

FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, everyone, and welcome to this Amdocs' third quarter 2009 earnings release conference call. Today's 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. - Treasurer, VP, IR*

Thank you, Helena. I'm Tom O'Brien, Vice President of Investor Relations for Amdocs. Before we begin I would like to point out that during his call we'll discuss certain financial information that is not prepared in accordance with GAAP. The company's



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management uses this financial information in its internal analysis in order 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 effects of such events enables management and investors to consistently analyze their 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 reconciliation of these measures, we refer you to today's earnings release which will also be furnished to the SEC on form 6K.

the effects of general economic conditions and such other risks as 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 report on form 20F for the fiscal year ended September 30, 2008, as filed on December 8, 2008, and in our 6Ks furnished on February 9th and May 12th, 2009. Amdocs may elect to update these forward-looking statements at some point in the future, however the company specifically disclaims any obligation to do so. Participating in the call today are: Dov Baharav, President and Chief Executive Officer, Amdocs Management Ltd., and Tamar Rapaport-Dagim, Chief Financial Officer. Following our prepared remarks we'll 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 gentlemen. We are pleased to report our results for the third quarter of fiscal 2009, with revenue of \$690 million and non-GAAP earnings per share of \$0.53. We executed well during the quarter to meet our expectation and also benefited from more favorable foreign exchange movement. Additionally we generated very strong cash flow of \$96 million and delivered on our 18% non-GAAP operating margin targeted for the third quarter in a row. Despite ongoing revenue decline, during the third quarter global activity levels remained weak as compared to a year ago.

Our service provider customers remain cautious in committing to new projects, especially larger transactions that carry greater risk and higher price point. This continues to impact the pace at which we are able to close new deals and therefore our revenue growth. As a result, we are continuing to experience sequential revenue decline, also the declines have become smaller each quarter over the course of fiscal 2009. Our bias currently is quarterly revenue could continue to trend down sequentially though at moderating pace until demand substantially improves. This is reflected in our Q4 guidance which Tamar will discuss more fully. Furthermore, while we are not ready to give 2010 guidance, we believe this trend could persist into early fiscal 2010. Importantly, though, we remain committed to protecting our profitability and free cash flow against this demand in revenue backdrop. On a higher note, we are continuing to sign new business with both existing and new customers and believe our position as a strategic partner with our customers has strengthened.

cable, managed services, and interactive. We highlighted our wins at JCOM and Elisa in the press release. But I would like to spend a bit more time now discussing the activity in our Interactive group. We observed some exciting developments in our Interactive wins this quarter. First, we had a major win in Latin America which was combined sale of both QPass digital commerce, and ChangingWorlds personalization technologies, demonstrating the emerging synergies of the Interactive product suite. The deal is very exciting for us due to the comprehensive scope for an end to end content management platform helping our customer become the destination of choice for its subscriber in supporting the vision we have for our interactive division. We will provide the system to support the company's mobile portal, its digital store front, content delivery management, partner revenue sharing, and portal personalization. Additionally, we had two other changing world wins in the quarter both in Asia-Pacific.

Along with the win in Latin America, the Interactive business is seeing deal activity from both established carriers in the developed world and from carriers in higher growth emerging markets. Though, only a small portion of the total company's revenue today, we continue to believe that Interactive will be a long term growth engine for Amdocs and we were certainly encouraged by the activity levels in Q3. In summary, we are pleased with our performance this quarter and remain committed to maintaining our profitability and delivering on our cash flow targets. We are hopeful that the worst is behind us, but anticipate that it may still take time for demand to fully stabilize or improve. Let me now turn the call over to Tamar for the financial review.



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

Thank you, Dov. Our third quarter revenue was \$690 million representing a decline of 15.9% compared to last year's third quarter and down 2.9% sequentially. Our non-GAAP EPS which excludes acquisition related costs and equity based compensation expense net of related tax assets was \$0.53 per diluted share. GAAP EPS was \$0.42 per diluted share. As Dov mentioned in his opening remarks, we did get a lift from our results in Q3 from currency relative to our expectations when we issued guidance on our April conference call. More specifically foreign currency benefited the top line by approximately \$10 million relative to our guidance but was fairly neutral to operating income. Additionally foreign currency drove upside in other income which added approximately \$0.02 to our EPS in Q3. For the full fiscal year 2009, we still anticipate the currency will be about 3% year-over-year drag on our revenue.

