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AMDOCS LTD
Form 6-K
February 15, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13A-16 OR 15D-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Quarter Ended December 31, 2005

Commission File Number 1-14840

AMDOCS LIMITED
Suite 5, Tower Hill House Le Bordage
St. Peter Port, Island of Guernsey, GY1 3QT Channel Islands

Amdocs, Inc.
1390 Timberlake Manor Parkway, Chesterfield, Missouri 63017
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

FORM 20-F FORM 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934:

YES NO

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

AMDOCS LIMITED

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

FOR THE QUARTER ENDED DECEMBER 31, 2005

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SIGNATURES

This report on Form 6-K shall be incorporated by reference into the Registration Statements on Form F-3 (File Nos. 333-114079 and 333-114344) and any other Registration Statement filed by the Registrant that by its terms automatically incorporates the Registrant's filings and submissions with the SEC under Sections 13(a), 13(c) or 15(d) of the Securities Exchange Act of 1934.

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AMDOCS LIMITED
CONSOLIDATED BALANCE SHEETS
(in U.S. dollars, unless otherwise stated)
(in thousands, except per share data)

AS OF

DECEMBER 31, SEP
2005

(UNAUDITED)

ASSETS

Current assets:

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Cash and cash equivalents	\$ 534,388	\$
Short-term interest-bearing investments	686,556	
Accounts receivable, net	343,487	
Deferred income taxes and taxes receivable	106,840	
Prepaid expenses and other current assets	80,681	

Total current assets	1,751,952	
Equipment, vehicles and leasehold improvements, net	168,338	
Deferred income taxes	117,041	
Goodwill	968,185	
Intangible assets, net	151,691	
Other noncurrent assets	145,434	

Total assets	\$3,302,641	\$
	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 101,773	\$
Accrued expenses and other current liabilities	220,159	
Accrued personnel costs	153,706	
Short-term portion of financing arrangements	4,777	
Deferred revenue	208,094	
Deferred income taxes and taxes payable	176,222	

Total current liabilities	864,731	
0.50% convertible notes	450,000	
Deferred income taxes	51,975	
Noncurrent liabilities and other	180,968	

Total liabilities	1,547,674	

Shareholders' equity:		
Preferred Shares - Authorized 25,000 shares; L0.01 par value; 0 shares issued and outstanding	--	
Ordinary Shares - Authorized 550,000 shares; L0.01 par value; 228,504 and 227,321 issued and 201,365 and 200,182 outstanding, respectively	3,665	
Additional paid-in capital	1,890,417	
Treasury stock, at cost - 27,139 shares	(602,392)	
Accumulated other comprehensive loss	(8,183)	
Unearned compensation	--	
Retained earnings	471,460	

Total shareholders' equity	1,754,967	

Total liabilities and shareholders' equity	\$3,302,641	\$
	=====	

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

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(in thousands, except per share data)

	THREE MONTHS ENDED DECEMBER 31,	
	2005 (1)	2004
Revenue:		
License	\$ 31,661	\$ 20,366
Service	555,367	449,166
	587,028	469,532
Operating expenses:		
Cost of license	1,062	1,155
Cost of service	374,051	294,947
Research and development	43,114	32,911
Selling, general and administrative	78,550	54,960
Amortization of purchased intangible assets	7,572	3,718
	504,349	387,691
Operating income	82,679	81,841
Interest income and other, net	8,414	4,959
Income before income taxes	91,093	86,800
Income taxes	15,759	17,357
Net income	\$ 75,334	\$ 69,443
Basic earnings per share	\$ 0.38	\$ 0.34
Diluted earnings per share	\$ 0.36	\$ 0.32
Basic weighted average number of shares outstanding	200,525	201,703
Diluted weighted average number of shares outstanding	214,871	217,448

(1) The first quarter of fiscal 2006 includes stock-based compensation expense related to employees of \$11,060, which was classified as follows: \$4,355 to cost of service, \$1,089 to research and development and \$5,616 to selling, general and administrative.

