

FINAL TRANSCRIPT

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Doug Baharav

PRESENTATION

Operator

Good day, everyone and welcome to this Amdocs' third quarter 2010 earnings release conference call. Today's call is being

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recorded and webcast. At this time, I would will turn the call over to Elizabeth Grausam, Vice President of Investor Relations for Amdocs. Please go ahead.

Elizabeth Grausam - *Amdocs Limited - VP, IR*

Thank you, Matt. Before we begin, I would like to point out that during this call we will discuss certain financial information that is not prepared in accordance with GAAP. The Company's management uses this financial information in it's internal analysis, in order to exclude the effects 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 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 -- measures including reconciliations of these measures, we refer you to today's earnings release, which will also be furnished to the SEC on a Form 10-K. Also, this call includes information that 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 risks and uncertainties that may 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 risks as discussed in our earnings release today, and at greater length in the Company's filings with the Securities and Exchange Commission, including our annual report on Form 20-S for the fiscal year ended September 30, 2009, as filed on December 7, 2009, and in our quarterly 6-Ks filed February 8, 2010, and May 13, 2010. 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 on the call today are Doug 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 Limited - Presodemt. CEO*

Thank you, Liz, and good afternoon to everyone on the call. Today we are pleased to announce that our performance in the third fiscal quarter of 2010 was within all our guidance ranges for revenue, for profitability, and non-GAAP EPS. We also experienced another very solid quarter of free cash flow. I would like to focus my comments on the trends that we are seeing in the market today. Similar to our comments made in April, market demand and new project momentum continued to be solid during the third fiscal quarter. The success of our CES 8 product portfolio, and in particular, our TurboCharging capability is translating into share gains over our competition, and we continue to feel confident in our market position.

To directly engage with our customers, we hosted our annual InTouch customer events during the third quarter, one in Budapest for our European clients, and one in Singapore focused on our Asia-Pacific region. Attendance was outstanding this year, and combined we had over 315 participants representing more than 100 service providers, at these two events. We were particularly pleased that at only our second annual InTouch in Asia-Pac, attendance more than doubled over the prior year.

This leads me to discussion on the emerging markets which have been a source of increased activity for Amdocs in recent quarters. As emerging markets service providers begin to face maturing competitive dynamics, their requirements for customer experience systems are becoming more sophisticated. Service providers are looking for BSS and OSS solutions that enable them to differentiate their offering, bring services to market in more aggressive time frames, and lower the total cost of ownership in operating their back office systems. We are encouraged that these trends are creating a larger market opportunity for Amdocs. As evidence, building on last quarter's major BSS transformation win in Asia-Pac, we have continued to see increased activity with both existing and new customers, in the emerging markets. During the third fiscal quarter, new deals included an OSS

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implementation in Latin America, a BSS replacement project in Eastern Europe, and sale of our jNetX platform at Globe in the Philippines.

In addition to the new -- Q3 wins, we are achieving key milestone and expansion of work with our existing customers, validating not only the preference for our solution, but also our ability to deliver in cost effective manner to meet the needs of these regions. In addition to new project activity in our growing emerging market presence, our managed services business continues to be a pillar of strength for Amdocs in the third quarter. Importantly, we announced today the extension of our relationship with our two largest directory customers, AT&T and Sensis, providing greater, long-term visibility into our directory business. Moreover, we continue to see success in managed services with both large and small service providers, while increasingly relying on the managed services delivery model to help them compete and innovate, while guaranteeing a service level, and lower total cost of ownership.

The strengths we are seeing in the emerging markets in managed services, however, is being offset by weaker trends in Europe. Spending in Europe is not recovering at the same pace as other areas of the world, and we are modestly more cautious on the region after concluding the third quarter. That being said, we continue to have high confidence in the management team that is in place in Europe, and we believe they have made significant progress in aligning Amdocs with the long-term needs of the market.

Turning to the \$700 million share repurchase program announced last quarter, I am pleased to report that we repurchased \$209 million of our ordinary shares during the third quarter. We took advantage of market conditions in May and June, and expect to continue and execute our ongoing commitment to improving shareholders value, while profitably growing our business. In summary, solid industry demand and the strength of our competitive position have resulted in compelling strategic wins for Amdocs over the last several quarters. While we have slightly widened our fourth quarter revenue growth expectation to account to softness in Europe, overall, our business remains strong with solid momentum. We are excited about the various opportunities ahead of us, and we will continue to execute against them. With that, I will turn it over to Tamar for a discussion of our third quarter financial performance, and our forward-looking guidance.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Thank you, Dov. Third quarter revenue of \$753 million was within our guidance range of \$750 million to \$765 million, with foreign currency fluctuations driving approximately \$5 million incremental headwind, relative to our expectations when we issued Q3 guidance on April 22. Without this currency effect, we would have been at about the midpoint of our range. Our non-GAAP operating margin of 18.3%, was up 10 basis points versus the prior quarter. The revenue margin performance led to non-GAAP earnings per share of \$0.58, at the top end of the guidance range. Our share buyback activity in the third quarter contributed roughly \$0.01 of upside to our EPS.

