FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to this Amdocs Limited second quarter 2009 earnings release conference call. As a reminder, this call is being recorded and webcast. At this time, I would like to turn the call over to Mr. Tom O'Brien. Please go ahead, sir.

Tom O'Brien - *Amdocs Ltd. - VP of IR*

Thank you Kevin. I'm Tom O'Brien, Vice President of Investor Relations for Amdocs. Before we begin, I would like point out that during this call we will discuss certain financial information that not prepared in accordance with GAAP. The Company's management uses this financial information in its internal analysis and/or to exclude the effect of acquisitions and other significant items that may have a disproportionate effect in a particular period. Accordingly, management believes that isolating the effect of such events enables management and investors to consistently analyze the critical components and results of operations of the Company's business and to have a meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures including the reconciliation of these measures, we refer you to today's earnings release which will also be furnished to the SEC on form 6-K.

Also, this call includes information constitutes forward-looking statements. Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions, we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risk and uncertainties that make cause future results to differ from those anticipated. These risks include but are not limited to the effects of general economic conditions and such other risk as are discussed in our earnings release today and at greater length in the Company's filings with the Securities and Exchange Commission including in our annual reports on form 20-F for the fiscal year end September 30, 2008, as file on December 8th, 2008 and in our 6-K furnished on February 9, 2009. Amdocs may elect to update these forward-looking statements at some point in the future however the Company's specifically disclaims any obligation to do so.

Participating in the call today are Dov Baharav, President and Chief Executive Officer of Amdocs Management Limited and Tamar Rapaport-Dagim, Chief Financial Officer. Following our prepared comments we will open the call to Q&A. Now let me turn the call over to Dov Baharav.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you, Tom. Good afternoon ladies and gentleman. We are pleased to report our results for the second quarter of fiscal 2009 with revenue of $711 million and diluted non-GAAP earnings per share of $0.50, both in line with our guidance. Through excellent execution in a difficult environment, we were able to maintain operating margins and generate solid cash flow. Our strategy and experience drives this execution as we are well organized with a wide portfolio of products and services to address the current mission-critical needs of our customers.

We had some important wins this quarter demonstrating that even in these challenging times our customer will continue to invest in projects that help them grow their revenue and drive down total cost of ownership. For the last several quarters with have discussed with you the challenges presented by the difficult economic environment. Service providers, while in relatively good financial shape overall, are reducing their spending. We are not seeing them cancel existing commitment, but they are being very cautious in committing to new projects. This impacts our ability to close new deals and as a result, our revenue has declined sequentially for the last two quarters and this may continue through fiscal 2009.

Looking forward, the quarterly rate for decline in absolute dollars appears to be moderating. Our assumptions regarding market conditions today are consistent with what we saw last quarter. We see a tough market but it is not a free fall. Our business model provides a high level of recurring revenue. As our revenue declines, this recurring business provides a type of baseline that should continue quarter after quarter. It is not guaranteed and will fluctuate, but historically this business has been stable. Of course we do expect to continue to sign new projects as well.

As we have done so far this year, we are providing financial guidance only for the next quarter. Our planning assumptions take into account that revenue could be down as much as 10% to 12% this fiscal year relative to fiscal year 2008, with currency effects contributing roughly 3% of the decline. These assumptions take into account further deterioration in economic conditions, but not sharp turn for the worse.

While much of the focus is on the situation today, it is important to have a longer term perspective as well. We continue to invest in our industry-leading offering and are focusing on the growth areas of our customers, for example data revenues with our Amdocs Interactive. We also have new solutions, designed to be attractive to cost sensitive providers in today's market. We are continuing to sign new business with both existing and new customers and we are encouraged by the breadth and quality of deals this quarter. This new business is important not only for the revenue it brings but also because each new project strengthens our position as a strategic partner with our partner.

During the second quarter we signed and announced two significant contracts. One for the new long term managed services engagement with Clearwire, and the other for comprehensive OSS implementation with ICE in Costa Rica, demonstrating our continued momentum in two of our core growth drivers. Additionally, we signed a transformational BSS solution for a major satellite provider in Asia-Pac as we continue to focus efforts to expand our presence into the emerging markets and the cable vertical. Also, in our North America market we saw healthy traction for our content solutions with a significant new deal for our Amdocs Interactive platform as carriers continue to focus on monetizing the increasingly complex content value chain.

Now let me turn it over to Tamar for the financial review.

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

Thank you, Dov. Our second quarter revenue was $711 million representing a decline of 8.2% compared to last year's second quarter. Our non-GAAP EPS which excludes acquisition costs and equity based compensation expense net of related tax effect was $0.50 per diluted share. GAAP EPS was $0.39 per diluted share.