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

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AMDOCS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

(in thousands)

	Ordinary Shares		Additional	Treasury	Accumulated Other	Un
	Shares	Amount	Paid-in Capital	Stock	Comprehensive Loss	Comp
	-----	-----	-----	-----	-----	-----
BALANCE AS OF SEPTEMBER 30, 2005	200,182	\$3,644	\$1,870,922	\$ (602,392)	\$ (10,886)	\$
Comprehensive income:						
Net income	--	--	--	--	--	
Unrealized gain on foreign currency hedging contracts, net of \$(860) tax benefit	--	--	--	--	2,653	
Unrealized gain on short-term interest-bearing investments, net of \$(65) tax benefit	--	--	--	--	50	
Comprehensive income						
Employee stock options exercised	897	16	8,125	--	--	
Issuance of restricted stock	286	5	--	--	--	
Tax benefit of stock options exercised	--	--	1,246	--	--	
Stock-based compensation expense related to employees	--	--	11,060	--	--	
Stock-based compensation expense related to non employee stock options	--	--	26	--	--	
Reclassification of unearned compensation to additional paid in capital	--	--	(962)	--	--	
BALANCE AS OF DECEMBER 31, 2005	201,365	\$3,665	\$1,890,417	\$ (602,392)	\$ (8,183)	\$
	=====	=====	=====	=====	=====	=====

As of December 31, 2005 and September 30, 2005, accumulated other comprehensive loss is comprised of unrealized loss on foreign currency hedging contracts, net of tax, of \$(6,444) and \$(9,097), respectively, and unrealized loss on short-term interest-bearing investments, net of tax, of \$(1,739) and \$(1,789), respectively.

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

AMDOCS LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(in thousands)

	THREE MONTHS ENDED DECEMBER 31,	
	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES:		
Net income	\$ 75,334	\$ 69,443
Reconciliation of net income to net cash provided by operating activities:		
Depreciation and amortization	28,632	22,755
Loss (gain) on sale of equipment	73	(392)
Stock based compensation expense	11,060	--
Deferred income taxes	5,827	(2,534)
Excess tax benefit from stock based compensation	(610)	864
Realized gain from short-term interest-bearing investments	(2,355)	(39)
Net changes in operating assets and liabilities, net of amounts acquired:		
Accounts receivable	(39,250)	(27,684)
Prepaid expenses and other current assets	(3,641)	(14,025)
Other noncurrent assets	(2,433)	(5,731)
Accounts payable and accrued expenses	26,240	(4,715)
Deferred revenue	(14,066)	42,173
Income taxes payable	(953)	(1,779)
Noncurrent liabilities and other	(384)	4,707
Net cash provided by operating activities	83,474	83,043
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from sale of equipment, vehicles and leasehold improvements	1,143	1,503
Payments for purchase of equipment, vehicles and leasehold improvements	(14,059)	(15,657)
Proceeds from sale of short-term interest-bearing investments	173,727	132,891
Purchase of short-term interest-bearing investments	(419,803)	(160,134)
Net cash paid for acquisition	(1,406)	(18)
Net cash used in investing activities	(260,398)	(41,415)
CASH FLOW FROM FINANCING ACTIVITIES:		
Proceeds from employee stock options exercised and issuance of restricted stock	8,146	5,141
Excess tax benefit from stock based compensation	610	--
Principal payments under financing arrangements and other	(3,708)	(613)

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Principal payments on capital lease obligations	(1,288)	(5,916)
	-----	-----
Net cash provided by (used in) financing activities	3,760	(1,388)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(173,164)	40,240
Cash and cash equivalents at beginning of period	707,552	550,352
	-----	-----
Cash and cash equivalents at end of period	\$ 534,388	\$ 590,592
	=====	=====

SUPPLEMENTARY CASH FLOW INFORMATION

Cash paid for:

Income taxes, net of refunds	\$ 10,644	\$ 21,802
Interest	282	1,388

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

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

(dollar and share amounts in thousands, except per share data)

1. BASIS OF PRESENTATION

Amdocs Limited (the "Company") is a leading provider of software products and services primarily to the communications industry. The Company and its subsidiaries operate in one segment offering products and services that enable their customers to move toward an integrated approach to customer management. The Company designs, develops, markets, supports, operates, and provides managed services for information system solutions primarily for leading communications companies throughout the world.

The unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (the "GAAP"). In the opinion of the Company's management, all adjustments considered necessary for a fair presentation of the unaudited interim consolidated financial statements have been included herein and are of a normal recurring nature.

The preparation of financial statements during interim periods requires management to make numerous estimates and assumptions that impact the reported amounts of assets, liabilities, revenue and expenses. Estimates and assumptions are reviewed periodically and the effect of revisions is reflected in the results of operations of the interim periods in which changes are determined to be necessary.

