



PRESS RELEASE

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AudioCodes Reports First Quarter 2006 Results

*Quarterly Revenues Increased to a Record \$31.3 Million,
Up 2.3% Sequentially and 16.4% Year-over-Year*

Lod, Israel – May 8, 2006 – AudioCodes (Nasdaq: AUDC), a leading provider of Voice over Packet (VoP) technologies and Voice Network products, today announced financial results for the first quarter ended March 31, 2006.

Revenues for the first quarter ended March 31, 2006 were a record \$31.3 million compared to \$30.6 million for the quarter ended December 31, 2005 and \$26.9 million for the quarter ended March 31, 2005. First quarter revenues grew 2.3% sequentially and increased 16.4% compared to the first quarter of 2005.

For the first quarter of 2006 net income on GAAP basis was \$2.3 million, or \$0.05 per diluted share. SFAS No. 123R became applicable to the Company effective January 1, 2006 and, as a result, the Company recorded \$2.1 million of stock-based compensation expense in the first quarter of 2006. Excluding this stock-based compensation expense, net income on a non-GAAP basis for the first quarter of 2006 was \$4.3 million, or \$0.10 per diluted share¹, compared to net income of \$3.9 million, or \$0.09 per diluted share, in the fourth quarter of 2005 and \$3.0 million, or \$0.07 per

¹ Non-GAAP measures should be considered in addition to, and not as a substitute for, the results prepared in accordance with GAAP. Our management believes the Non-GAAP information is useful because it can enhance the understanding of our ongoing economic performance and therefore uses internally the Non-GAAP information to evaluate and manage our operations. We have chosen to provide this information to investors to enable them to perform comparisons of operating results in a manner similar to how we analyze our operating results.

diluted share, for the corresponding period last year. Non-GAAP net income which excludes the effect of stock-based compensation expense is reported in order to facilitate financial results tracking and comparison with previously reported financial results.

Cash and cash equivalents, short-term and long-term marketable securities, short-term and long-term bank deposits and structured notes were \$227.6 million as of March 31, 2006 compared to \$220.3 million as of December 31, 2005 and \$209.6 million as of March 31, 2005.

“In the first quarter of 2006, we experienced increased demand for AudioCodes’ media gateways and media servers that resulted in record revenues and our eighteenth consecutive quarter of top line growth. We secured important design wins and partnerships in fixed mobile convergence, Voice over Broadband, and SIP applications which will all eventually converge on an IMS core network. We also broadened our global sales coverage and established closer relationships with service providers, OEMs, and Channels which provide a strong foundation for future growth,” stated Shabtai Adlersberg, President, Chairman and CEO of AudioCodes.

Conference Call & Webcast Information

AudioCodes will conduct a conference call on May 9, 2006 to discuss the first quarter 2006 financial results, which will be simultaneously Webcast at 9:00 A.M. Eastern Time. Investors are invited to listen to the call live via Webcast at the AudioCodes corporate Website at <http://www.audiocodes.com>.

About AudioCodes

AudioCodes Ltd. (NASDAQ: AUDC) enables the new voice infrastructure by providing innovative, reliable and cost-effective Voice over Packet technology and Voice Network products to OEMs, network equipment providers and system integrators. AudioCodes provides its customers and partners with a diverse range of flexible, comprehensive media gateway and media processing technologies, based on VoIPerfect™ – AudioCodes’ underlying, best-of-breed, core media gateway architecture. The company is a market leader in voice compression technology and is a key originator of the ITU G.723.1 standard for the emerging Voice over IP market. AudioCodes voice network products feature media gateway and media server platforms for packet-based applications in the converged, wireline, wireless, broadband access, and enhanced voice services markets. AudioCodes enabling technology products include VoIP and CTI communication boards, VoIP media gateway processors and modules, and CPE devices. Its customers include the leading telecom

and data network equipment providers globally. AudioCodes' headquarters and R&D facilities are located in Israel with an R&D extension in the U.S. Other AudioCodes' offices are located in Europe, the Far East, and Latin America. For more information on AudioCodes, visit www.audiocodes.com.

