (the "Royalty Buyout Agreement") with the 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 accrued on 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 November 2019. The annual installments were denominated in NIS and bore interest.

NOTE 11:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Pursuant to the Royalty Buyout Agreement, the Company eliminated all royalty obligations related to its future revenues with respect to these grants.

In December 2021, December 2020 and November 2019, the Company paid the three installments of approximately $12,225, $11,580 and $10,700 million, respectively, due under the Royalty Buyout Agreement.

As of December 31, 2022, and 2021, the Company's other Israeli subsidiaries have a contingent obligation to pay royalties to the IIA in the amount of approximately $20,112 and $19,137, respectively.

c. 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.

NOTE 12:- SHAREHOLDERS' EQUITY

a. Treasury stock:

During the year ended December 31, 2014, the Company's Board of Directors approved a share repurchase program to repurchase up to $3,000 of its ordinary shares (the "Share Repurchase Program"), which is the amount that the Company could repurchase under Israeli law without further approval from an Israeli court. During the eight years ended December 31, 2021, the Company received Israeli court approvals to purchase up to an additional $276,000 of its ordinary shares. In addition, in June 2022, the Company received court approval to purchase up to an additional $35,000 of its ordinary shares (the "Permitted Amount"). In January 2023, the Company received court approval to purchase up to an additional $25,000 of its ordinary shares (the "Permitted Amount"). The most recent court approvals also permit the Company to declare a dividend of any part of the Permitted Amount during the approved validity period. The current approval is valid through July 4, 2023.

As of December 31, 2022, pursuant to the Company's Share Repurchase Program, the Company had repurchased a total of 32,309,899 of its ordinary shares at a total cost of $217,744 (of which 1,513,207 of its ordinary shares were repurchased during the year ended December 31, 2022 for aggregate consideration of $38,099).

b. Cash Dividends:

On February 1, 2022, the Company declared a cash dividend of $0.18 per share. The dividend, which was in the aggregate amount of approximately $5.8 million, was paid on March 1, 2022 to all of the Company's shareholders of record as of February 15, 2022.

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

On August 2, 2022, the Company declared a cash dividend of $0.18 cents per share. The dividend, which was in the aggregate amount of approximately $5.7 million was paid on August 31, 2022 to all of the Company's shareholders of record as of August 17, 2022. See Note 18 for cash dividends declared and paid subsequent to December 31, 2022.

c. Employee and Non-Employee Share Option Plan:

In 2008, the Company's Board of Directors approved the 2008 Equity Incentive Plan (as amended, the "Plan") that became effective in January 2009. Under the Plan, options and RSUs may be granted to employees, officers, non-employee consultants and directors of the Company. As of December 31, 2022, the total number of shares authorized for future grant under the Plan is 2,290,337.

Options granted under the Plan expire seven years from the date of grant, and options that are forfeited or cancelled before expiration, become available for future grants.

The following is a summary of the Company's stock option activity and related information for the year ended December 31, 2022:

	Amount of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Options outstanding at beginning of year	551,809	$ 8.88	2.91	$ 14,268
Changes during the year:				
Granted	3,000	$ 23.99		
Exercised	(189,841)	$ 5.56		
Forfeited	(3,625)	$ 10.63		
Options outstanding at end of year	361,343	$ 10.74	2.54	$ 2,786
Options exercisable at end of year	303,904	$ 9.61	3.85	$ 2,597

The weighted average grant-date fair value of options granted during the years ended December 31, 2022, 2021 and 2020 was $8.99, $10.64 and $8.55, per option, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing share price on the last trading day of the fiscal year and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last trading day of the fiscal year. This amount changes based on the fair market value of the Company's ordinary shares.

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

NOTE 12:- SHAREHOLDERS' EQUITY (Cont.)

Total intrinsic value of options exercised in the years ended December 31, 2022, 2021 and 2020 was $2,878, $9,281 and $10,633, respectively.

The options for employees outstanding as of December 31, 2022 have been separated into ranges of exercise prices, as follows:

Range of exercise price	Number of options outstanding as of December 31, 2022	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number of options exercisable as of December 31, 2022	Weighted average exercise price of exercisable options
$ 3.54-4.35	9,125	0.38	$ 4.22	9,125	$ 4.22
$ 5.00-6.90	99,793	1.22	$ 6.86	99,793	$ 6.86
$ 7.08-10.66	120,550	2.54	$ 8.75	120,550	$ 8.75
$ 11.52-30.76	131,875	3.69	$ 15.94	74,436	$ 15.37
	361,343	2.54	$ 10.74	303,904	$ 9.61

The following is a summary of the Company's RSU activity and related information for the year ended December 31, 2022:

	Number of shares	Weighted average grant date fair value
RSUs outstanding at beginning of year	1,203,431	$ 27.60
Changes during the year:		
Granted	544,686	$ 24.33
Vested	(513,695)	$ 23.51
Forfeited	(47,613)	$ 30.44
RSUs outstanding at end of year	1,186,809	$ 27.76

As of December 31, 2022, there was a total of $16,477 unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.89 years.