I'll spend a minute on a few non-GAAP items. License revenue decreased to \$26 million this quarter as anticipated given the slow pace of new project signings this year. We believe that license revenue will decline again in Q4 although much more modestly on a sequential basis. Directory revenue was relatively stable sequentially in Q3 as anticipated, although it is still down 33% year-over-year due to very difficult market conditions in the publishing sector. Europe continued to be our toughest region, with revenue down 20% sequentially, while North America held in much stronger, declining only 2% sequentially. To address the dynamics in Europe, a region more highly dependent on new project wins as part of its revenue stream, we have taken actions to enhance the leadership team focused on this market. Consistent with the past few quarters, new project revenue remained the hardest hit in Q3, while managed services and other recurring revenue streams remained far more stable. Our non-GAAP operating margin was 18% flat sequentially and up 10 basis points over the prior year. It still remains our goal to maintain margins at around this level. However as we have noticed for several quarters now, it becomes more difficult to do so at the bottom end of our quarter-ahead revenue guidance range. In that scenario we may have to take further cost actions. We had a significant increase in Q3 other income as compared to Q2 primarily due to more favorable foreign exchange and improved performance of our investment portfolio.

In our guidance we're expecting Q4 other income to look more like Q2 than Q3. The non-GAAP effective tax rate in Q3 was 14.5% in line with our guidance of 13% to 15%. We believe that the 13% to 15% range is reasonable for the fourth fiscal quarter. In terms of balance sheet items, we repaid \$150 million on our revolving line of credit during the quarter. DSO were 67 days, slightly up from Q2 levels, but remain within our recent range. The current balance in deferred revenue was \$185 million at the end of Q3, up almost \$30 million sequentially. Free cash flow in the quarter was \$96 million. Included in the calculation of this number was approximately \$18 million in net CapEx. At this time we are targeting free cash flow in Q4 to exceed \$100 million. Our 12-month backlog which includes contracts, estimated revenue from managed services contracts, letters of intent, maintenance and estimated ongoing support activities, was \$2.370 billion at the end of the quarter, flat with Q2. We believe the relative stability of our backlog over the past several quarters is a testament to the resiliency of our business model and its ability to produce recurring revenue even in very tough conditions.

Looking forward, our estimation -- our estimates for the fourth quarter of fiscal 2009 are for revenue of approximately \$670 million to \$690 million and non-GAAP EPS of \$0.47 to \$0.51, excluding the effect of the acquisition related charges, excluding equity based compensation expense of approximately \$0.04 to \$0.05 per share, net of related tax effects. We expect fully diluted GAAP EPS of \$0.34 to \$0.39. Our EPS guidance for Q4 is based on a fully diluted share count estimate of approximately 204 million shares. Now let me turn the call back over to Dov.

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

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



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QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) And we'll pause for a moment to give everyone a chance to signal. And we'll go first to Tom Roderick with Thomas Weisel Partners.

Tom Roderick - Thomas Weisel - Analyst

Thanks and good afternoon. Dov, I wanted to ask you a question here regarding your commentary around transformational projects. When you talk to your biggest customers that are capable of engaging in these types of transformational projects, what do they tell you right now with respect to when you might expect to see some of these materialize? Obviously you worked long and hard to get these through the pipeline and you have some visibility into some that might be closer than others. Do you think that it's a function of -- it's something that could get accomplished within this calendar year budget, or are these events that won't take place until earlier or even mid-year 2010 for some of these projects?

Dov Baharav - Amdocs Ltd. - President, CEO

I would say that what characterize the current environment is [certainly] that they do not cancel projects, with many of the projects that they have in mind in the past, they continue the process, yes, a little bit slower than what we all saw and what we expected. And whether they do not initiate new projects. So they -- we do not see in-flow to the pipeline of a large enough new potential project that might be closed six months from now. They are not started. So when we talk to the big guys, first of all they're in the middle of this recession. And they expect it to continue and maybe not deteriorating, but they continue to be under the pressure in the current situation this quarter and maybe a quarter after. So I would say that right now the market is directionless.

Tom Roderick - Thomas Weisel - Analyst

When you look at your statements regarding sequential revenue declines into early 2010, I mean you've had a few quarters of stable backlogs here which I would view as quite a good trend, what needs to happen? Do we need to see backlogs go back up to reverse the sequential decline. And with the market like it is right now, is it impossible to think about growth in 2010?