Statements concerning AudioCodes' business outlook or future economic performance; product introductions and plans and objectives related thereto; and statements concerning assumptions made or expectations as to any future events, conditions, performance or other matters, are "forward-looking statements" as that term is defined under U.S. Federal securities laws. Forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results to differ materially from those stated in such statements. These risks, uncertainties and factors include, but are not limited to: the effect of global economic conditions in general and conditions in AudioCodes' industry and target markets in particular; shifts in supply and demand; market acceptance of new products and continuing products' demand; the impact of competitive products and pricing on AudioCodes' and its customers' products and markets; timely product and technology development/upgrades and the ability to manage changes in market conditions as needed; and other factors detailed in AudioCodes' filings with the Securities and Exchange Commission. AudioCodes assumes no obligation to update the information in this release.

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Summary financial data follows

AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

| | March 31, 2006 | December 31, 2005 |
|---|---------------------------|------------------------------|
| | <u>(Unaudited)</u> | <u></u> |
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 96,412 | \$ 70,957 |
| Short-term bank deposits and structured notes | 62,520 | 61,929 |
| Short-term marketable securities and accrued interest | 18,693 | 9,863 |
| Trade receivables, net | 17,919 | 17,990 |
| Other receivables and prepaid expenses | 4,732 | 4,891 |
| Inventories | 13,020 | 11,562 |
| | <u>213,296</u> | <u>177,192</u> |
| Total current assets | | |
| LONG-TERM INVESTMENTS: | | |
| Long-term bank deposits and structured notes | 10,050 | 27,781 |
| Long-term marketable securities | 39,897 | 49,791 |
| Investments in companies | 2,425 | 1,112 |
| Deferred tax assets | 2,794 | 2,489 |
| Severance pay funds | 5,560 | 5,406 |
| | <u>60,726</u> | <u>86,579</u> |
| Total long-term investments | | |
| PROPERTY AND EQUIPMENT, NET | <u>6,301</u> | <u>6,494</u> |
| INTANGIBLE ASSETS, DEFERRED CHARGES AND OTHER, NET | <u>3,059</u> | <u>3,279</u> |
| GOODWILL | <u>18,677</u> | <u>18,679</u> |
| Total assets | <u>\$ 302,059</u> | <u>\$ 292,223</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Trade payables | \$ 6,097 | \$ 7,774 |
| Other payables and accrued expenses | 19,249 | 18,620 |
| | <u>25,346</u> | <u>26,394</u> |
| Total current liabilities | | |
| ACCRUED SEVERANCE PAY | <u>6,170</u> | <u>5,887</u> |
| SENIOR CONVERTIBLE NOTES | <u>120,880</u> | <u>120,836</u> |
| Total shareholders' equity | <u>149,663</u> | <u>139,106</u> |
| Total liabilities and shareholders' equity | <u>\$ 302,059</u> | <u>\$ 292,223</u> |

AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
U.S. dollars in thousands, except share and per share data

| | Three months ended | |
|---|---------------------------|-----------------|
| | March 31, | |
| | 2006 | 2005 |
| | (Unaudited) | |
| Revenues | \$ 31,334 | \$ 26,928 |
| Cost of revenues | <u>12,693</u> | <u>10,942</u> |
| Gross profit | 18,641 | 15,986 |
| Operating expenses: | | |
| Research and development, net | 7,289 | 5,668 |
| Selling and marketing | 8,075 | 5,876 |
| General and administrative | <u>1,810</u> | <u>1,411</u> |
| Total operating expenses | <u>17,174</u> | <u>12,955</u> |
| Operating income | 1,467 | 3,031 |
| Financial income, net | 1,109 | 328 |
| Equity in losses of affiliated companies | <u>173</u> | <u>256</u> |
| Income before taxes on income | 2,403 | 3,103 |
| Taxes on income, net | <u>126</u> | <u>140</u> |
| Net income | <u>\$ 2,277</u> | <u>\$ 2,963</u> |
| Basic net earnings per share | <u>\$ 0.06</u> | <u>\$ 0.07</u> |
| Diluted net earnings per share | <u>\$ 0.05</u> | <u>\$ 0.07</u> |
| Weighted average number of shares used in computing basic net earnings per share (in thousands) | <u>41,049</u> | <u>40,027</u> |
| Weighted average number of shares used in computing diluted net earnings per share (in thousands) | <u>43,938</u> | <u>43,549</u> |