I will spend a minute now on a few non-GAAP items. Licensed revenue decreased to $37.2 million this quarter. Given the slow pace of new signings this year and the expected decline in revenue next quarter we anticipate the license revenue will decline again in Q3. Directory revenue declined again this quarter, in part due to a change in timing of work related to a long-term project. At this point we do not expect a further decrease in directory revenue next quarter.

Operating margin was 18%, flat sequentially and up 20 basis points over the prior year. While it still remains our goal to maintain margins around this level, this will be difficult if revenue comes toward the bottom end of our Q3 range. In this scenario we would likely to have undertake further cost reduction steps that will take a few months before we would see the full financial impact.

As we expected, there was a decline in other income compared to Q1, primarily due to lower returns on our investment portfolio and foreign currency impacts. Also last quarter we had a gain of nearly $2 million related to repurchasing some of our convert at a discount. We may continue to see fluctuations in this line due to foreign exchange volatility and we have taken a conservative outlook in our forecast.

During the quarter we spent approximately $350 million to repurchase our convertible securities. We funded these primarily through our revolving line of credit as our net cost of borrowing is similar to what we earn on our investment portfolio. The effective tax rate in Q2 was 14.2% in line with our guidance of 13% to 15%. We continue to believe the 13% to 15% range is reasonable for fiscal 2009, but quarterly rates will fluctuate.

Free cash flow in the quarter was $62 million. Included in this calculation was approximately $17 million in net CapEx and $52 million in annual employee bonus payments. At this time, we are targeting free cash flow in Q3 to be closer to the $90 million level. DSO at the end of the quarter was 65 days. The current balance in deferred revenue was $156 million at the end of Q2 and unbilled accounts receivable was $42 million. Our 12 month backlog which includes contracts, estimated revenue from managed services contracts, letters of intent, maintenance and estimated on-going support activities, was $2.370 billion at the end of the quarter. This is basically flat when compared to the prior year levels.

Looking forward our estimates for the third quarter of fiscal 2009 are for revenue of approximately $670 million to $690 million and diluted non-GAAP EPS of $0.46 to $0.50. Excluding the effects of acquisitions related charges and excluding the equity-based compensation expense of approximately $0.04 to $0.05 per share net of the related tax effect. We expect fully diluted GAAP EPS of $0.33 to $0.38. Our EPS guidance for the Q3 is based on a fully diluted share count or estimate of approximately 204 million shares. The decrease in fully diluted share count, compared to Q2 is due to the repurchase of most of the outstanding converts in mid March.

Now let me turn the call back over to Dov.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you, Tamar. At this time, let's open the call to Q&A

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). We do ask you limit yourself to one question and one follow up question. We will go first to Tom Roderick with Thomas Weisel Partners.

Tom Roderick - *Thomas Weisel Partners - Analyst*

Hi, guys. Thanks and good afternoon. So I guess a big focus of the call last quarter was on the notion of project spend with respect to some of your biggest customers out there. Can you provide an update as far as what you are seeing? What some of your big customers like Sprint and AT&T are telling you about their budgets for this upcoming year? Do you feel like you have pretty good visibility into that? Just any commentary you can offer about this sort of discretionary project spend, which I think you characterize as being about 30% of the business last quarter would be helpful. Thanks.

Dov Baharav - *Amdocs Ltd. - President, CEO*

I would say that as we described it before, we see I would say weak economy and weak environment where we see less appetite for a new project. However we don't see the sky falling. Suffice to say activity continues and here and there we might expect to see maybe an idea for a new project, it does not move forward. So regarding Sprint, yes, they even reduce some discretionary expense of some a -- new projects. Usually a part of the management services account calculation. And we might see in the future in AT&T. Overall we expect relative stability in all of the large account -- is a substantial portion of managed services and recurring revenue. And we feel quite comfortable that the vast majority of activity will continue with the same terms.

Tom Roderick - *Thomas Weisel Partners - Analyst*

And, Dov if you look back to 2002 and to 2004 a couple of periods where we did see the telco spend environment come out of the doldrums a little bit, are you starting to see any sign that are consistent with what you seen historically? Meaning are you seeing more RFP's generated in the marketplace, and if so which regions of the world are they coming from? Thanks.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Right now I would say -- I cannot say we see an increase or signs that the crisis is over or flattening. It is the other way around. We are seeing everything that is a signed is executed. And many customers continue with their RFI. The pipelines that we have is stable. However the number of new prospects that are translated to real project is reduced and even in cases where there is RFI's that was expected to be actually concluded we see additional delays. So what characterizes activities is a delay, on one end and , I would say stability or even reduction in the number of RFI's.

Tom Roderick - *Thomas Weisel Partners - Analyst*

Very helpful. Thanks, Dov.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you.