Dov Baharav - Amdocs Ltd. - President, CEO

What we need is to sign a new deal. The strength and the resiliency of the backlog is a result of our business model where we have very strong portion of recurring revenue. And the relationship with managed services and very strong carrier which we continue to strengthen the relationship with them. So in order to start to grow, we need first of all projects in the pipeline to be converted to real contracts and we need some better mood in the -- of customer to embark on the projects, sign the deals and move on and move on and to initiate new deals. So I would say we have now a pipeline that if the rate of closing a deal would be higher than what we experienced in previous quarters, we might see growth. Now our guidance is that we'll see a slight to -- slight decline to flat quarter next quarter and we don't have any solid proof that it's not going to be the case getting into 2010. However, we do not rule out the possibilities that we will see a change in inflection point in 2010 somewhere at some time.

Tom Roderick - Thomas Weisel - Analyst

Very good, thank you, Dov.

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Dov Baharav - Amdocs Ltd. - President, CEO

Thank you.

Operator

And we'll 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

Wanted to ask a question on free cash flow. I think that's been a clear bright spot this year getting that metric back on track. Can you talk a little bit about how much of that is because of some of the slowdown in contract signings, to the extent that you typically have to invest in some of those bigger deals especially on the managed services side, versus other dynamics that might be more sustainable once deal flow actually comes back, just so we can kind of think about the structural free cash flow profile of the company in kind of a post recession world?

Tamar Rapaport-Dagim - Amdocs Ltd. - CFO

Thanks for the question, Jason. I would say in the past large managed service deals that require setting up phones, data center, and making huge investments in set up fees are not necessarily the frequent mode of every managed service deal. In the past two years, we have seen investments going into the Sprint deal that reached the peak in 2008, and, yes, it was part of the lower conversion ratio of earnings to cash in 2007 and 2008 and that issue is over now. However, putting that aside I see an overall improvement in converting actually billings to collection on the one hand, and then also in the way we are putting much more weight this year on setting up the payment milestones. Because when we are signing the contracts to be more favorable to the combination of both as well as more truth around payment terms to vendors, lower CapEx and so forth is helping us to see the cash flow improvement that you've witnessed in the last few quarters. So what I can say is that generally speaking, looking forward, if we will have -- unless we will have a new large managed service deal that requires large CapEx investment up front for which obviously we will share this information with you if it happens, I believe that this positive trend that you've seen in the last few quarters should be able to continue.

Jason Kupferberg - UBS - Analyst

So does that mean we should see free cash flow trend back towards the 100% level of non-GAAP net income or is there a different range we should think about? Again absent any kind of one-off deals along the lines of what we saw.

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Tamar Rapaport-Dagim - Amdocs Ltd. - CFO

I believe that 100% usually is reflective of no growth. Even if all the parameters from a working capital point of view are excellent, I prefer to be in a situation where we are growing and the cash flow is lagging the net income versus the other way around.

Jason Kupferberg - UBS - Analyst

Okay, okay. And a broader question I wanted to ask is, in terms of if you think about the rate at which you expect spending to recover among your customer base when we come out of this current downturn versus how you observe the spending recovery following the last recession. How should we think about the possible differences there?

Dov Baharav - Amdocs Ltd. - President, CEO

Well, the last time the last recession was a little bit different. It was mainly telecom focused. This time the recession is just the global economy and not necessarily focused on telecom. So we believe that the way that what we will see once the mood is improved and they will see some positive signs in the revenue growth, it will be accompanied immediately by small projects and additional investment in the current activity which will start helping the revenue moving forward. We will see acceleration of closing of deals which will help the revenue and at the same time we will start initiate some new deals that probably will be closed six months from now and maybe eight months from now which will help us in 2010. So the main impact will be maybe two quarters from now.

Jason Kupferberg - UBS - Analyst

And just last question if I can on Europe. I know you touched on this a little bit. The quarterly run rate is obviously down quite a bit even versus where it was as recently as last quarter of fiscal 2008. It sounds like you're making some management changes there if I heard you correctly. Can you just talk in a little bit more detail about what's driving these pretty steep quarter over quarter declines? I understand it's highly dependent on project based work, but are there any other projects that have just rolled off or been canceled? And anyway we can think about the go forward run rate in Europe, is it going to continue to be a slow bleed but less of a rate, or is there some other dynamic there?

Dov Baharav - Amdocs Ltd. - President, CEO

The business in Europe is characterized by three elements. First of all it is a highly concentrated around a kind of the old PTT, which is to say the companies like France Telecom, British Telecom, Telefonica, Telecom Italia, Deutsche Telecom, that their own wireline and wireless, plus Vodafone that is the independent wireless carrier. And most of the PTT having a substantial internal IT or a kind of internal IT with system integrators, so -- and they used to buy the way that the market was there, that we were selling product and new projects, and we have never been able to establish the kind of relationship and the business that we have in North America. So what happened is due to these two effects and the deep crisis that Europe is going into is that we see less activity, less new projects, and as a result of it, we see a steep reduction in revenue in Europe in comparison to North America.