The results of operations for the interim periods presented herein are not necessarily indicative of the results to be expected for the full fiscal year. These statements do not include all information and footnotes necessary for a complete presentation of financial position, results of operations and cash flows in conformity with GAAP. These statements should be read in conjunction with the Company's consolidated financial statements for the fiscal year ended September 30, 2005, set forth in the Company's Annual Report on Form 20-F filed on December 28, 2005 with the U.S. Securities and Exchange Commission (the "SEC").

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Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation.

2. SIGNIFICANT ACCOUNTING POLICY

Accounting for Stock-Based Compensation

Effective October 1, 2005, the Company adopted FASB Statement No. 123 (revised 2004), "Share-Based Payment," a revision of SFAS No. 123 ("SFAS 123(R)"). SFAS 123(R) supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations, and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. In March 2005, the SEC issued Staff Accounting Bulletin No. 107 ("SAB 107"), which provides supplemental implementation guidance on SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

Prior to October 1, 2005, the Company accounted for share-based payments to employees under the recognition and measurement provisions of APB No. 25. Pursuant to these accounting standards, the Company recorded deferred compensation for share options granted to employees at the date of grant based on the difference between the exercise price of the options and the market value of the underlying

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

shares at that date, and for restricted stock based on the market value of the underlying shares at the date of grant. No compensation expense was recorded for stock options that were granted to employees and directors at an exercise price equal to the fair market value of the Ordinary Shares at the time of the grant.

The Company adopted SFAS 123(R) using the modified prospective method. Under this transition method, compensation costs recognized in the first quarter of fiscal 2006 include (a) compensation costs for all share based payments granted prior to, but not yet vested, as of October 1, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and (b) compensation costs for the share based payments granted subsequent to October 1, 2005 based on the grant date fair value estimated in accordance with SFAS 123(R). The Company's consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). The Company selected the Black-Scholes option pricing model as the most appropriate fair value method for its stock based awards and recognizes compensation costs using the graded vesting attribution method that results in an accelerated recognition of compensation costs in comparison to the straight line method.

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As a result of adopting SFAS 123(R) on October 1, 2005, the Company's income before income taxes and net income for the first quarter of fiscal 2006 (not including restricted stock expense) were \$10,423 and \$9,101 lower, respectively, than if it had continued to account for share based compensation under APB No. 25. Basic and diluted earnings per share for the first quarter of fiscal 2006 would have been \$0.42 and \$0.40, respectively, if the Company had not adopted SFAS 123(R), compared to reported basic and diluted earning per share of \$0.38 and \$0.36, respectively. The total income tax benefit recognized in the income statement for share based compensation was \$1,403 and \$0 for the first quarters of fiscal 2006 and 2005, respectively.

Prior to the adoption of SFAS 123(R), the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. SFAS 123(R) requires the cash flows resulting from the tax deductions in excess of the compensation costs recognized for those stock options to be classified as financing cash flows. The \$610 excess tax benefit classified as financing cash inflows would have been classified as an operating cash inflow if the Company had not adopted SFAS 123(R).

In conjunction with the adoption of SFAS 123(R), the Company began to use the implied volatility of the Company's traded options as the expected volatility assumption required in the Black-Scholes option valuation model. Prior to October 1, 2005, the Company had used its historical stock price volatility in accordance with SFAS 123 for purposes of its pro forma information. The selection of the implied volatility approach was based upon the availability of actively traded options on the Company's shares and the Company's assessment that implied volatility is more representative of future share price trends than historical volatility. As stock-based compensation expense recognized in the Company's consolidated statement of income for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2006, the Company accounted for forfeitures as they occurred.

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

3. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net consists of the following:

	AS OF	
	DECEMBER 31, 2005	SEPTEMBER 30, 2005
Accounts receivable - billed	\$322,663	\$282,151
Accounts receivable - unbilled	28,318	28,994

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Less - allowances	(7,494)	(6,908)
	-----	-----
Accounts receivable, net	\$343,487	\$304,237
	=====	=====

4. COMPREHENSIVE INCOME

Comprehensive income represents the change in shareholders' equity during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity except those resulting from investments by owners and distributions to owners.