NOTE 13:- TAXES ON INCOME

a. Israeli taxation:

1. Measurement of taxable income in dollars:

The Company has elected to measure its taxable income and file its tax return under the Israeli Income Tax Regulations (Principles Regarding the Management of Books of Account of Foreign Invested Companies and Certain Partnerships and the Determination of Their Taxable Income), 1986. Accordingly, results for tax purposes are measured in terms of earnings in dollars.

NOTE 13:- TAXES ON INCOME (Cont.)

2. Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"):

The Company's production facilities in Israel have been granted the status of an "Approved Enterprise" in accordance with the Investment Law under four separate investment programs.

In January 2011, an amendment to the Investment Law came into effect (the "Amendment"). According to the Amendment, the benefit tracks in the Investment Law were modified, and a flat tax rate applies to the Company's income subject to the Amendment (the "Preferred Income"). Once an election is made, the Company's income will be subject to the amended tax rate of 16% from 2015 and thereafter (or 9% for a preferred enterprise located in development area A).

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2016 and 2017 Budget Years), 2016, which includes Amendment 73 to the Investment Law ("Amendment 73") was published. According to Amendment 73, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2016 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

Amendment 73 also prescribes special tax tracks for technological enterprises, which are subject to regulations that were issued by the Minister of Finance in May 2017. The new tax tracks under Amendment 73 are as follows: Preferred Technological Enterprise ("PTE") - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A PTE, as defined in the Investment Law, which is located in the center of Israel, will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

Beginning in January 2020 and with respect to the Company's taxable income from 2020 onwards, the Company elected to apply the terms of the PTE status under the Investments Law.

3. Tax benefits under the law for the Encouragement of Industry (Taxes), 1969 (the "Encouragement Law"):

The Encouragement Law provides several tax benefits for industrial companies. An industrial company is defined as a company resident in Israel, that at least 90% of the income of which in a given tax year exclusive of income from specified 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.

NOTE 13:- TAXES ON INCOME (Cont.)

Management believes that the Company is currently qualified as an "industrial company" under the Encouragement Law and, as such, is entitled to tax benefits, including: (i) deduction of purchase of know-how and patents and/or right to use a patent over an eight-year period; (ii) the right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company; (iii) accelerated depreciation rates on equipment and buildings; and (iv) expenses related to a public offering on the Tel Aviv Stock Exchange Ltd. and on recognized stock markets outside of Israel, such as Nasdaq, are deductible in equal amounts over three years.

Eligibility for benefits under the Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that the Israel Tax Authority will agree that the Company qualifies and will continue to qualify as an industrial company, or that the benefits described above will be available to the Company in the future.

4. Tax Benefits for Research and Development:

Section 20a to the Israeli Tax Ordinance allows, under certain conditions, a tax deduction for research and development expenses, including capital expenses, for the year in which they are paid. Such expenses must relate to scientific research in industry, agriculture, transportation, or energy, and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company's business and carried out by or on behalf of the company seeking such tax deduction. However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenses incurred in scientific research that is not approved by the relevant Israeli government ministry will be deductible over a three-year period starting from the tax year in which they are paid. The Company believes that it is eligible for the abovementioned benefit for the majority of its research and development expenses.

5. Tax rates:

Taxable income of the Israeli companies is subject to a corporate tax rate of 23% in the years ended December 31, 2022, 2021 and 2020.

The Company is eligible for tax benefits as a PTE as mentioned in 2 above.

The deferred tax balances as of December 31, 2022 have been calculated based on the PTE effective tax rate (see also 2 above).

NOTE 13:- TAXES ON INCOME (Cont.)

b. U.S. taxation:

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") (H.R. 1) was signed into law. This Act includes, among other things, a permanent reduction to the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018, and requires immediate taxation of accumulated, unremitted non-U.S. earnings.

The TCJA also established new tax provisions affecting 2018, including, but not limited to: (i) creating a new provision designed to tax global intangible low tax income ("GILTI"); (ii) generally eliminating U.S. federal taxes on dividends from foreign subsidiaries; (iii) eliminating the corporate alternative minimum tax ("AMT"); (iv) creating the base erosion anti-abuse tax ("BEAT"); (v) establishing a deduction for foreign derived intangible income ("FDII"); (vi) repealing domestic production activity deduction; and (vii) establishing new limitations on deductible interest expense and certain executive compensation.

ASC 740 requires companies to account for the tax effects of changes in income tax rates and laws in the period in which legislation is enacted (December 22, 2017). ASC 740 does not specifically address accounting and disclosure guidance in connection with the income tax effects of the TCJA.