AUDIOCODES LTD. AND ITS SUBSIDIARIES
NON-GAAP PROFORMA STATEMENTS OF OPERATIONS
U.S. dollars in thousands, except share and per share data

| | Three months ended | |
|--|---------------------------|-----------------|
| | March 31, | |
| | 2006 | 2005 |
| | (Unaudited) | |
| Revenues | \$ 31,334 | \$ 26,928 |
| Cost of revenues *) | <u>12,559</u> | <u>10,942</u> |
| Gross profit | 18,775 | 15,986 |
| Operating expenses: | | |
| Research and development, net *) | 6,581 | 5,668 |
| Selling and marketing *) | 7,222 | 5,876 |
| General and administrative *) | <u>1,454</u> | <u>1,411</u> |
| Total operating expenses | <u>15,257</u> | <u>12,955</u> |
| Operating income | 3,518 | 3,031 |
| Financial income, net | 1,109 | 328 |
| Equity in losses of affiliated companies | <u>173</u> | <u>256</u> |
| Income before taxes on income | 4,454 | 3,103 |
| Taxes on income, net | <u>126</u> | <u>140</u> |
| Non-GAAP net income | <u>\$ 4,328</u> | <u>\$ 2,963</u> |
| Non-GAAP diluted net earnings per share | <u>\$ 0.10</u> | <u>\$ 0.07</u> |
| Weighted average number of shares used in computing non-GAAP diluted net earnings per share (in thousands) | <u>50,619</u> | <u>43,549</u> |

*) Excluding stock-based compensation expenses related to options granted to employees and others as a result of the adoption of SFAR 123R as of January 1, 2006.

AUDIOCODES LTD. AND ITS SUBSIDIARIES
CONDENSED INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
U.S. dollars in thousands

| | Three months ended March 31, 2006 |
|--|--|
| | <u>(Unaudited)</u> |
| <u>Cash flows from operating activities:</u> | |
| Net income | \$ 2,277 |
| Adjustments required to reconcile net income to net cash provided by operating activities: | |
| Depreciation and amortization | 862 |
| Net loss from sale of marketable securities | 15 |
| Amortization of marketable securities premiums and accretion of discounts, net | 60 |
| Equity in losses of affiliated companies | 173 |
| Increase in accrued severance pay, net | 129 |
| Stock-based compensation expenses | 2,051 |
| Amortization of senior convertible notes discount and deferred charges | 49 |
| Decrease in accrued interest on marketable securities, bank deposits and structured notes | 13 |
| Increase in deferred tax assets | (303) |
| Decrease in trade receivables, net | 71 |
| Increase in other receivables and prepaid expenses | (349) |
| Increase in inventories | (1,458) |
| Decrease in trade payables | (1,677) |
| Increase in other payables and accrued expenses | 629 |
| Net cash provided by operating activities | <u>2,542</u> |
| <u>Cash flows from investing activities:</u> | |
| Proceeds from sale of marketable securities | 979 |
| Proceeds from sale of bank deposits | 17,209 |
| Investments in companies | (1,136) |
| Purchase of property and equipment | (454) |
| Net cash provided by investing activities | <u>16,598</u> |
| <u>Cash flows from financing activities:</u> | |
| Proceeds from issuance of shares upon exercise of options and employee stock purchase plan | 6,315 |
| Net cash provided by financing activities | <u>6,315</u> |
| Increase in cash and cash equivalents | 25,455 |
| Cash and cash equivalents at the beginning of the period | <u>70,957</u> |
| Cash and cash equivalents at the end of the period | <u><u>\$ 96,412</u></u> |