Non-GAAP other income was modestly negative this quarter, primarily due to the costs associated with foreign currency fluctuations. For forward guidance purposes, we continue to expect that other income may be negative in the range of a few million dollars quarterly, as we prefer to remain conservative in our forecast. Free cash flow continues to be robust, coming in at \$160 million in Q3. This was comprised of cash flow from operations of \$179 million, less approximately \$19 million in net capital expenditures and other. DSO of 61 was within our expectations, and our cash balance at the end of the third quarter was approximately \$1.3 billion.

Our 12 months backlog, which includes anticipated revenue related to contracts, estimated revenue from managed services contracts, letters of intent, maintenance and estimated ongoing support activities was \$2.47 billion at the end of the third quarter, up \$10 million sequentially. We wanted to comment on two other balance sheet items, as we expect to receive questions on them. First, our short-term unbilled receivables were up roughly \$27 million sequentially. This is primarily a result of an increased level of new projects, as well as some managed services deals, with timing differences, between delivery and invoicing milestones.



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Second, deferred revenue was down this quarter by roughly \$22 million, as compared to the end of the second quarter. The vast majority of this decline is a result of the Longshine divestiture, and we do not consider it indicative of a trend. As Dov mentioned, during the quarter we repurchased \$209 million of ordinary shares out of the \$700 million authorization, as we felt market conditions presented an attractive opportunity to be relatively aggressive. Looking forward, we expect revenue to be within a range of \$755 million to \$770 million for the fourth fiscal quarter. In this guidance, we expect currency will not contribute materially to sequential growth, sorry, to sequential revenue, positively or negatively.

As Dov mentioned, in the lower end of this range, we are factoring in a modestly more conservative view in Europe. The recovery there is lagging US and emerging markets, and Europe still remains much more project oriented, and therefore, a bit less visible than other regions. However, we would not describe this as a major shift in our view on the European business. Also, to quickly comment on our directory line of business, we have seen relatively strong trends in directory revenue for the past two quarters, as we completed major milestones for two large customers. With those releases now behind us, we expect directory revenue to be down in the fourth quarter. However, with AT&T and Sensis extensions announced today, our visibility into long term directory revenue has improved.

We anticipate our non-GAAP operating margin in the fourth quarter to be at least 18%, and we will continue to balance our profit targets with our desire to reinvest in the business. We also anticipate that our non-GAAP tax rate will remain in the range of 13% to 15%. And we expect Q4 non-GAAP EPS to be in a range of \$0.57 to \$0.60. Incorporated in this view is an expected average diluted share count of roughly 201 million shares in Q4, and the likelihood of negative other income due to the effects from foreign exchange fluctuations. We have included the impact of incremental share buyback activity during the fourth quarter, as the level of activity will depend on market conditions. With that, we can turn it back to the operator to begin our question-and-answer session.

QUESTIONS AND ANSWERS

Operator

Thank you very much.

(Operator Instructions).

And the first question today will be from Shaul Eyal from Oppenheimer and Company. Please go ahead.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you. Hi Good afternoon, guys.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Hi, Shaul.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

A couple quick questions on my end. Tamar, can you quantify for us the directory contribution out of total revenue, kind of roughly in terms of maybe percentage?

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Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Directory revenue this quarter contributed \$60 million, and prior quarter was 55.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Got it. Okay. And the geographic -- kind of the overall geographic breakdown this quarter?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

North America was 572, and Europe 80.6, and the rest of the world was 100.3, reflecting strength in the rest of the world. Obviously, we talked about the fact that we have seen that activity in emerging markets, and that's translated into the pick up in revenue as well.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Got it. Dov, you talked about prepared commentary, about TurboCharging and kind of the CES 8, kind of going strong within your kind of current customers. Can you talk to us, kind of, are these kind of the Tier 1 carriers or are these kind of the more recent wins, the tier 2 or whether it is across the board, the strength across the board that you guys are seeing with those products?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

I would say that the TurboCharging, which enables a carrier to implement a billing capability with much lower costs. And we say real time capability and convergence of post paid and pre-paid. This is a compelling offering to Tier 1 customers and Tier 2 customers. And they -- as we speak, we have projects, with Tier 1 customers that are waiting to upgrade their system to TurboCharging in order to achieve this capability and save many tens of millions of dollars. And at the same time, for carriers in emerging markets, that consider it a very important ability to save money, either by saving on the hardware or having one platform for both pre-paid and post-paid that enables them to offer a new offering. So it looks like the CES 8, and especially the TurboCharging is appealing to those types of customers.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Got it. Thank you very much for that.