The following table sets forth the reconciliation from net income to comprehensive income for the following periods:

	THREE MONTHS ENDED	
	DECEMBER 31,	
	2005	2004
	-----	-----
Net income	\$75,334	\$69,443
Other comprehensive income (loss):		
Unrealized gain on foreign currency hedging contracts, net of tax	2,653	502
Unrealized gain (loss) on short-term interest-bearing investments, net of tax	50	(684)
	-----	-----
Comprehensive income	\$78,037	\$69,261
	=====	=====

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

5. INCOME TAXES

The provision for income taxes for the following periods consisted of:

	THREE MONTHS ENDED	
	DECEMBER 31,	
	2005	2004
	-----	-----
Current	\$ 9,932	\$19,891
Deferred	5,827	(2,534)

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-----	-----
\$15,759	\$17,357
=====	=====

The effective income tax rate varied from the statutory Guernsey tax rate as follows for the following periods:

	THREE MONTHS ENDED	
	DECEMBER 31,	
	2005	2004
	----	----
Statutory Guernsey tax rate	20%	20%
Guernsey tax-exempt status	(20)	(20)
Foreign taxes	18	20
	----	----
Income tax rate before effect of acquisition-related costs, and stock-based compensation expense	18	20
Effect of acquisition-related costs and stock base compensation expense	(1)	--
	----	----
	17%	20%
	----	----

As a Guernsey corporation with tax-exempt status, the Company's overall effective tax rate is attributable primarily to foreign taxes.

As of December 31, 2005, deferred tax assets of \$15,424, derived from net capital and operating loss carry forwards related to some of the Company's subsidiaries, were offset by valuation allowances related to the uncertainty of realizing tax benefit for such losses. When realization of such tax benefits associated with such net capital and operating losses is deemed more likely than not, the valuation allowance will be released through income taxes.

AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

6. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

THREE MONTHS ENDED	
DECEMBER 31,	
2005	2004
-----	-----

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Numerator:		
Numerator for basic earnings per share	\$ 75,334	\$ 69,443
Effect of assumed conversion of 0.50% convertible notes	1,000	984
	-----	-----
Numerator for diluted earnings per share	\$ 76,334	\$ 70,427
	=====	=====
Denominator:		
Denominator for basic earnings per share - weighted average number of shares outstanding	200,525	201,703
Effect of assumed conversion of 0.50% convertible notes	10,436	10,436
Effect of dilutive stock options granted	3,870	5,309
Effect of restricted stock issued	40	--
	-----	-----
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	214,871	217,448
	=====	=====
Basic earnings per share	\$ 0.38	\$ 0.34
	=====	=====
Diluted earnings per share	\$ 0.36	\$ 0.32
	=====	=====

The weighted average effect of repurchase of Ordinary Shares by the Company has been included in the calculation of basic earnings per share.

The effect of the 2% Convertible Notes due June 1, 2008 issued by the Company in May 2001 (the "2% Notes") on diluted earnings per share was anti-dilutive for the three months ended December 31, 2005 and 2004, and, therefore, was not included in the above calculation.

The effect of the 0.50% Convertible Senior Notes due 2024 (the "0.50% Notes") on diluted earnings per share was included in the above calculation.

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

7. ACQUISITIONS

DST INNOVIS

On July 1, 2005, the Company acquired from DST Systems, Inc., or DST, all of the common stock of DST's wholly owned subsidiaries, DST Innovis, Inc. and DST Interactive, Inc. The Company refers to these acquired subsidiaries together as DST Innovis, a leading provider of customer care and billing solutions to broadband media cable and satellite companies, or the Broadband Industry. The Company believes that this acquisition has positioned the Company to offer a comprehensive set of solutions to the Broadband Industry, as they transition to Integrated Customer Management

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or, ICM.

The purchase price for DST Innovis was approximately \$237,461, which included \$3,150 of transaction costs. The fair market value of DST Innovis' assets and liabilities has been included in the Company's consolidated balance sheet and the results of DST Innovis' operations are included in the Company's consolidated statements of income, commencing on July 1, 2005.