The deferred tax balances as of December 31, 2022 and 2021 have been calculated based on the revised tax rates.
The Group has completed the accounting for all the impacts of the TCJA. As part of finalizing the analysis, the Company's U.S. subsidiary recorded adjustments that relate to the Transition Tax during the year ended December 31, 2018 and GILTI during the year ended December 31, 2022. An adjustment in the amount of $324 related to GILTI for the year ended December 31, 2022 was recorded in such year.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was enacted in the United States in response to the COVID-19 pandemic. The CARES Act contains temporary taxpayer favorable provisions related to the use of net operating losses and the deductibility of interest expense, charitable contributions, and qualified improvement property. The Company does not expect to be materially impacted by the CARES Act.

On December 27, 2020, the Consolidated Appropriations Act (the “CAA”) was enacted in further response to the COVID-19 pandemic, in combination with omnibus spending for the 2021 federal fiscal year. The CAA extended many of the provisions enacted by the CARES Act, which did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2022. On March 11, 2021, the American Rescue Plan Act of 2021 (the "ARPA") was enacted in still further response to the COVID-19 pandemic. The Company does not expect the provisions of the ARPA to have a material impact on the Company's consolidated financial statements for the year ended December 31, 2022.

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

NOTE 13:- TAXES ON INCOME (Cont.)

c. Net operating loss carryforward:

As of December 31, 2020, the Company has realized all of its carryforward tax losses in Israel, which can be offset against taxable income (except those stated in the merger agreement with Callverso (see Note 3). As of December 31, 2022 the Company recorded a net deferred tax asset of $5,861 in respect of other temporary differences.

As of December 31, 2022, the Company's Israeli subsidiaries have total available carryforward tax losses of approximately $73,997. The net operating losses may be offset against taxable income in the future for an indefinite period. The Group does not expect utilization of such carryforward tax losses and therefore recorded full valuation allowance against the deferred tax assets in respect of such carryforward tax losses.

The Company's U.S. subsidiary has total available carryforward tax losses of approximately $31,380 to offset against future U.S. federal taxable gains. These carryforward tax losses expire between 2022 and 2032. As of December 31, 2022, the Company's U.S. subsidiary recorded a deferred tax asset of $3,158 in respect of such carryforward tax losses.

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

d. Income before taxes on income is comprised as follows:

	Year Ended December 31,		
	2022	**2021**	**2020**
Domestic	$ 25,434	$ 31,084	$ 30,008
Foreign	8,749	8,563	6,639
	$ 34,183	$ 39,647	$ 36,647

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

NOTE 13:- TAXES ON INCOME (Cont.)

e. Taxes on income are comprised as follows:

	Year Ended December 31,		
	2022	2021	2020
Current taxes:			
Domestic	$ 3,707	$ 819	$ 300
Foreign	35	1,615	701
	3,742	2,434	1,001
Deferred tax expense:			
Domestic	269	2,464	7,220
Foreign	1,706	998	1,178
	1,975	3,462	8,398
	$ 5,717	$ 5,896	$ 9,399

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,	
	2022	2021
Deferred tax assets:		
Net operating loss carryforward	$ 23,807	$ 27,859
Operating lease liabilities	1,509	2,247
Marketable Securities	1,837	207
Forward and cylinder	566	-
Reserves and allowances	7,238	6,557
Net deferred tax assets before valuation allowance	34,957	36,870
Less - valuation allowance	(24,395)	(26,022)
Deferred tax asset	$ 10,562	$ 10,848
Deferred tax liability:		
Operating lease ROU assets	$ (1,489)	$ (1,943)
Other	(356)	(612)
	$ (1,845)	$ (2,555)

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

NOTE 13:- TAXES ON INCOME (Cont.)

g. Reconciliation of the theoretical tax expenses:

A reconciliation between the theoretical tax expense, assuming all income is taxed at the Israeli statutory corporate tax rate applicable to the income of the Company, and the actual tax expense (benefit) as reported in the statement of operations is as follows:

	Year Ended December 31,		
	2022	**2021**	**2020**
Income before taxes, as reported in the consolidated statements of operations	$ 34,183	$ 39,647	$ 36,647
Israeli statutory corporate tax rate	23.0%	23.0%	23.0%
Theoretical tax expense on the above amount at the Israeli statutory corporate tax rate	$ 7,861	$ 9,118	$ 8,429
Impact of Preferred Technological Enterprise status	(3,031)	(3,555)	(3,424)
Changes in tax reserve for uncertain tax positions	90	175	-
Adjustments for previous years' taxes	448	88	-
Impact of income tax at rates other than the Israeli statutory corporate tax rate	(375)	603	411
Share-based compensation expenses	329	(65)	298
Losses and timing differences for which valuation allowance was provided	453	140	(3,754)
Impact of tax rate change	152	-	6,931
Other	(210)	(608)	508
Actual tax expense	$ 5,717	$ 5,896	$ 9,399

h. Tax assessments:

The statute of limitations related to tax returns of the Company for all tax years up to and including 2017 has lapsed.