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

Thank you.

Operator

And your next question will be from Tom Roderick with Stifel Nicolaus.

Tom Roderick - *Stifel Nicolaus & Company, Inc. - Analyst*

Hi, guys. Thanks, and good afternoon. Hi. I was hoping you could comment just a little more on Europe, and if you have got any feel for, how temporary, or how long term you think the slow down might be for? And if you can detail any more of the root

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causes behind it of what you are seeing there? Do you get much of a sense this might be a leading indicator for a North American slowdown, or do you truly think it is just a lagging indicator, and hasn't bounced back in the way that you hoped it might, in the manner that the US did?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

I would say maybe the second. It looks like the recovery in Europe is lagging after the US. And in principle, we feel very confident in the recovery of our business in Europe, and the leadership that is aligning our business with our long-term goals. We are encouraged by the progress. However, a -- the growth of revenue is taking more than what we expected, and we took some more conservative guidance for the future, seeing the pace of progress there right now.

Tom Roderick - *Stifel Nicolaus & Company, Inc. - Analyst*

Okay. And as you look into the US business, what do are you seeing in term of the pipeline, and demand for some of these transformational projects which have been slow to develop. There has been a lot of project based work over the last several quarters that has had the numbers going in the right direction. When should we anticipate seeing some of these transformational projects materializing on the wireless, wireline side? You had a couple of nice wins on the directory side this quarter, but how about North American wireless, wireline for transformational projects?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

We -- we see the recovery of the US economy, it's not progressing as fast as people anticipated maybe two months ago. However, when we are looking at our market, we see a demand, a demand for transformation among wireless companies, among cable and satellite companies, among Tier 2 and wireline company, and wireless company. So, so -- we feel there is demand and we anticipate signing deals in North America, and looking forward. Now, beyond North America, looking at the other regions, the emerging markets continue to be a -- I would say a catalyst in our growth. We are very encouraged by it. And as you all remember two or three years ago, we were facing a -- we were actually asking ourselves, to what extent we were going to be successful penetrating the emerging markets will be. And we are very pleased with the fact that we are able to offer them a cost effective system that addresses their needs, and very competitive in comparison to every other alternative that they have. And it is translated to growth in our revenue and profit in this area.

Tom Roderick - *Stifel Nicolaus & Company, Inc. - Analyst*

Great. That's very helpful. Thank you, Dov.

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

Thank you.

Operator

The next question will be from Ashwin Shirvaikar with Citi. Please go ahead.

Ashwin Shirvaikar - *Citigroup - Analyst*

Hey, guys.

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Dov Baharav - Amdocs Limited - Presodemt. CEO

Good afternoon.

Ashwin Shirvaikar - Citigroup - Analyst

Good afternoon. My question is on the pipeline. If you could characterize the pipeline that you're seeing, in terms of sort of geographical breakdown, as well as the size of contracts that you have seen compared, to what you used to historically see, could you comment on those two factors?

Dov Baharav - Amdocs Limited - Presodemt. CEO

We are encouraged by the pipelines that we have. It is diversified, it is a different, it is all over, it is the North America, we have in Europe, in the rest of the world. And we have managed services potential deals and transformation potential deals, and some of them are smaller, and some of them are larger. I would say the big difference that we see today in comparison today, maybe to two years ago is that we have more large deals. In the past the transformation, were a very incremental, very point solution to some extent; Today, we see a little bit more in larger transformation deals, that are playing to our strength. It is to say end to end, offering best of suite, where we can leverage our advantage in the marketplace.

Ashwin Shirvaikar - Citigroup - Analyst

And just to follow up on that, the -- what's the maturity level of these deals? In other words, some of these large deals, could they potentially come through in the next one or two quarters for you?