In addition, the Company commenced integration activities based on a plan to exit specific research and development activities and to terminate employees associated with these activities. In accordance with EITF 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination," the plan must be finalized within one year of the acquisition date and must identify all significant actions to be taken to complete the plan. The liability associated with this plan, which was recorded as part of the purchase accounting, is presented in the following table:

	EMPLOYEE SEPARATION COSTS	CONTRACTUAL OBLIGATIONS	OTHER	TOTAL
	-----	-----	-----	-----
Balance as of October 1, 2005	\$ 4,940	\$7,103	\$673	\$12,716
Cash payments	(3,826)	(88)	(415)	(4,329)
	-----	-----	-----	-----
Balance as of December 31, 2005	\$ 1,114	\$7,015	\$258	\$ 8,387
	=====	=====	=====	=====

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

The following is the revised preliminary allocation of the purchase price and deferred tax assets:

Net assets acquired	\$ 7,390
Core technology	63,180
Customer arrangements	59,702
In-process research and development	2,760
EITF 95-3 provision and other	(19,294)
Printing and mailing obligation	(25,777)
Deferred taxes resulting from the difference between the assigned value of certain assets and liabilities and their respective tax bases	17,332
Goodwill	132,168

	\$237,461
	=====

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LONGSHINE

On August 3, 2005, the Company acquired Longshine Information Technology Company Ltd., or Longshine, a privately-held leading vendor of customer care and billing software in China. This acquisition enables the Company to offer its products and services to Chinese service providers and the Company believes it will allow the Company to expand its presence in this fast growing market. The purchase price for Longshine was approximately \$34,100, which included \$1,100 of transaction costs. The Company may also be obligated to pay up to approximately \$16,000 in additional purchase price over the next two years based on the achievement of specified performance targets. The fair market value of Longshine assets and liabilities has been included in the Company's consolidated balance sheet and the results of Longshine operations have been included in the Company's consolidated statement of income, commencing on August 3, 2005.

The following is the revised preliminary allocation of the purchase price:

Net liabilities acquired	\$(12,434)
Core technology	1,000
Customer arrangements	6,500
Goodwill	39,034

	\$ 34,100
	=====

Pro forma information on the Company's consolidated statements of income for the three months ended December 31, 2004 to reflect the Longshine acquisition is not presented, as its results of operations during such period are not material to the Company's consolidated statements of income.

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

Set forth below is the unaudited pro forma revenue, operating income, net income and per share figures for the three months ended December 31, 2004 as if DST Innovis had been acquired as of October 1, 2004, excluding the capitalization of research and development expense, write-off of purchased in-process research and development and other acquisition related costs:

	THREE MONTHS ENDED DECEMBER 31, 2004 -----
Revenue	\$523,452
Operating income	71,957
Net income	60,428
Basic earnings per share	0.30
Diluted earnings per share	0.28

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8. OPERATIONAL EFFICIENCY AND COST REDUCTION PROGRAMS

In the fourth quarter of fiscal 2005, the Company commenced a series of measures designed to align its operational structure to its expected future growth, to allow better integration of the acquisitions of DST Innovis and Longshine, and to improve efficiency. As part of this plan, the Company recorded a charge of \$8,135 in connection with the termination of employment of software and information technology specialists and administrative professionals. Approximately \$3,088 of the total charge was paid in cash as of December 31, 2005. The remaining separation costs are expected to be paid out during fiscal 2006.

The restructuring accrual balance for this cost reduction program is comprised of the following as of December 31, 2005:

	EMPLOYEE SEPARATION COSTS
Balance as of October 1, 2005	\$ 7,002
Cash payments	(1,955)
Adjustments	(219)

Balance as of December 31, 2005	\$ 4,828
	=====

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

In prior fiscal years, the Company implemented a series of cost reduction programs designed to reduce operating costs and improve productivity. As part of these programs, the Company reduced its workforce, vacated facilities in different centers around the world and implemented other cost reduction measures, including travel cuts and reduction in other discretionary costs.

The restructuring accrual balance for these cost reduction programs is comprised of the following as of December 31, 2005:

	FACILITIES
Balance as of October 1, 2005	\$6,667
Cash payments	(639)

Balance as of December 31, 2005 (1)	\$6,028
	=====

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- (1) The remainder of the accrual is expected to be paid out through August 2008.

9. EMPLOYEE BENEFITS

The Company maintains non-contributory defined benefit plans that provide for pension, other retirement and post-employment benefits for some of its Canadian employees based on length of service and rate of pay. Contributions by the Company are based on various generally accepted actuarial methods and reflect actuarial assumptions concerning future investment returns, salary projections and future service benefits. Plan assets consist primarily of Canadian and other equities, government and corporate bonds, debentures and secured mortgages, which are held in pooled fund units established by Bell Canada Enterprises for the collective investment of registered pension plan assets.