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

NOTE 14:- FINANCIAL INCOME (EXPENSES), NET

	Year Ended December 31,		
	2022	2021	2020
Financial expenses:			
Interest	$ (325)	$ (621)	$ (657)
Loss related to non-hedging derivative instruments	(6)	(12)	-
Amortization of marketable securities premiums and accretion of discounts, net	(1,513)	(1,387)	(172)
Exchange rate differences	-	(293)	(1,975)
Other	(358)	(252)	(171)
	(2,202)	(2,565)	(2,975)
Financial income:			
Gain related to non-hedging derivative instruments	-	-	17
Exchange rate differences	1,325		
Gain from financial investments	937	-	-
Interest income	2,804	2,656	1,252
Other	-	32	3
	5,066	2,688	1,272
Financial income (expenses), net	$ 2,864	$ 123	$ (1,703)

NOTE 15:- EARNINGS PER SHARE

	Year Ended December 31,		
	2022	2021	2020
Numerator:			
Net income	$ 28,466	$ 33,751	$ 27,248
Denominator:			
Denominator for basic earnings per share - weighted average number of ordinary shares, net of treasury stock	31,849,422	32,703,478	31,440,093
Effect of dilutive securities:			
Employee stock options and RSUs	650,719	1,142,081	1,475,590
Denominator for diluted earnings per share - adjusted weighted average number of shares	32,500,141	33,845,559	32,915,683

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

NOTE 16:- GEOGRAPHIC INFORMATION

The Group manages its business on the basis of one reportable segment (see Note 1 for a brief description of the Group's business). The data is presented in accordance with ASC 280, "Segment Reporting". 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, 2022, 2021 and 2020 and long-lived assets as of December 31, 2022, 2021 and 2020.

	Year Ended and as of December 31,					
	2022		2021		2020	
	Total revenues	Long-lived assets	Total revenues	Long-lived assets	Total revenues	Long-lived assets
Americas, principally the United States	$139,583	$ 3,588	$115,806	$ 977	$103,190	$ 4,310
Europe	87,679	328	88,746	662	75,490	403
Eastern Asia	42,108	901	38,988	706	36,083	768
Israel	5,723	14,231	5,380	20,876	6,011	25,111
	$275,093	$ 19,048	$248,920	$ 23,221	$220,774	$ 30,592

The Group has derived approximately 46% of its revenues for the year ended December 31, 2022 from sales in the United States.

NOTE 17:- DERIVATIVE INSTRUMENTS

The Group enters into hedging 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 two years. 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.

As of December 31, 2022 and 2021, the Group had a net deferred gain (loss) associated with cash flow hedges of ($4,577) and $$719, respectively, recorded in other comprehensive income (loss).

As of December 31, 2022 and 2021, the Group had outstanding forward and options collar (cylinder) contracts in the amount of $114,000 and $44,000, respectively, which were designated as payroll and rent hedging contracts. In addition, as of December 31, 2022 and 2021, the Group had $3,500 and $3,500, respectively, outstanding forward contracts which are not designated as hedging contracts.

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

NOTE 17:- DERIVATIVE INSTRUMENTS (Cont.)

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 years ended December 31, 2022 and December 31, 2021, are summarized below:

Foreign exchange forward and options contracts	Balance sheet	December 31, 2022	December 31, 2021
Fair value of foreign exchange forward and options	Other payables and accrued expenses	$ (5,143)	$ -
Fair value of foreign exchange forward and options	"Other receivables and prepaid expenses"	$ -	$ 812
Gains (loss) recognized in other comprehensive income	"Other comprehensive income (loss)"	$ (4,577)	$ 719

The effect of derivative instruments in cash flow hedging relationship on income for the years ended December 31, 2022 and 2021, is summarized below:

Foreign exchange forward and options contracts	Comprehensive Income (loss)	Year Ended December 31, 2022	Year Ended December 31, 2021
Comprehensive income (loss) from derivatives before reclassifications	"Other comprehensive income (loss)"	$ (8,979)	$ 1,538
Loss reclassified from accumulated other comprehensive income (loss)	"Operating expenses (income)"	$ 3,683	$ (2,138)

NOTE 18:- SUBSEQUENT EVENT

On February 7, 2023, the Company declared a cash dividend of $0.18 per share. The dividend, which was in the aggregate amount of approximately $5.7 million, was paid on March 7, 2023 to all of the Company's shareholders of record as of February 21, 2023.

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