Operator

We will go next to Ashwin Shirvaikar with Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

Thank you. My first question is in terms of the cost structure are you managing under the assumption that for the next couple of quarters obviously you have given 3Q guidance but for 4Q revenues will also be down and your managing to the assumption that you should hit 18% operating margins? Is that the underlying? And as we come out of the downturn eventually, can you actually benefit from the lower cost structure or will you have to invest on the upside and take away the benefit?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

Ashwin, thank you for the question. We are definitely targeting 18% as the operating margin even taking into consideration downward pressure on the top line. Within a specific quarter, looking for example ahead on Q3, not necessarily if we hit the lower end of the range, we can be at that quarter at the 18%, but we will definitely take measures that within a few months will get us there. So the way we are working is trying to update our forecast on an ongoing basis within the quarter and see what kind of actions we need to take in order to maintain that target.

As to the second part of your question, we definitely believe that the efficiencies we have taken and the different actions to reduce the cost structure of the Company should benefit us as we come out of the downturn. In parallel to that, we continue to invest today in many areas that will support the growth as we come out of the cycle including R&D for example. And another factor to take into consideration talking about the margin, is the fact that we are still a maturing and expanding margin on our managed services portfolio. So to remind you when we took over for example last year a large managed service deal with AT&T, we explained that the first year or two of the deal are putting pressure but as the deal matures we should expand profitability. This is usually the case in the managed services model. We are trying, starting to see already the expansion of profitability of the existing managed services portfolio.

Ashwin Shirvaikar - *Citigroup - Analyst*

That is very useful. And just to follow up though, the break out if you could provide any kind of break out or further information on any impact of billing rate declines versus maybe clients asking for a greater proportion of work be done from lower cost locations and so on?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

Ashwin, the fact of life for us has always been a price pressure and customers wanting to see more for the same or even a less price. What we have done for years now is come to our customers with proactive packages and we are obviously are doing it much more even today coming and offering them a lower price for certain scope given the fact we will do more for them. We will do more for them, we will get a longer term contractual commitment from them, and by that allow it to create efficiencies and share with them the savings. So this is how we are actually proactively coming to market these days. As well as the fact that for several years as you know we have extended significantly our low cost development center presence within the work force of the Company allowing to compliment the needs of the customers that require a more attractive price rate.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Let me add, Ashwin to what Tamar said, that we were able to maintain the profitability in this tough period. And as I mentioned before, one of the reason was that we were able to adjust our offering to the market. For example, we rolled out several new solutions of pre-packaged kind of Amdocs in a box of our new products with a layer of a implementation in local adjustment to the current country. So as a result of it, it enables us to offer lower cost solution to the customer and still maintain our margins. So, our unique business model of product and services and the ability to package solutions that will generate a cost benefit to the customer and protect the margin for us is key in this tough environment.

Ashwin Shirvaikar - *Citigroup - Analyst*

I agree. Thanks. . It's a good job in a tough environment.

Operator

We will go next to Lauren Ye with JPMorgan.

Lauren Ye - *JPM - Analyst*

H, guys. This is Lauren for Sterling Auty. So I think the commentary around full-year last quarter was assuming a year-over-year decline of nine to 12% with 3% from FX. Now it is 10% to 12%. I know it is a small difference, but just wanted to understand your thoughts there and what have you seen that has maybe changed?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

Lauren, thanks for the question. As we move along the year and actually have six months of actual results, we felt that it would be adequate to narrow the range. And given the continuation of the slow economy, we felt it would be more prudent to plan for a more conservative decline in terms of how we plan our cost structure and different activities within the Company versus a more optimistic path.

Dov Baharav - *Amdocs Ltd. - President, CEO*

And let me add to what Tamar said. To some extent they might say that we just instead of 9% to 12%, it is 10% to 12%. So it is maybe a little bit worse. To some extent, we have more confidence today in our projection compared to what we had last quarter. And we feel that I would say a much higher level of confidence in the way that we plan our activity. And the fact that in the second quarter we met our internal expectation, and in the top line and the bottom line give us the confidence that it will happen moving forward for the rest of the year.

Lauren Ye - *JPM - Analyst*

Fair. And then just to follow up, based on your guidance for Q3 and preliminary revenue kind of guidance for Q4 being down from Q3, just wanted to ask around backlog. How much are we I guess eating into backlog? In other words maybe at what level will backlog end up looking like at the end of the year?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

So Lauren, just to clarify, we have not indicated a specific revenue guidance for Q4. We tried to give you an understanding of how we plan our activities given the uncertainty in the environment and therefore talked about the annual decline year-over-year under revenues. Looking into the backlog, actually what you see this quarter is that backlog held up quite well. It is down $13 million sequentially but actually if you look year-over-year, it is flat. And this is a 12 month backlog. So so far we have managed to see relative strength in the backlog, and it is really hard to predict that parameter, a couple of months down the road. It is highly dependent on new deals being signed especially new managed services deals being signed.

Lauren Ye - *JPM - Analyst*

Thanks, guys.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you, Lauren.