The net periodic benefit costs under these plans for the three months ended December 31, 2005 and 2004, were as follows:

	THREE MONTHS ENDED DECEMBER 31, 2005		THREE MONTHS ENDED DECEMBER 31, 2004	
	PENSION BENEFITS	OTHER BENEFITS	PENSION BENEFITS	OTHER BENEFITS
Service costs	\$ 769	\$102	\$ 547	\$ 66
Interest on benefit obligations	956	166	837	121
Expected return on plan assets	(796)	--	(686)	--
	\$ 929	\$268	\$ 698	\$187
	=====	=====	=====	=====

In the three months ended December 31, 2005, the Company made contributions of \$939 to the pension plan and \$39 for other benefits. The Company expects that contributions for the fiscal year ending September 30, 2006 will approximate \$2,800 to the pension plan and \$200 for other benefits.

AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

10. STOCK OPTION AND INCENTIVE PLAN

In January 1998, the Company first adopted the 1998 Stock Option and Incentive Plan (the "Plan"), which provides for the grant of restricted stock awards, stock options and other stock-based awards to directors, officers, employees and consultants. The purpose of the Plan is to enable the Company to attract and retain qualified personnel and to motivate such persons by providing them with an equity participation in the Company. Since its adoption, the Plan has been amended on several occasions to, among other things, increase the number of Ordinary Shares issuable under the Plan. In January 2006, the maximum

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number of Ordinary Shares authorized to be granted under the Plan was increased from 38,300 to 46,300. Awards granted under the Plan generally vest over a period of four years and stock options have a term of ten years. In the fourth quarter of fiscal 2005, the Company commenced routinely granting restricted shares and the Company's equity-based grant package is currently comprised of restricted stock awards and a fewer number of stock options.

The following table summarizes information about stock options to purchase the Company's Ordinary Shares, as well as changes during the first quarter of fiscal 2006:

	NUMBER OF OPTIONS -----	WEIGHTED -AVERAGE EXERCISE PRICE -----	WEIGHTED AVERAGE REMAINING CONTRACTUAL TERM -----
Outstanding as of October 1, 2005	25,807	\$26.91	
Granted	1,829	27.46	
Exercised	(897)	9.20	
Forfeited	(855)	35.51	

Outstanding as of December 31, 2005	25,884 =====	\$27.28 =====	6.75 =====
Exercisable on December 31, 2005	16,039 =====	\$30.66 =====	5.76 =====

The weighted average grant date fair value of stock options granted during the three months ended December 31, 2005 and 2004 was \$9.69 and \$12.47, respectively. The total intrinsic value of options exercised during the first quarters of fiscal 2006 and 2005 was \$16,636 and \$12,161, respectively. The aggregate intrinsic value of outstanding and exercisable stock options as of December 31, 2005 was \$129,209 and \$71,493, respectively.

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

The following table summarizes information relating to awards of restricted nonvested shares, as well as changes to such awards during the first quarter of fiscal 2006:

	NUMBER OF SHARES -----	WEIGHTED AVERAGE GRANT DATE FAIR VALUE -----
Outstanding as of October 1, 2005	134	\$26.43
Granted	287	27.45
Vested	(76)	26.43
Forfeited	--	--

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	---	-----
Outstanding as of December 31, 2005	345	\$27.28

As of December 31, 2005, there was \$53,411 of unrecognized compensation expense related to nonvested stock options and nonvested restricted stock awards. The Company recognizes compensation costs using the graded vesting attribution method which results in a weighted average period of approximately one year over which the unrecognized compensation expense is expected to be recognized.

The fair value of stock options granted was estimated on the date of grant using the Black-Scholes pricing model that uses the assumptions noted in the following table (all in weighted averages for options granted during the period):

	THREE MONTHS ENDED	
	DECEMBER 31,	
	-----	-----
	2005	2004
	-----	-----
Risk-free interest rate (1)	4.45%	3.30%
Expected life of stock options (2)	4.50	4.50
Expected volatility (3)	0.35	0.638
Expected dividend yield (4)	None	None
Fair value per option	\$9.69	\$12.47

- (1) Risk-free interest rate is based upon U.S. Treasury yield curve appropriate for the term of the Company's employee stock options.
- (2) Expected life of stock options is based upon historical experience.
- (3) Expected volatility for the first quarter of fiscal 2006 is based on implied volatility of the Company's traded options. For the first quarter of fiscal 2005, expected volatility is based on the Company's historical stock price.
- (4) Expected dividend yield is based on the Company's history and expectation of dividend payouts.