Tamar Rapaport-Dagim - Amdocs Limited - SVP, CFO

Ashwin, we are signing deals, I would say on an ongoing basis. I think there are two issues here. First, are we signing big deals? Yes, we are. Some of those transformations that Dov referred to are comprising the full portfolio are longer, in terms of their execution. So it is to maybe that the deals aren't being signed, and it is taking just longer to execute, given their scale and complexity. At the same time, we have other examples where the commitment itself is being incremental. So some -- customers are deciding to start the transformation process, that they may decide, for example, to start the billing as the first phase, not committing yet to the rest of the portfolio. Usually, once they have this as the road map, and obviously choosing Amdocs as a partner, they can do the full road map with -- will enable us in the future to get the commitment also for the next phase. And we are seeing this kind of behavior with some of the customers, that already committed to first phase, and now discussing with us the next ones.

Ashwin Shirvaikar - Citigroup - Analyst

Got it. Can I squeeze in one more on Europe? I just want to confirm, are your cautious comments on Europe incremental, or is it mostly a continuation of weak conditions that had not really recurred?

Tamar Rapaport-Dagim - Amdocs Limited - SVP, CFO

If you recall also in prior quarters, even though where we see in our results in Europe, kind of around \$80 million something to \$90 million plus, we were kind of cautious and talked about the fact that Europe is lagging behind the rest of the regions. And also for us, it is more of a project oriented region. So by nature, the revenue visibility is lower than what, for example, we have in North America where we have a very large base of managed services. So we are seeing, to begin with, we are more cautious



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about Europe. And in the last few quarters, I would say that incrementally this quarter, given the situation, and also the results we specifically saw in Q3, we felt we needed to be more cautious on the lower end in our expectations.

Operator

And we will move along to Julio Quinteros with Goldman Sachs. Please go ahead.

Julio Quinteros - Goldman Sachs - Analyst

Sure, hey, guys. Real quickly, on the pace of the buybacks, in terms of priorities for capital as we go forward, is this level, obviously, it is a really nice level, do we keep this pace, or is it something that was kind of unusual, given the market conditions and the timing that you guys were able to do. So just help us understand how aggressive you plan on being on the remainder of the \$700 million buy back at this point?

Tamar Rapaport-Dagim - Amdocs Limited - SVP, CFO

So, as we said last quarter, the Board authorized us for \$700 million. We executed the -- over 12 months. We meant seriously to execute that before. And we continue to feel the same. As to the exact pace of how this buying will happen, it depends on the specific market conditions. But as you have seen so far, we have taken advantage of the May and June market conditions. So you should be expecting to see us continue the execution on the buy back.

Julio Quinteros - Goldman Sachs - Analyst

Got it. And I think you just confirmed that it was a 12 month authorization. The rest of the world now, when you look at the revenue mix, I think just from what I can tell from the numbers looking historically, it actually surpassed Europe, both in absolute dollars, and from a growth perspective now, as leading the United States, and obviously well ahead of the European situation. When we think about the mix going forward, is this a permanent situation relative to Europe. At least through next quarter it looks like the delta between rest of world and Europe should continue. What do you guys thinking about that kind of growth profile, so that 20% to 28%, is that a sustainable rate, given where you are now in terms of size in the rest of the world contribution.

Dov Baharav - Amdocs Limited - Presodemt. CEO

Let me tell you, Julio, what is our hopes. We would like to grow each one of them as much as possible. And so -- now we think that the emerging market looks like a big potential for growth for us, given the natural growth of activity in this area. And -- and our relative strength in this area. So we expect a fast growth in the rest of the world. Regarding Europe, we are encouraged by the -- the seeds that we have planted there, and the activity of our management in the region, and maybe it will take more time, but we expect growth there as well. Now regarding North America, we think that there is potential as well for a growth.

Tamar Rapaport-Dagim - Amdocs Limited - SVP, CFO

Just to clarify, when we referring to the rest of world, we are including the emerging markets, as well as more developed countries, such as Australia which, for example, this quarter had relative strength. So as far as (inaudible) from the emerging market strength that we have experienced, just to clarify that.

Julio Quinteros - Goldman Sachs - Analyst

Okay. Got it Great. Thank you, guys.

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Dov Baharav - *Amdocs Limited - Presodemt. CEO*

Thank you.

Operator

The next question will be from Shyam Patil with Raymond James. Please go ahead.

Shyam Patil - *Raymond James - Analyst*

Hi, good evening. First question is around Europe, how much of that European revenue is --will you say is project based and susceptible to the further declines, and what exactly are you guys assuming at the low end and high end of the sequential growth guidance for fourth quarter for Europe?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

We are looking at the European activity, the bulk of our activity in Europe is project based. And includes also some recurring activities that are not necessarily committed for upfront, but things like ongoing support, and a change request that happens from time to time with the existing customer base. But unlike long term managed services deals, they're not contractually committed for the several years ahead of us. Back to the second part of your question, we are not guiding specifically for every region. However we did want to share some color with you, explaining the fact that we are seeing more softness in Europe, and we are making us more cautious on the lower end of the guidance range for the next quarter.