Moving forward, we believe that we are getting a traction in certain area and we believe that we can change and the trend and start seeing growth there. We believe that we strengthened the management and the team there and they introduce an adjustment to our strategy in the region. Secondly, we see already results. We won a large deal with Elisa, where it's a managed services and consolidation of a billing system which actually demonstrate strength in the region and we see progress with other large customers in the region. So we hope that the crisis in Europe will be over and that will help us. And we believe that the updated, adjusted structure and strategies that we have in the region will be results.

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Jason Kupferberg - UBS - Analyst

Okay. So is it fair to say you're still a couple of quarters away from restoring sequential growth there in Europe? Or do you think it's sooner?

Dov Baharav - Amdocs Ltd. - President, CEO

I would say that meaningful growth probably won't be next quarter. So maybe it will take two quarters.

Jason Kupferberg - UBS - Analyst

Right. Thank you for the color.

Dov Baharav - Amdocs Ltd. - President, CEO

Thank you very much.

Operator

And we do ask that you please limit yourself to one question and one follow-up question due to time constraints. And we'll go next to Scott Sutherland with Wedbush Morgan Securities.

Scott Sutherland - Wedbush Morgan Securities - Analyst

Great, thank you and good afternoon. First of all question on the managed services. What kind of new opportunities are you seeing there and what was the percentage of managed service revenue in the quarter?

Tamar Rapaport-Dagim - Amdocs Ltd. - CFO

We're seeing much more traction with managed services such as the examples we were able to announce with Elisa and T-Mobile UK, where tier two carriers as well as carriers outside North America, which is our stronger managed services base, are much more open and I would say anxious even to hear about managed services offering as well as in emerging markets. So generally speaking, we see much more momentum. So even though it's not necessarily one large deal that moves the needle, it's certainly catching up on momentum in terms of our presence in the market and the openness of customers to look into this model. From a sequential basis, we see managed services revenue already over 40% outside -- off the total revenue. It has been increasing quarter over quarter and we hope to see this momentum continue.

Scott Sutherland - Wedbush Morgan Securities - Analyst

Okay. Same question, you guys talked a lot about Europe and the sales cycles there. Maybe can you talk about other regions? Have you seen any change in the pipeline or the sales cycles or discretionary spending that could be encouraging or is it more of the same?

Dov Baharav - Amdocs Ltd. - President, CEO

Europe probably was the weak spot. I would say that in North America we feel that even though there is pressure, we are able to hold on to our activity and increase the effective activity by winning new projects in new areas, strengthening our OSS activity

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that is a growth engine for the company, strengthening our activity with the tier two companies strengthening our digital commerce activity by selling -- by having a growth in the sales of [Amdocs] Interactive to existing and new customers in North America. So North American I would say, we see encouraging signs in the new growth engine of the company which is the Amdocs Interactive and OSS and cable. I would say the cable continues to serve as a growth engine of the company. So that's one region.

In A-Pac I would say that we are encouraged by the pipeline. And we are encouraged by the demand for, again, Amdocs Interactive on one end and managed services on the other end and overall demand for our OSS. I would say A-Pac emerging market and North America looks like where we are more encouraged and we see and we expect that if an inflection point will occur, it will start in this area.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Okay. Great. Thank you.

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

Thank you.

Operator

And we'll go next to Sterling Auty with JPMorgan.

Sterling Auty - *JPMorgan - Analyst*

Yes. Thanks. Two questions, first in terms of looking at the backlog, given the results you've put up, I've been surprised by the resiliency of it. Can you talk to the health of the backlog? I think you mentioned you have not seen cancellations. Do you feel better about the health of the backlog now than you did let's say one or two quarters ago?

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

I believe that generally speaking the backlog is by definition the healthy part in terms of visibility. Right? It includes signed business but also recurring ongoing support or maintenance renewals. But feel we have a much more resilience in this revenue layers as we explained over the last few quarters. And therefore we see that as a very healthy part of the business. I think the backlog is indeed -- the next 12 months the backlog is indeed the indication of the strength of these revenue layers. In fact, if you look year-over-year, taking out the foreign exchange impact, which was actually negative, you'll actually see the backlog is stable year-over-year even though we've experienced such decline on the topline. And it's just a reflection of the different phenomena we were trying to explain over the last few quarters, of the fact that most of our vulnerable revenue actually lies within the project related revenue. Which means if we do not sign enough new projects to compensate and even overcome the projects that are ended, it means we will see declining revenue. And this is indeed what we've experienced over the last few quarters.