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AMDOCS LIMITED

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(dollar and share amounts in thousands, except per share data)

The following table sets forth the pro forma effect of applying SFAS 123 on net income and earnings per share for the first quarter of fiscal 2005:

THREE MONTHS ENDED
DECEMBER 31,

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2004

Net income, as reported	\$69,443
Add: Stock-based employee compensation expense included in net income, net of related tax effects	58
Less: Total stock-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(7,540)
Pro forma net income	\$61,961
Basic earnings per share:	
As reported	\$ 0.34
Pro forma	\$ 0.31
Diluted earnings per share:	
As reported	\$ 0.32
Pro forma	\$ 0.29

11. CONTINGENCIES

Legal Proceedings

The Company is involved in various legal proceedings arising in the normal course of its business. Based upon the advice of counsel, the Company does not believe that the ultimate resolution of these matters will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Securities and Exchange Commission Investigation

In 2003, the Company was informed that the Midwest Regional Office of the SEC was conducting a private investigation into the events leading up to the Company's announcement in June 2002 of revised projected revenue for the third and fourth quarters of fiscal 2002. The investigation appeared to be focused on, but was not explicitly limited to, the Company's forecasting beginning with its April 23, 2002 press release. The Company responded to an initial document request by the SEC but has not received any requests for additional information or had any substantive contact with the SEC with respect to this investigation since 2003. The Company has cooperated with the SEC staff and believes that it would be able to satisfy any concerns the SEC staff may have as to the matters under investigation. However, given

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the current status of the investigation, the Company is still unable to predict the duration, scope, or outcome of the investigation.

Guarantor's Accounting and Disclosure Requirements for Guarantees

The Company is a party to an agreement entered into prior to December 31, 2002 that includes an indemnification of one of its customers for any withholding tax that might be required under the customer's local tax laws from certain payments made to the Company under this agreement. The indemnification under this agreement expired in December 2005. As of December 31, 2005 and September 30, 2005, the maximum potential amount of the Company's future exposure under this guarantee as determined in accordance with Financial Accounting Standards Board Interpretation No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" was \$4,717.

The Company generally sells its ClarifyCRM products with a limited warranty for a period of 90 days. The Company's policy is to accrue for warranty costs, if needed, based on historical trends in product failure. Based on the Company's experience, only minimal warranty services have been required and, as a result, the Company did not accrue any amounts for product warranty liability during the first quarters of fiscal 2006 and 2005.

The Company generally indemnifies its customers against claims of intellectual property infringement made by third parties arising from the use of the Company's software. To date, the Company has incurred only minimal costs as a result of such obligations and has not accrued any liabilities related to such indemnification in its consolidated financial statements.

12. SUBSEQUENT EVENT

On January 17, 2006 Sprint Nextel Corporation announced it had reached a preliminary agreement for the Company to provide a single billing and customer care platform for Sprint Nextel's more than 45.6 million wireless subscribers.

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ITEM 2. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

FORWARD LOOKING STATEMENTS

This section contains forward-looking statements (within the meaning of the United States federal securities laws) that involve substantial risks and uncertainties. You can identify these forward-looking statements by words such as "expect", "anticipate", "believe", "seek", "estimate", "project", "forecast", "continue", "potential", "should", "would", "could" and "may", and other words that convey uncertainty of future events or outcome. Statements that we make in this document that are not statements of historical fact also may be forward-looking statements. Forward-looking statements are not guarantees of future performance, and involve risks, uncertainties and assumptions that may cause our actual results to differ materially from the expectations that we describe in our forward-looking statements. There may be events in the future that we are not accurately able to predict, or over which we have no control. You should not place undue reliance on forward-looking statements. We do not promise to notify you if we learn that our assumptions or projections are wrong for any reason. We disclaim any obligation to update our forward-looking statements, except where applicable law may otherwise require us to do so.