Shyam Patil - *Raymond James - Analyst*

And I guess back to Europe, can you provide any color on what specific countries you are seeing weakness in? For example, are you seeing it in the UK and Germany and France, or are you seeing it in the less developed countries?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

So looking at Europe is very fragmented continent, with many countries. So, I would say that we are looking at our pipeline and our activity, it is a well diversified in Europe. And we cannot -- we don't think that -- the relatively short time softness that we see is relevant to one country. So it has to do with the overall atmosphere in Europe, and it is all over there.

Shyam Patil - *Raymond James - Analyst*

And if I can just sneak one more question in there. You are guiding to basically 0% to 2% sequential growth in the fourth quarter. Do you think that is a reasonable assumption for us to extrapolate on for the next two or three quarters, looking out to the next fiscal year?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

We are going now to the annual planning process for fiscal 2011, so I believe it's too early before we complete that process to start guiding for fiscal year 2011. We will come back in the next quarter, after we complete that process with more specific expectations.

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Operator

We will move along to the next question. This will be from Amir Rozwadowski with Barclays Capital. Please go ahead.

Amir Rozwadowski - *Barclays Capital - Analyst*

Thank you very much, and, good afternoon, folks. Dov, I was wondering if we can switch gears a bit to North America. As we have seen the last two quarters, a return to growth there, and over the last four quarters, certainly a pick up in sort of the progression on a year-over-year basis with sales for North America. I was wondering if you can give us a little more clarification, in terms of what areas you are seeing strength, and whether or not we should consider you know sort of this growth level sustainable over the near to midterm, in terms of the conversations you are having with your customers?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

So North America has been an area of strength for us, during the recession in the last few years. And looking forward to the coming to several quarters, on one hand that we have a lot of activity there, so -- and some a lot of big project there, and some of them might be ended. And then of course, and will create some natural reduction of revenue. And on the other hand, we are having many new projects, and we are encouraged by the potential and the new wins in the region. So -- we see potential among existing customers to increase our activities there. And we see new customers or relatively new customers that we can win some transformation deals. And we can see potential growth in the cable satellite activity. And we see even potential activity among some wire line companies. So overall, we have a good potential there, and good leadership there. And they -- and yes, we are -- we feel that we can -- the level of revenue is sustainable, and can be increased moving forward.

Amir Rozwadowski - *Barclays Capital - Analyst*

Okay. So from our perspective right now you are not, because you had made comments that sort of the economic backdrop is not as robust as it was maybe two months ago. But from your perspective in terms of your conversations, you don't see any sort of tempered activity at this juncture for North America?

Doug Baharav

No. We talking to our customer, we don't see any impact of a -- of the overall mood in the economy, and now with recent connections. So we hope that the US economy will overcome the, the difficulties right now, and a strong recovery will mean more business for us. So far looking at our activity, we are encouraged by the pipeline, and the potential and the progress that we make with customers, and to move a prospect to contracts.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

I think another relevant data point regarding North America is that we have seen over the last 18 months, much more success with kind of Tier 2, Tier 3 players in the North America region, where we are able to combine usually a modernization project or a build up for a greenfield player like a Mobilicity in Canada, build up the system, and committing to managed services for several years, allowing the customer the visibility into the service level after the production, as well as the cost structure that will -- as seen in front of them. So that kind of model has been quite successful in expanding our addressable market within the North American region.

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Operator

We'll take the next question from Daniel Meron with RBC Capital Markets. Please go ahead.

Daniel Meron - *RBC Capital Markets - Analyst*

Well, guys, a couple of questions you might have addressed it in the prepared remarks, and I might have missed it. Tamar, can you quantify the ForEx impact, on backlog, if there was any?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

There was about \$20 million erosion on the backlog sequentially, coming from the weakness, mainly that was seen in the Euro, and to some extent, a bit in the Australian dollar.

Daniel Meron - *RBC Capital Markets - Analyst*

Okay. Got you. And then you mentioned I think in the prepared remarks, and also in the press release that the win rate is good. Can you quantify it for us, and also give us some way of understanding where your strengths are coming from, when you see the win rate. And also, on the overall competitive situation right now. Thank you.