Operator

We will go next to Scott Sutherland with Wedbush Morgan Securities.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Great. Thank you. Good afternoon.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Good afternoon, Scott.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

So kind of being on the road and talking a lot over your peers and other contacts in the market, can you comment what you are seeing in the bigger deal environment? Is that being hit harder? I mean we are still hearing a lot of the incremental business being done but big deals being more delayed. And secondly are you seeing those deals just not coming to market or are you seeing more delays in deals people want to do?

Dov Baharav - *Amdocs Ltd. - President, CEO*

I would say, Scott, that we see less deals coming to the market and especially large transformational deals. Carriers and service providers hesitate whether to initiate large transformational deals. And they, what we usually and the ones that we have -- so this quarter, we had several. It is not that we don't have. So Clearwire for example, this is not only managed services but this is a building, a full end-to-end system for a carrier that is rolling out infrastructure for a 200 million subscribers. So and ICE in Costa Rica, this is a transformation of a full OSS transformation. So there are builds, but not in the same number that we used to have a year ago. And we expect the situation to continue given the economy and once there will be improvement people will embark on many more deals.

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

And other trends we are seeing in the market today is that when customers are thinking about transformation, it is very important to them to choose a partner they can do it with even though they do not commit for the full transformation today. They may take a phased approach but they actually contract now for phase A. But while choosing the partner they want to see a vendor that can support them through the whole transformation and that's a key point in our selling.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Okay. And secondly just want to see how managed services are trending. Did you see sequential growth there? Is it relatively stable and what percentage of revenue is it now?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

We are still seeing approximately a 40% of revenue being managed services given that some impact this quarter development work that is more project oriented in managed services accounts, which is probably more of a fluctuation this quarter that is not expected in the next one.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Great. Thank you.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you, Scott.

Operator

We will go next to Karl Keirstead with Kaufman Brothers.

Karl Keirstead - *Kaufman Brothers - Analyst*

Hi, good afternoon. If can follow up on that managed services question. Dov, you mentioned that Sprint cut back a little bit on the managed services side and that you suggested AT&T could as well. Could you add a little bit of color and help us understand, when you say the vast majority of the managed services piece is recurring, do you mean 80%, 95%, maybe it would help us understand how sticky that revenue stream is? Thanks.

Dov Baharav - *Amdocs Ltd. - President, CEO*

When we indicate about 40% managed services it is the full revenue from a customer that the majority of the activity is managed services. Now on top of -- so what we have with this customer is, okay depends on the customer. So let's talk about Sprint for a second. So with Sprint we have a price per sub for -- all activity of the billing operation, and maintaining all of the customer care activity. And on top of it, there are a maybe two layers of services. Or even three layers of services.

The first layer are services that they must do. Which is to say is changing of some of , the tables, implementing new price plans, and including some new taxation, opening a new branch, changing some process of their organization and other. So, that is something that goes, and some of it even guaranteed in the contract. On top of it, there is a second layer which is discretionary, where it depends on their appetite. For example if they are -- would like to go so on a campaign or something like that. And the sell to them might be some revolutionary introduction of a completely new competence and activity.

So, I would say that the first one, that is to say the price to sell. Plus they must have services, this is the vast majority of the activity, the discretionary and the revolutionary project are a minority. And from time to time we have fluctuations. If they one quarter decide that they don't want to introduce any new service or very small new services. So we might have a lower volume this quarter and we might and probably given the fact that everyone competes and everyone must come with some new ideas, usually it comes in the quarter after. That's the reason why we see substantial stability in the overall activity of a managed services account.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay, Dov. Very good color. If I might squeeze in, looked like your revenues were down sequentially by about 6%. If you look at your top three clients, do you think the revenue contribution from them was down by a comparable amount or a little less or a little bit more?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

Less.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. Thank you.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you.

Operator

We will go next to Jason Kupferberg with UBS.

Jason Kupferberg - *UBS - Analyst*

Thanks, and good afternoon, guys.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Good afternoon.

Jason Kupferberg - *UBS - Analyst*

I have a question on the balance sheet. And obviously the cash balance here continues to grow though organic growth remains somewhat under pressure. And wanted to really get a sense of how you guys are thinking about M&A opportunities against this kind of backdrop, and what your appetite is there?

Dov Baharav - *Amdocs Ltd. - President, CEO*

We believe that the market offers a lot of opportunities for M&A. We see many companies that are starving for cash. And in this tough environment are not doing so well. So we believe that we will see acceleration of our M&A activity in the second half. And of course we will be very cautious where we spend the money, still cash is king these days. We need not separate very easily. We sweat a lot in order to generate new cash. So we will be sure that we bring value to the shareholders. However, we focus on it and think that the opportunity is in the marketplace.

Jason Kupferberg - *UBS - Analyst*

Should people be surprised if there's something in the transformational category from M&A standpoint or is that not really on the table?