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

And maybe just to add to it, it might be that the strength of the backlog is a reflection of the phenomenon that service providers keep the current activity at the same level. And they continue to add some small developments and some new activity and as a result of it, they do not actually delay stuff and do not cancel, but actually continue and work on it and we enjoy it. We are the

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strategic partner of our customers, so when they need they approach us, and as a result we see the revenue from our customers on one end and also the backlog, keeping the same volume.

Sterling Auty - *JPMorgan - Analyst*

Okay. And the follow-up question is when things start to get better, what are the types of transformational deals that you think you'll end up getting? Will it be billing consolidation or what type and will it be a mix of BSS, OSS, and do you think the profitability profiles, those new transformational deals, will differ at all versus the ones you've signed in the past?

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

Well, I would say that it's too early to predict the profitability of the new projects that we don't have yet. I can tell you that probably people will invest more in the digital lifestyle, the digital services because they're where they're going to get the future revenue and that's where we are investing and building our offering. We will see more investment in OSS where they can get substantial saving on the network on one end and creating the capacity to handle all these digital services, and on top they will invest in the overall BSS platform in order to of course get efficiencies on one end and the flexibility to all our new services which show time to market and to maintain and create the customer experience. So I think that the order of the areas of growth dimension represent our belief where it will be the priorities of our customers.

Sterling Auty - *JPMorgan - Analyst*

All right. Thank you.

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

Thank you.

Operator

And we'll go next to Shaul Eyal with Oppenheimer.

Shaul Eyal - *Oppenheimer - Analyst*

Thank you. Hi, good afternoon, guys.

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

Good afternoon, Shaul.

Shaul Eyal - *Oppenheimer - Analyst*

Two quick questions on my end. Tamar, on the foreign exchange side, the \$10 million that you had as a benefit, was that basically effective hedging into the quarter, or was that just kind of improved or less volatility than you have seen in the past couple of quarters?

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Tamar Rapaport-Dagim - Amdocs Ltd. - CFO

Our hedging program is designed to protect the operating income rather than revenue and expense on a separate basis. And it's proved to be effective because even though we've seen so much volatility in currencies this quarter, with some of the currencies the Canadian dollar or a British pound moving to a large extent, we manage to manage the hedging program to be effective both on the operating income line and the bottom line. However, as we have seen in the past, it means that such volatility is impacting our revenue whether it was down, to remind you in Q1, when actually the dollar was strengthening and now the other way around. And therefore we've seen this positive impact on the topline of \$10 million which not go through the operating income, due to the similar impact on the expense side.

Shaul Eyal - Oppenheimer - Analyst

Got it. Question on the Latin America contract, under the interactive group. Really maybe kind of a long term question. As we start getting more involved on that end, what's the margin structure of such content? Would you imagine that probably without a doubt higher in margin than any other transformation or even just the 2 billing contracts you guys do?

Tamar Rapaport-Dagim - Amdocs Ltd. - CFO

I think this contract is a very good example of our interactive offerings. And actually, the deal includes a lot of elements we provide in our interactive portfolio to the market. It's going into a deal that will include implementation across affiliates of this customer and showing a lot of confidence on their behalf in what we have bring to the market. It was obviously a win over several competitors that were playing in that field. From a margin point of view what we're seeing generally is that a margin of these deals should be comparable in general without talking about this specific deal, margins in this space should be comparable to what we see in our BSS space. But I believe it's too early to talk about what will be the mature margin behavior, as this is a space that we are now kind of building as the market evolves.

Dov Baharav - Amdocs Ltd. - President, CEO

I would say, Shaul, that right now we have two types of activities in this area. One is a kind of a mode of delivering products and services to our customers, which is selling license and selling services, which probably we will have the same margins profit that we have today. And it comes up more or less the same way that we are selling our BSS platform. However, even today we have a different type of activity. This is the open market activity which is a kind of a hub, not the big one right now, in which we enable content provider to that are selling directly from their website to collect the money through the bill of the service providers in North America, especially in the United States. So this activity which is growing very fast is the more we grow, the higher is the margin from this activity. And we like this new type of model in this area.

Shaul Eyal - Oppenheimer - Analyst

Got it. Maybe just really kind of one follow-up. Can you size the contract for us in terms of maybe the number of subscribers you are going to be serving for the Latin American customer?