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

We are encouraged by our improving competitive position in the market. We believe that the CES 8 with the TurboCharging and the other features as we go to market, including the other offerings that we have, actually a create a substantial differentiation for us. So when we compare our activity in the billing area, we feel that we have substantial leadership in the market. The TurboCharging on one hand and its unique capabilities regarding the realtime post-paid pre-paid convergence. And the -- plus the BSS specs that we offer to the market, and plus a relative weakness of our competitors in this area, all that give us a substantial advantage in the marketplace. Now, we see we had very high win rate, and during the last six months. And now we have the same in the point is that it is not only the billing, it is the BSS, that is to say CRM and billing, and the mediation, and ordering is that many customers choose to take. There is a growing preference in the marketplace for best of suite, to buy an integrated suite. And there is a sponsorship of a manufacturer of the product, and when Amdocs provide not only the product, but the services, this also creates some advantage. So, overall we feel that we have an advantage in the marketplace, and it has translated to an improving win rate in the market.

Operator

We will move along to the next question. This will be from Sterling Auty with JPMorgan. Please go ahead.

Sterling Auty - *JPMorgan - Analyst*

Yes. Thanks. I want to circle back to Europe. Was there something in the timing as you went through the quarter? Did you see a fall off in close rates on the projects, because if I go back to the commentary at some of the conferences you presented at, it would seem like there was the progression of the improvement was still there. And then when I look at the actual numbers, in Europe for the end of quarter, was there maybe a fall off close rates where the top of the funnel is not filling as fast as projects being finished out the bottom of the funnel?

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Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

So, there are two things here. First of all, we need to remember the base of revenue in Europe, it is relatively smaller, to the rest of the region, so fluctuations of several million dollars can shift quite easily, when you are talking about project-related activity. And especially given the fact that our completion is percentage of completion. It is not even necessarily that its enough to get something signed in order to get the revenue within the quarter. In addition, we have seen most of the decline that we talked about in the foreign exchange impact is in Europe, given what has happened to the euro. So I would say that it is about \$4 million of the decline that we have seen quarter-over-quarter in European region is coming from foreign currency impact. So, yes, there were some fluctuation in the business itself but also in the currency itself.

Sterling Auty - *JPMorgan - Analyst*

Okay. Then the two, the two directory deals you signed did you benefit in revenue from either of those deals in the quarter, and are they reflected in the current backlog the 2.74 billion. Okay, and then the two directory deals that you signed, did you actually benefit in revenue from either of those deals in the quarter? And are they reflected in the current backlog, the \$2.4 billion?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

The deals that we signed are mainly contributing to our visibility, these are long-term deals with customers we had already. We had completed also at the same time, in Q3, meaningful milestones in projects that contributed to the revenue this quarter. So I think two things happened that are positive. One is that we have successful completion of some major transformation. Two, we have long-term visibility with two of the largest customers within the directory segment which is securing our businesses.

Operator

And the next question will be from Jason Kupferberg with UBS. Please go ahead.

Jason Kupferberg - *UBS - Analyst*

Hey, thanks guys. I wanted to ask another question on Europe, And just wanted to get a sense of how much of what you are seeing incrementally, as far as the caution is due to existing projects, either being slowed down or paused or canceled, versus just delayed decision making on new work.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

We are not facing cancellations. We are seeing and have been seeing in Europe somewhat a lagging behind the rest of the regions. We are also seeing more incremental commitment behavior, meaning in Europe still customers would usually commit first to scoping, and then to the next phase. So it is more of a cautious approach. Also when a customer decides to go about a transformation, in terms of how fast they want to move, and how bullish do they want to be in their commitment. So it is more about future activity, and not about cancellation of any kind.

Jason Kupferberg - *UBS - Analyst*

Okay. And then I guess if we take a bigger step back on Europe from a revenue perspective, if my numbers are right, I think over the last three years, the business has been basically cut in half, and can you give us just your view on how much of that is due to underlying end market conditions versus any Company specific factors that you think are at work, or changes in the competitive landscape, or anything else that's occurring over there?

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Dov Baharav - *Amdocs Limited - Presodemt. CEO*

It is a -- well, the bottom line is that is the important fact, and we are not happy with the fact that we have today less revenue than we used to have in the past. And with the new leadership, we intend to change this fact, and growing our revenue in Europe. And we feel that we are on track doing it, and we are more cautious giving the results of Q3 and Q4. And then, the reasons are on one hand, is that Europe is not doing well. And there is weakness in Europe, but no question, that we as a Company have not performed so well in Europe. And we can change, and that is a, the one to follow the new leadership to actually implement a new policy, a different to some extent what we had before. And it is in place, and we believe that we already see some signs for success, and we are confident that it will come.