Dov Baharav - *Amdocs Ltd. - President, CEO*

I would say that we do M&A as a support to our strategy. And our strategy is to promote our growth engines in the areas of Amdocs Interactive, all the online digital services activity, to promote our huge opportunity in the OSS. Amdocs is only about 10%over our revenue is in the OSS area while the size of the OSS market is comparable and even larger than the BSS, the Business Support System.

So the activity in the OSS it is 10% can grow to be the same as the old revenue of Amdocs. And we believe and not only us, but also Gartner, a leading trade analyst that we have the leading, the market leading offering in the OSS area, especially in service visibility, and planning. And that can provide a substantial opportunity for us. So, OSS is an area, Amdocs Interactive is an area. A building up our MGS in different parts of the world is another potential area. And so I would say that promoting of strategy through M&A will be the way to go forward.

Jason Kupferberg - *UBS - Analyst*

And just a quick follow up on two metrics if you can comment briefly. One is on Asia Pacific revenues, look like they're down about 45% off the peak levels just two quarters ago. And then on CapEx, pretty sharp drop off quarter-over-quarter. Is that sustainable? I mean obviously understanding that booking are somewhat under pressure but how should you think about the CapEx piece of the free cash flow equation? Thanks.

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

So regarding the revenue in the rest of the world meaning not in North America and Europe. It is combined of many regions not just Asia-Pac. It is developed as well as emerging markets that they're outside of Europe and North America. And since it is relatively small within the overall revenue structure of the Company, you will see fluctuations there on a quarter to quarter basis beyond the overall reductions that we experienced on the top line, as well as the fact that foreign exchange volatility is impacting this segment more strongly obviously than North America one.

On the CapEx side, we have seen lower CapEx levels this quarter. We are doing a lot internally to control and plan our CapEx investments. That is part of the overall focus in generating and optimizing the cash flow of the Company. We cannot commit at this stage that this is necessarily the new run rate going forward, but we are definitely trying to push that down as much as possible. The main triggering event that is going to jump CapEx investments in the future will be a new managed service deals that require CapEx of the outset of deal. And we will try obviously to share with you that once we sign such deals that will change the picture.

Jason Kupferberg - *UBS - Analyst*

Thank you.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you.

Operator

We will go next to Tal Liani with Banc of America.

Tal Liani - *Banc of America - Analyst*

That's a new way to pronounce my name. This is Tal. How are you?

Dov Baharav - *Amdocs Ltd. - President, CEO*

Hi, very good. How are you, Tal?

Tal Liani - *Banc of America - Analyst*

Good. I have a quick question. Most of my questions were answered. How much is, and I, there was a question here about the top three customers, and Tamar said that the trends within the top three were better than overall, the average. So, this is exactly my question, if you can provide more details? It seems like AT&T has been your largest can customer and they continue to work on their OSS and their plans are very public and you have Amdocs in the core of this.

As far as you can speak about the next six months, how much of the solid number that you have now are predicated on this one single customer? And is there any tempering nature to some of its projects that may end towards the end of the year? I am trying to see if there is any relative strength in one, with one particularly customer your largest customer that may go away toward the end of the year. Thank you.

Dov Baharav - *Amdocs Ltd. - President, CEO*

I would say that we are very pleased with our activity, with the large customers of Amdocs. We have experienced a substantial growth in this group. AT&T, yes, AT&T was not -- had grown substantially in the last two years, in many areas, and I would say that we have not existed yet and we have not exhausted yet the potential in AT&T. And you were right, the OSS might be a big potential for us in, in AT&T. This is , actually , I would say that the OSS in AT&T is a big area that can serve as a potential for growth for us. We think that we have the right offering, and it is an area of focus for us.

On top of it there's a lot of activity in the enterprise, that where we are, we have very little presence there. And many others. So I would say we feel we are doing a very good relationship with AT&T. We think that we are doing a very good job for them. The fact they see the growth in UVerse and in mobility. And we actually their main vendor for AT&T in UVerse and in mobility, give us the confidence that we will continue to see we a growth with AT&T. Now we have a excellent relationship in the high satisfaction of the other large customers of Amdocs. And we can offer them a lot and I -- and they have needs to move forward.

The world is changing. The fact that there is a reduction in revenue from voice, from the traditional voice, and everything is moving to IP on one end, and moving to digital services say on the other end, create huge opportunities. The move to IP will create a lot of work in OSS, and the digital services creating a need to change the way that they operate to acquire new capabilities how to address customers. And we feel that right now when some of them are stopping and/or delaying some decision, it is creating a kind of a delayed backlog, delayed pipe line that will grow very quickly once the crisis is over.