Dov Baharav - Amdocs Ltd. - President, CEO

I think it's -- we cannot go into details, but it's not something small.

Operator

And we'll go next to Daniel Meron with RBC Capital Markets.

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Daniel Meron - RBC Capital Markets - Analyst

Thank you. Hi, Dov and Tamar. I just wanted to get a little bit of a sense on what kind of projects or solutions do work in this environment? You mentioned that I guess carriers are very tactical in what they're choosing. Can you provide us with -- on a longer term basis over the last two or three quarters what did work and how do you think it's going to shift as far as demand into the next few quarters, or do you think these products like OSS or cable are the main themes that are going to work in the next couple of quarters as well?

Dov Baharav - Amdocs Ltd. - President, CEO

First of all we have all kind of projects, starting from -- the question is where we see more and where is the -- and what is the trend? I would say that we see more managed services deals and I would say that the developing countries as they like the managed services, it looks like they are more open to it, are not in touch emotionally to the systems that they have or they've built, and they're looking to get the right SLA and the right costs. So managed services is one. We see a lot of demand in the digital services area, as I discussed before. So that what we have experienced in the last few quarters and we see strong demand in the pipeline. The cable yes, it's full transformation and probably we'll have more deals like that and that will continue to show strength. OSS projects we'll continue to see. Regarding billing transformation and others, we continue to see them, but to a lesser extent. And it's done for segments. It's done for consolidation of billings, not necessary -- we don't -- we won't see a wave of a billing transformation in the industry. It will be upgrade, it will be changes, it will be -- but not big waves that will characterize maybe the next wave of activity.

Daniel Meron - RBC Capital Markets - Analyst

Okay. And then some -- from the competitive standpoint, do you see other products or other stuff that you guys don't necessarily hold or other business models that do work in this environment?

Dov Baharav - Amdocs Ltd. - President, CEO

We believe that we can enjoy once growth is resumed that we can go faster than the industry. In our traditional area of BSS, OSS, given the fact that we have a very small portion of the OSS market. It's very fragmented and we have a very small portion of it and we believe that we have a leading market leading offering and the ability to provide and consolidate this market. So this is one area that we believe will characterize our activity. So moving forward, I think that OSS will be there, cable will be there, a lot of managed services. And we'll see how things are running up.

Daniel Meron - RBC Capital Markets - Analyst

Okay. Very good. Good luck.

Dov Baharav - Amdocs Ltd. - President, CEO

Thank you.

Operator

And we'll go next to Shyam Patil with Raymond James and Associates.

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Shyam Patil - *Raymond James & Assoc. - Analyst*

Hi, good evening, Dov and Tamar. Over the last couple of quarters, you signed some pretty good wins. Can you just talk about how these have progressed in aggregate? Are these progressing to plan or are you seeing common delays or any changes in scope?

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

Generally speaking, we do not see cancellations of deals, not the ones we have in the pipelines, sorry, not the ones we had in the backlog, neither the ones we signed recently. It's continuing as part of the characteristics of this time of downward cycle, what we see though is customers committing in phases. So they may decide they're going into phase A not necessarily committing yet to phase B. Then as the progress in the project is coming along, they are taking the decision to move ahead. Rather than committing upfront not necessarily for huge projects, they're just taking a more cautious approach, which is understandable, given the environment from their point of view.

Shyam Patil - *Raymond James & Assoc. - Analyst*

Okay. Then Dov, I wanted to clarify a comment you made earlier about potential expectations for 2010. Did you mention that if you don't sign a large deal in the next two to three quarters that we should be thinking about flattish to negative revenue growth in 2010?

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

No. I have not mentioned any large deals that has to be signed now. What I said is that a customer will start initiate and moving forward on a large deals, once they feel better about the industry. We, as you can see, we have very moderate decline in revenue. And we believe that the strength of our business model is such that we will see maybe more moderate decline in next quarter if at all and in 2010 depends on the overall mood of the industry. It is to say if just some customers will feel a little bit better and would like to move on with several not giant projects, regular projects, we can enjoy growth.

Shyam Patil - *Raymond James & Assoc. - Analyst*

Okay. Thank you.

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

Thank you.

Operator

And we'll go next to Karl Keirstead with Kaufman Brothers.