Operator

Moving along, we will hear from Karl Keirstead with Kaufman Brothers. Please go ahead.

Karl Keirstead - *Kaufmann Brothers - Analyst*

Yes, hi. Thanks. I have got two questions about the rest of world. First, it is kind of a catch-all region, could you be a little more specific, as to where your footprint is, and where you saw the strength in the June quarter? And then secondly, is the mix shift to rest of world, does that help or hurt your overall margin profile? Thank you.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

In rest of world, we have a footprint, and I would say in Australia, that has been a long-term presence for us, both in the directory business as well as in the telecommunications, Telstra, for example is a customer. We have their APAC, Southeast APAC, India, countries such as Indonesia and so forth. And we have also Latin America. And we also have some footprint in Africa, and the Middle East but I would say that is the smaller part in the rest of the world. In terms of specifically in Q3, we have seen momentum coming mainly from Australia and APAC the emerging part of APAC, both have been performing strongly.

Karl Keirstead - *Kaufmann Brothers - Analyst*

Okay. And then on the margin profile? Does the mix shift, is that accretive to your non-GAAP margins?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Usually when we are in a penetration mode into a region it requires some investments. So by definition, we have put the strategy about two years ago to increase our coverage into the emerging markets, even during 2009 as we cut costs across the Company, we shifted resources to the emerging markets, actually building our presence there in order to win market share. And we are seeing the fruits of that today. I would say that generally speaking, I do not expect the margin profile to be different. And we are seeing that our cost structure both in term of the offering that we bring to the market, as well as the fact that we are delivering from our low cost developments center in India, is such that can support the price points of those regions. And at the same time, we are in a penetration mode that by nature, have a lower margin than more mature areas in which we have been activating for many, many years.

Operator

And the next question will be from Scott Sutherland with Wedbush Securities. Please go ahead.

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Scott Sutherland - *Wedbush Securities Inc. - Analyst*

Great. Thank you. Good afternoon.

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

Good afternoon.

Scott Sutherland - *Wedbush Securities Inc. - Analyst*

You mentioned in your comments that on the directory side, that there is a couple milestones that you hit. Can you talk about what regions those milestones were in?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

Directory.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Mostly in Australia and North America.

Scott Sutherland - *Wedbush Securities Inc. - Analyst*

Okay. The second question is, I wanted to know the business momentum you are seeing in your overall services revenue, are you seeing more momentum in managed services, or project, or are both kind of going the same trajectory?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Managed services both during in 2009, doing the reduction overall in company, we have seen strong win rate in managed services in the telco side. And also, while we are facing the recovery over the last few quarters, we continue to see very strong momentum in managed services. At the same time, as we have seen the better business and momentum and release the portfolio, the CES 8 portfolio, we started to see, we released the product, it was January of 2010, and then we started to see very good commitment level from our customers, and it started a new wave of demand on the project side. That takes time until it impacts revenue significantly, just given the ramp up into the project milestones, and the fact that we are recognizing revenue there, based on percentage of completion.

Operator

We will move along to Daniel Ives with FBR Capital Markets.

Michael Bauer - *FBR Capital Markets - Analyst*

Hi guys. This is actually Michael for Daniel. You guys referenced back on North America, but you guys referenced how you're doing well in Tier 2 and Tier 3 in the quarter. I am just wondering if anything changed in the competitive environment, or what drove that success? And finally in terms of the share count for your guidance, I missed that. Can you just follow up and give me that number again? Thanks.

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Dov Baharav - *Amdocs Limited - Presodemt. CEO*

Regarding the Tier 2, Tier 3, yes, there is a change. IF in the past, we were focusing in North America on the Tier 1, where we were extremely successful. In the last recent years, we were able to package an offering which is a combination of our modern suite and managed services, in a way that creates substantial, a billing offering, with substantial cost effective in a way that the Tier 2 customer can get substantial capability and functionality at a low cost. And, yes, he has to compromise the -- not maybe get every feature that he would like to have unique to himself. But, he is getting a very rich platform, with very reasonable costs. As a result of it, we see substantial demand, MetroPCS was a great example, and Mobilicity was another great example. As there are other wins in this area, and we think there is still the potential to grow this segment of the market in North America.

Elizabeth Grausam - *Amdocs Limited - VP, IR*

In terms of the share count, we said it was 201 million shares that are considered in the fourth quarter guidance.

Michael Bauer - *FBR Capital Markets - Analyst*

Great. Thanks.