Tal Liani - *Banc of America - Analyst*

Related to that, the question, my next question is on leverage to your model. So over the last year, you took cost out of the model. You moved work force from more expensive areas to lower cost areas. What does it mean on your long term ability to grow margins, where do you think when things come back, what do you think is your long-term target for operating margin?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

We, as you said, continue to change the cost structure of the Company and it is not just the one quarter event. It is an on-going trend started several years ago and continuing fruitfully through this downturn. So yes it has to do with changing the work force distribution around the world. Running more efficiently, the delivery organization, the data centers it has to do with many activities and ideas taking place. As well as to a, to the fact as I said before that we are still expanding the margin on the existing managed services portfolio that we have, given the maturity of the deals that we are executing on.

I believe that talking about long term margins is something we would prefer to update on the analysts day, as we are reviewing obviously given the environment, our long-term model and going to the strategy internally.

Dov Baharav - *Amdocs Ltd. - President, CEO*

And I would add to it, that today, I would say we are taking very hard look and doing substantial scrutiny to all of our expenses in every area. So we are getting to places and to levels and to depths that we would not have gotten without this crisis. So I belief it would be a positive and a contributor to our margins once the crisis is over, and growth is resumed. It will increase our margins.

Tal Liani - *Banc of America - Analyst*

Thank you.

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Operator

We will go next to Ted Jackson with Cantor Fitzgerald.

Ted Jackson - *Cantor Fitzgerald - Analyst*

Thanks very much for taking my questions. I do have two. My first question relates to the directory publishing business which clearly has had some pretty dramatic decline in the last two quarters, and I was curious if you could provide more color in terms of what was causing this decline? And then color in terms of why you see the decline basically I guess ceasing in the next quarter? And then I have a follow on after that. Thanks.

Dov Baharav - *Amdocs Ltd. - President, CEO*

So, when the directory business world-wide is under pressure there a shift from printed directories to online. However, revenue from the online does not replace the lost revenue from the printed activity. So, as a result of it, some of our customers are under pressure and as a result of it they reduce their activity. Let me give you two examples, in the United States, the main three customers or publishers are IDR which was Verizon International, R.H. Donnelley and AT&T.

Now all of them are Amdocs customers. IDR is in a bad shape they losing customers and they actually declare Chapter 11. And so we suffer reduction in the revenue from IDR long ago, it was years ago and year ago. So now we are not losing any meaningful revenue with them, we have stabilities there. But it just representative of what is happening in this industry. R.H. Donnelley, is also not in great shape.

AT&T relatively is in good position. And we have some other customers like Census and Telstra in Australia and others. So overall our expectation is that there will be reduction in activity in the Yellow Pages. However since it is a mature business, we are able to generate to continue and protect the margins, from this business. And we believe that that will continue to be a margin generator and a cash generator for Amdocs in the coming years.

Ted Jackson - *Cantor Fitzgerald - Analyst*

In the last call it two years generally speaking, you've had declines really kind of in the on a sequential basis, kind of the mid single digits. And then the last two quarters you've had very large double digit sequential declines. But there's nothing specific there it is just the macro of the, the environment for directory publishing?

Dov Baharav - *Amdocs Ltd. - President, CEO*

Yes. I would say what we have seen, and let me give you just a simple fact. We had in the United States, 11 customers. Now we have three and we have not lost even one. All of them consolidated, so IDR is Verizon International is the Verizon directory which was the GTE, Bell Atlantic, NYMEX and some others. And the same was R.H. Donnelley that bought Sprint directory and others. And AT&T actually bought AmeriTech, Pacific Bell and Bell South. So, all of this consolidation created for them, a lot of saving, and we are doing a great job for them. So we increased -- so as a result of it when you look at it over the years that's created a reduction in revenue.

Now, the overall revenue of the industry is going down. And this massive consolidation and efficiency are creating a reduction in revenue and there is not too much activity in the online in this industry. That's a, but looking forward, we see a relative stability due to the fact that AT&T directories and the Census in Australia, some of our biggest customers in the Yellow Pages and some other customers in Europe have relative stability. So we see moderate decline moving forward and good margin and cash generation moving forward.

Ted Jackson - *Cantor Fitzgerald - Analyst*

My second question, just was to ask about specific verticals. In the past you have indicated that although the economy is weak and is impacting your business that you were seeing some rays of light within satellite cable, for instance. And I was curious if you looked at the environment right now, if there were any particular verticals that you felt were maybe out-performing relative to peers or under-performing relative to others? That's it. Thanks.

Dov Baharav - *Amdocs Ltd. - President, CEO*

I would say that cable that you mentioned is out-performing. We have, this is one of our growth engines that we feel very good about. You all heard about the Rogers agreements that we announced last quarter. That is very meaningful and actually indicates that Rogers, the leading cable company in Canada, chose to modernize all their system with Amdocs CES 7.5. Comcast also declares that they are also moving to Amdocs more than their billing. And we believe that we have the offering that can modernize the cable and satellite industry in North America and worldwide, and enabling actually to move triple-play or even quadruple-play and move to the era where everything will go IP, which will be combination of video, data voice, all of it on IP, with a great flexibility.