Karl Keirstead - *Kaufman Brothers - Analyst*

Yes, hi, thanks for taking my questions. Two questions on the margins for Tamar. First of all, in the last couple of quarters, your gross margins have been down year over year. In the June quarter just reported, they're now up year-over-year. I'm wondering if you can you offer a little bit of color as to what might have caused that. And then secondly, assuming that revenues do remain



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sequentially down into fiscal 10, so perhaps the December or even March quarters, do you still feel comfortable with that scenario you can still hold your non-GAAP margins at 18%? Thanks.

Tamar Rapaport-Dagim - Amdocs Ltd. - CFO

Thank you, Karl. So to answer to the first question, first of all to remind you in 2008 the main, I would say, tipping point in terms of the margin, when we added the large managed services deal of AT&T and took over an existing cost structure that immediately impacted margins to some extent from Q2 of 2008. So I assume that when you compare year over year Q1, you still don't see that impact in Q1 2008. However when we start comparing the now Q3 of 2009 to 2008, that's already been included in the 2008 numbers. And then looking into 2009 we see the positive impact already of first of all a lot of the cost measures we've taken of the company across the board that reduced the cost structure of the company. Adding to that maturity of our managed services portfolio including the AT&T deal, but not only. We have several large managed service deals that have been signed along the last few years. And we have been able to create efficiencies in this deal that we planned when we took over those deals.

Overall I would say that the combination for a lot of efficiencies, cost reduction that has been taking place that are bringing the results. As to the operating income line, the 18%, we continue to see that as a very important target of the company. The management is fully focused on manage to that target. And as we said, for the Q4 numbers, we are still targeting that if it will hit the lower end of the range, it may take a few months to get there, but I'm sure and confident we can do that.

Karl Keirstead - Kaufman Brothers - Analyst

Okay. Thank you.

Operator

And we'll go next to Julio Quinteros with Goldman Sachs.

Julio Quinteros - Goldman Sachs - Analyst

Hey, guys. I wanted to start off real quickly with the telecom carriers in particular. Expectations when we were coming into this back half of the year was at spending and total capital spending would be a little more back-end loaded in 2009. Is there any change there in terms of spending plans, specifically are you seeing spending get pushed out into 2010 at this point?

Dov Baharav - Amdocs Ltd. - President, CEO

Julio, I'm not aware of any delays of CapEx to next year, any change in plans moving forward. I would say that the other way around, we see most of the carriers continue and executing on their plans. Now, the level of spending this year is lower than last year. And it's not -- it doesn't look like they're going to increase. But it looks like they keep some at the current level moving forward.

Julio Quinteros - Goldman Sachs - Analyst

Okay. And just to follow onto that question, maybe if you could distinguish between wireline versus wireless trends. Any incremental improvements or changes versus last quarter on the wireline versus wireless side?



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Dov Baharav - Amdocs Ltd. - President, CEO

If we include cable in wireline, so we see a lot of strength in wirelines. That is to say cable company are in relatively good shape in comparison to the overall industry. So as they keep spending in order to build their offering in their position in the marketplace. Wireline company invest in the broadband and so that is -- and we see the activities there. Regarding wireless, the main investment is in the data. They have to upgrade their network in order to enable the traffic of data, and there is substantial demand for platforms that will enable digital services. So we will see more and more investment moving to this direction.

Julio Quinteros - Goldman Sachs - Analyst

Okay. And just lastly on the margin side, when we look at the cost reduction that you guys have put through so far and just defending the margins, any way to think about how much of what you're doing on the cost side is permanent? In other words, when growth resumes, can we expect that there would be good margin leverage? Anyway to distinguish those two pieces, what might be just cost cutting the preserve versus what could be permanently structural stuff that would help your leverage margins as revenue growth returns next year?

Dov Baharav - Amdocs Ltd. - President, CEO

It's a difficult question to answer because everything is moving. It's not that we are -- yes, we reduced a lot -- we reduced costs permanently in many areas. But the main question will be what will happen to the prices to customers. And then so probably the charges to the customers and the prices to the customer over time will be characterized by offering more for less. This is what we see everywhere. And we, of course, are getting more efficient. And we hope that we'll be able to get a higher margin, but we will have to wait and see what will be the tradeoff between the pressure on the revenue -- on prices on one end and the reduction of costs on the other end, and being competitive in order to grow the revenue.

Julio Quinteros - Goldman Sachs - Analyst

Great. Thank you, guys. Good luck.

Operator

And we'll go next to Daniel Ives with FBR Capital.

Daniel Ives - FBR Capital Markets - Analyst

Yes, just a question M&A. What are you guys seeing in the market? Is there any change in regards to the appetite for M&A, just especially the prices coming down across the board? So could you just give an update there?