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

Thank you very much.

Operator

We will move along on to Will Power with Robert Baird. Please go ahead.

Will Power - *Robert W. Baird & Company, Inc. - Analyst*

Thanks, just a couple of questions. I know you all have talked about the developing market strength, and it sounds like that has come from the Asia-PAC region, I wonder if you can you give us more granularity as to what products are driving that? Is that also the TurboCharging product? Is it digital content et cetera?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

The main driver for the success in the emerging market is -- I would say the overall suite. The fact that it is a comprehensive suite, the fact that we have a post paid pre paid convergence capability, and the TurboCharging. So the TurboCharging gives them the cost edge, plus post paid prepaid realtime. However, we see a lot of interest in the BSS. We see -- when they buy a full customer management system including taking the order, and managing the call center and managing the billing, the mediation, and this is quite appealing to them. Now the fact that we can provide it in a cost effective way, with a lot of experience and very low risk. This is also appealing to them, and the fact that it can scale. Amdocs experience, serving very large customer with many tens of millions of subscribers, and just to remind you, AT&T has more than 90 million wireless subscribers, and many of the carriers in this regions have many tens of millions of subscribers, and Amdocs' capabilities in these areas is very appealing to them. So when they compared to alternatives, they're attracted to Amdocs's offering.



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Will Power - *Robert W. Baird & Company, Inc. - Analyst*

Okay, thanks, that's helpful on that. The second question is on free cash flow which was very strong again, and it looks like, I think last three or four quarters you have been around the \$160 million range, is that sustainable level going forward, and what are some of the kind of the puts and takes we should think about maybe heading into Q4, and the first part of next year?

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Now what we have seen in the last few quarters, in cash conversion versus earnings that is way above 100%, this unfortunately is not sustainable forever. As we grow the Company, and as we know the math of how earnings translates into cash, at some point, we will start seeing the growth creating a conversion rate that is lower. However, at the same time, I want to emphasize that internally within the Company, we have created a very strong focus over the last three years, in making sure that the everything we do remembers that cash is king, in terms of creating the right contractual terms in our customers, the right focus from an operational point of view and collecting, and making sure cash is indeed coming in, so I can commit we will continue to focus on these kind of a parameters. However we cannot commit to cash conversions above earnings forever.

Operator

And the next question will be from Richard Power with [Seligman]. Please go ahead.

Richard Power - *Selickman - Analyst*

Hi guy, can you talk about the impact on the deferred revenues of the currency and where it was relative to your expectations? And I have one other question.

Tamar Rapaport-Dagim - *Amdocs Limited - SVP, CFO*

Most of the impact of the deferred revenue for the change this quarter came actually from the exit of Longshine from our balance sheets due to the divestiture of Longshine. The currency itself did not have much an impact on the deferred revenue itself.

Richard Power - *Selickman - Analyst*

Can you talk about the competitive environment a bit in some of the emerging markets? Is it much different in APAC than it is in Latin America, and what seems to be the most successful way for the Company to get entree to these new accounts?

Dov Baharav - *Amdocs Limited - Presodemt. CEO*

So we see a lot of diversity, in the competition in Latin America versus APAC. And the competition is -- we see all of the traditional ones, including Convergys, Comverse, and some of the prepaid guys and all the system integrators. However, I would say that in those areas, we see a lot of interest in the one-stop shop of Amdocs. The fact that we come with all of the know-how of the product, of the services, and the willingness to undertake the responsibility as the prime supplier, actually is quite appealing to some customers and gives us a substantial advantage. And the fact is, that we see these areas that the large service providers are taking over the market. That is to say, in every market you see several service providers, that are winning the market. And each one of them has tens of millions of subscribers. So we have the advantage of serving large, large carriers, with comprehensive offering, with one stop shop. And that is the way we are differentiating ourselves and winning. And especially when we are adding these days managed services, that not only give us an advantage but also create a long-term stream of revenue. And in South America, there again it might be a little bit different given the the market there; the market there is comprised of a two

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large service providers. And the third one is a smaller a little bit, they said the (inaudible) the group, America Mobile on one hand, and Telefonica on the other hand, and to a lesser extend in this region. And the strategy there will be to win one or two of the big guys. And that will be one of the main goals of the Company looking forward.

Operator

And this does conclude the question-and-answer session for today's conference call. At this time I would like to turn the call back over to Doug Baharav for additional or closing remarks.

Doug Baharav

Thank you for participating in Amdocs's third quarter conference call.

Operator

Thank you, and once again this does conclude today's conference call. Thank you for your participation.

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