So overall I think cable is a growth area for us, and on top of it, the cable that is going outside of the United States and in North America, we feel that OSS is a vertical that we see substantial activity and represent large growth. It has not yet contributed meaningfully to the growth of the Company. But we expect to see growth there. Managed services, this is an area we see a lot of demand, and growing pipeline relatively higher growth in the managed services than the others, and huge demand for Amdocs Interactive. We see see substantial demand and actually deals signed in Amdocs Interactive. And probably the growth of Amdocs Interactive will be higher than the other growth engines moving forward.

Ted Jackson - *Cantor Fitzgerald - Analyst*

Thanks very much.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you.

Operator

We will go next to Shaul Eyal with Oppenheimer.

Shaul Eyal - *Oppenheimer - Analyst*

Thanks, good afternoon, guys.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Good afternoon, Shaul.

Shaul Eyal - *Oppenheimer - Analyst*

How are you?

Dov Baharav - *Amdocs Ltd. - President, CEO*

Good, good.

Shaul Eyal - *Oppenheimer - Analyst*

Most of my questions have been answered but I want to go back for a second to the M&A and capitalization question. I recall that you saying last quarter that some of the potential targets you were looking at the end of the day were happy not to go after. One of the reason was for valuation purposes obviously with the valuations coming down. What's the current status? Are the valuations are still heading down? Are you seeing a status quo? Any color you can provide us with will be quite appreciated.

Dov Baharav - *Amdocs Ltd. - President, CEO*

I would say that looking at the marketplace, we do not expect to see a reduction in valuation and to buy only bargains. Probably good companies will be bought with fair valuation. And we are ready for that. So, we are I would say ready to move forward. We identify targets however we don't feel the urgency to do an M&A just for the sake of doing it. We will make sure that we have the right target that it can fit to our offering, that it can be well integrated and can be accretive. Based on that we will move forward.

Operator

And we will go next to Daniel Meron with RBC.

Daniel Meron - *RBC - Analyst*

Hi, Dov and Tamar. Wanted to just follow up on the strategic level, following up on Shaul's question, can you also talk about the competitive landscape that you see out there, vis-a-vis, Comverse, Convergence, Oracle, Ericsson, anybody else that I am missing, maybe the system integrators like Accenture, IBM do you see them less or more aggressive now? If you can refer to that. Thank you.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you, Danny for the question. We feel that we are gaining market share in these competitive environment. When we are looking at Comverse, yes, they are trying hard and doing some desperate moves in the marketplace but overall I think that they are their own challenges. Regarding Oracle, I don't know that they are successful. We have witnessed a lot of challenges that they face moving forward.

So overall, we feel that Amdocs is as the leader of the industry. It is not only having the best current position, but our investment in R&D, our focus on M&A, our financial strength, our relationship with the leaders of the industry, and our unique model of product and services enable us to roll out a solution, that give to the needs of the industry these days. We think that this superior offering actually brings results. And we see the wins in the marketplace, our ability to move to new areas, our ability to win the trust of customer, and I think that we will see Amdocs opening the gap between us and the competition further moving forward.

Operator

We will go next to Shyam Patil with Raymond James.

Shyam Patil - *Raymond James - Analyst*

Hi, good evening, Dov and Tamar.

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

Hi.

Shyam Patil - *Raymond James - Analyst*

Hi. My first question is just if you guys could give an update on how the CES 7.5 upgrade is going at Comcast? And Dov what's your sense as to the when you might start seeing more of a shift in subscriber market share at Comcast?

Dov Baharav - *Amdocs Ltd. - President, CEO*

Looking at Comcast and our activity there, we have a -- right now we work with them very closely. We see a continuous growth in our activity. I would say that what is encouraging that is since we have a very bold portfolio we are making progress in many areas. For example in the OSS area, as you all remember, we bought Jacobs Rimell that was a traditional provider of OSS systems for Comcast, and we expand activity and sell more elements and more modules to Comcast. So we see an increase of activity. Regarding the overall transition and transformation of Comcast, we worked with them closely, and according to their changes needs. And we feel good about our ability to bring them the benefits that they are looking for including reducing the total cost of ownership of all of the billing activity in the coming years.

Shyam Patil - *Raymond James - Analyst*

Got it. Thank you. And last quarter you broke out revenue specifically by the percent that was project based, managed services and ongoing support and maintenance. You mention that maintenance I'm sorry that managed services was 40% in the March quarter. What was the percentage mix for other two categories and then what does the June quarter guidance assume in terms of that break out?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

We are still running about this 40, 30, 30 this quarter with the, as we said before, managed services this quarter specifically have some variability in the project work, that offset new revenue that came from a new managed services that were signed. But this is not necessarily indicative of the future quarters.