Dov Baharav - Amdocs Ltd. - President, CEO

Yes, I would say that looking at the potential targets for M&A, people digest the new fact of life. However, given the fact that there is stability, people start having the hopes that they will resume the growth moving forward. So I would say the market today is much more comfortable for acquirer in comparison to a year ago or two years ago. So we intend to act upon it and probably leverage the situation, leverage the opportunity and augment to our offering some capabilities in the future.

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Daniel Ives - *FBR Capital Markets - Analyst*

Thanks.

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

Thank you.

Operator

And we'll go next to Ted Jackson, Cantor Fitzgerald.

Ted Jackson - *Cantor Fitzgerald - Analyst*

Thanks. I'd like to start out just congratulate you on great expense control and cash management.

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

Thank you.

Ted Jackson - *Cantor Fitzgerald - Analyst*

And then my question or questions would be, just listening to you speak and listening to you talk about your outlook, sounds like you're really not seeing much change in carrier demand as it stands. But I do get the sense that you feel reasonably good about the pipeline of activity for the company. Is that a correct read?

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

I would say, yes. We see many opportunities. The question is when they will be converted from prospect to contract and that's something that we have difficulty to predict.

Ted Jackson - *Cantor Fitzgerald - Analyst*

So then my question is, just thinking about that pipeline. If that pipeline is actually growing and is not following the normal course in terms of revenue conversion, is there a case to be made that it's kind of a blocked pipe if you would and it's backing up on one side, and that something could knock it loose and you could see a torrent of activity once that happens? And if that is indeed a scenario that would be realistic, are there any type of leading indicators that you would be looking for? That's my question, thanks.

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

I think while we see as you mentioned potential pipeline conversion, I do not think we should expect an inflection point with very fast recovery rate kind of back to normal in a second. I think that people will be more cautious. The reason people are, they are talking about the domino effect. I do not see everybody rushing to make investments all at once, making up for the lost year or what. So recovery should be slower probably than a knee-jerk.

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Ted Jackson - *Cantor Fitzgerald - Analyst*

Okay. Thanks.

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

Thank you.

Operator

We'll take our next question from Will Power, Robert Baird.

Will Power - *Robert W. Baird - Analyst*

Great, thank you. Good afternoon. I guess a couple of quick questions. With the focus on the digital life cycle and some of the success you're seeing there, are there areas you want to add through or need to add through M&A or organically that might help accelerate that growth even further?

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

Yes. I would say this is a growth area where we expect substantial activity in the future. And we probably will see some acquisitions in this area, and on top of our internal investment in R&D and building our own organic offering.

Will Power - *Robert W. Baird - Analyst*

Okay, are there any particular areas you can highlight that might be more meaningful to that end?

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

Regarding the digital services or what?

Will Power - *Robert W. Baird - Analyst*

The digital services in terms of big holes in the portfolio that perhaps some of your customers are asking for.

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

I would say that today the main growth in the industry is in the mobile. The world is changing in ways that maybe a few years from now, there'll be four billion or five billion Smartphones at the hand of the people with the connection to the internet enabling them to consume a sophisticated services. That will bring substantial growth of revenue from the digital services from consuming application, from -- in many areas, like health care, education, commerce, information, and more than that, that will require I would say investment of carriers and need to come with new business model for the industry. So we believe that we have very strong offering in this area. However, the need for facilitating or enabling the food chain that will bring the content, the different services to the consumer and to the subscriber, this food chain or this flow of products and services, a flow does not exist, and we believe that we need to develop and we need to do some acquisition in order to play a leading role in this growing industry.



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Will Power - *Robert W. Baird - Analyst*

Okay. Thank you. I guess -- then my second question it looked like the directory business stabilized a bit sequentially. Do you think that's bottomed here, or are you still expecting further declines there? Thanks.

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

Looking into the next quarter, we're not expecting any major changes, but to guide on this specific sector, move farther into the future, I think it's a bit difficult given the enormous changes in the publishing industry we're seeing these days. So I think it's too early to necessarily try to give here guidance specifically into farther than one quarter ahead.

Will Power - *Robert W. Baird - Analyst*

Okay, thank you.

Operator

And it appears we have no further questions. At this time I would like to turn it back over to management for any additional or closing remarks.

Tom O'Brien - *Amdocs Ltd. - Treasurer, VP, IR*

Thank you for joining us today. We appreciate your ongoing support of Amdocs, and we look forward to updating you on our progress at the end of this fiscal year. Good night.

Operator

And that concludes today's conference. Thank you for your participation.

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