Looking forward, naturally as we look on the backlog as an indicator, we see relative strength in the recurring revenue levels of the Company, both the managed services and those that are not necessarily long term contractually committed for, but a part of the ongoing support we are giving to our customers on their mission critical systems.

So looking forward, these are the layer that is will be more protected and most of the vulnerability is on the project layer. However when we are talking about a further decline in Q3 and planning internally the cost structure for potential even decline afterwards we are taking into consideration that those very kind revenue maybe be a hit even though to a lesser extent than project one.

Shyam Patil - *Raymond James - Analyst*

Okay. Thank you.

Dov Baharav - *Amdocs Ltd. - President, CEO*

Thank you.

Operator

We will go next Julio Quinteros with Goldman Sachs.

Vincent Lin - *Goldman Sachs - Analyst*

Hi, thanks. This is actually Vincent sitting in for Julio. Just a quick follow up on free cash flow, I think you are guiding to approximately $90 million next quarter, it seems to be a little lower than the kind of $100 million plus run rate that you have been been generating over the past few quarters. So just wondering if there is anything specific going on there or if it is just a function of lower revenues?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

It is really a combination of several items nothing specifically to indicate within this Q3 expectation. And also the fact by nature, quarterly cash flow can be more volatile than earnings. So yes obviously as the overall activity is having head winds, that is flowing into the cash flow, but not necessarily on a linear base cash flow to earnings per quarter. Still, we are just to emphasize we are very focused on continuing to generating free cash flow and converting earnings into cash flow and believe we have done a, a good job in actually doing that in the several recent quarters.

Vincent Lin - *Goldman Sachs - Analyst*

Got it. And just a follow up on BSS versus OSS. Can you give a sense on how much of your existing business in terms of mix is coming from OSS versus BSS?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

We are not providing this granularity on a quarterly basis. I can generally say that one thing to note is that in many of the customers that we activating we do both BSS and OSS. Just as Dov explained about Comcast, this is actually our strategy. We are tracking OSS as a growth engine. It is still lower than 10% of the overall business, but we believe that going forward, we will see much more projects actually combine of BSS and OSS.

Vincent Lin - *Goldman Sachs - Analyst*

Okay. Thanks.

Operator

We will go next to Will Power with Robert Baird.

Will Power - *Robert W. Baird - Analyst*

Great, thanks. I guess a couple of questions. As you all noted, it looks like the sequential revenue declines are moderating. As you look at Q3 guidance and beyond, where is the primary continuing sequential weakness? Is it spread across geographies or are there certain areas that you continue to expect to be harder hit?

Tamar Rapaport-Dagim - *Amdocs Ltd. - CFO*

It is across geographies. And as we indicated last quarter, given the uncertainty in the environment, we are going through a process internally where we are doing the bottom up approach of, taking all of the data points from the customer business executives, the difference business units and building the forecast. But then applying I would say corporate haircuts to that to take into account things that may happen that not necessarily the customer made decisions on. So it is hard to say which customer specifically that will happen, it is more of a haircut just given the uncertainty.

Generally speaking, as I said before, it is more about the new projects that should get signed and how fast can we get them signed and start executing upon versus the revenue drop from the project that is aren't being completed. So this flow of new flow of projects, if it is not fast enough and large enough will probably be the main reason for further decline.

Will Power - *Robert W. Baird - Analyst*

Okay. And then my second question was just on China, I mean the three carriers there have been rapidly building out 3G along with some of the related support systems BSS, OSS, et cetera. I wonder if you can just give us an update on how you are evaluating or looking at your opportunity there? Thanks.

Dov Baharav - *Amdocs Ltd. - President, CEO*

I would say the environment in China is well controlled by the Government. The three main carriers are owned by the Government. The competition amongst them is limited and we do not foresee substantial growth in China even though they're moving. The way that they define are not, they are actually looking for more of a customization of the existing systems, and some (inaudible) systems. So, we do not foresee there right now a substantial growth.

I would say that we are, when we are looking at the region of A-Pac, probably the growth will come from other country. We have a lot of activity in Indonesia where with we see big potential there. On top of what we have today, with Excelcom where we are growing the business there and there are several other customers that we are looking into. And the same in other countries like Malaysia, Thailand, Vietnam and India. So China doesn't look like maybe the leading country for our growth in the A-Pac region.

Will Power - *Robert W. Baird - Analyst*

Okay. Thank you.

Operator

And that does conclude our question-and-answer session. I'd now like to turn call back over to Mr. O'Brien for additional or closing remarks.

Dov Baharav - *Amdocs Ltd. - President, CEO*

So it is Dov, not Tom, and I would like to say that Amdocs is executing in a tough environment. And we will maintain our sharp focus on profitability and free cash flow. We will continue to invest and build infrastructure for the future growth. Thank you for your support and good night.

Operator

And that does conclude today's call. We appreciate everyone's participation. You may disconnect at this time.