Important factors that may affect these projections or expectations

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include, but are not limited to: changes in the overall economy; changes in competition in markets in which we operate; changes in the demand for our products and services; consolidation within the industries in which our customers operate; the loss of a significant customer; changes in the telecommunications regulatory environment; changes in technology that impact both the markets we serve and the types of products and services we offer; financial difficulties of our customers; losses of key personnel; difficulties in completing or integrating acquisitions; litigation and regulatory proceedings; and acts of war or terrorism. For a discussion of these important factors, please read the information set forth under the caption "Risk Factors" in our Annual Report on Form 20-F for fiscal 2005 that we filed on December 28, 2005 with the United States Securities and Exchange Commission ("SEC").

INTRODUCTION

In this section, we discuss the general financial condition and the results of operations for Amdocs and its subsidiaries including:

- the factors that affect our business,
- our revenue and costs for the first quarters of fiscal 2006 and 2005,
- the reasons why such revenue and costs were different from period to period,
- the sources of our revenue,
- how all of this affects our overall financial condition,
- our capital expenditures for the first quarters of fiscal 2006 and 2005, and
- the sources of our cash to pay for future capital expenditures and possible acquisitions.

In this section, we also analyze and explain the changes in the specific line items in our consolidated statements of income between the first quarters of fiscal 2006 and 2005. You should read this section in conjunction with our consolidated financial statements.

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OVERVIEW OF BUSINESS AND TREND INFORMATION

We combine software and services with business knowledge to accelerate the adoption of integrated customer management strategies by service providers. Our market focus is primarily Tier 1 and Tier 2 companies in the communications industry, and we are a leading provider of software products and services to that industry. Our addressable market has been expanded to include broadband media cable and satellite companies, which we refer to as the Broadband Industry, as a result of our recent acquisition of DST Innovis, Inc. and DST Interactive, Inc., which we refer to together as DST Innovis. The acquisition not only enlarges our customer base, but also allows us to offer a broader set of solutions to customers in the Broadband Industry. We are also leveraging our experience by working with service providers in the financial services sector, since certain of the challenges faced by companies in this sector are similar to those of communications service providers. Our products and services help our customers move toward an integrated approach to customer management, which we refer to as Integrated Customer Management, or ICM. Our portfolio of product

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offerings includes billing, customer relationship management, or CRM, order management, service fulfillment, mediation, and content revenue management products, which we collectively refer to as Integrated Customer Management Enabling Systems, or ICM Enabling Systems.

Our portfolio also includes a full range of directory sales and publishing systems, which we refer to as Directory Systems, for publishers of both traditional printed yellow page and white page directories and electronic Internet directories.

We have designed ICM Enabling Systems to meet the mission-critical needs of leading communications service providers throughout the entire customer lifecycle. We support different lines of business, including wireline, wireless, cable and satellite, and a wide range of communications services, including voice, video, data, Internet Protocol, or IP, broadband, content, electronic and mobile commerce. We also support companies that offer multiple service packages, commonly referred to as bundled or convergent service packages.

Due to the complexity of our customers' projects and the expertise required for systems support, we also provide information technology, or IT, services, including extensive consulting, business strategy, system implementation, training, integration, modification, ongoing support, enhancement and maintenance services. In addition, we offer Managed Services that include services such as system modernization and consolidation, the operation of data centers, ongoing support, maintenance services, system modification, the provision of rating and billing services and communications facility management services, in all cases on either or a combination of a fixed or unit charge basis to our customers.

We conduct our business globally, and, as a result we are subject to the effect of general global economic conditions and, in particular, market conditions in the communications industry. Recently we expanded our operations in China as a result of the acquisition of Longshine Information Technology Company, Ltd., or Longshine, a leading vendor of customer care and billing software in China. We maintain development facilities located in Canada, China, Cyprus, India, Ireland, Israel and the United States.

As part of our strategy, we have pursued and may continue to pursue acquisitions and other initiatives in order to offer new products or services or otherwise enhance our market position or strategic strengths.

We believe that we are a leading global provider of ICM Enabling Systems. We provide a broad set of products, with proven functionality and scalability, accompanied by a comprehensive range of business consulting, system implementation and integration services.

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The telecommunications industry is being transformed by continued consolidation and the convergence of the telecommunications, broadband cable and satellite industries. Service providers are coping with the challenges of this consolidation trend and are also expected to offer new IP-based products and services with innovative business models. Competition among service providers is intensifying, a trend that increases the need for differentiation. We believe we have positioned ourselves to take advantage of these trends and to enable service providers to rapidly introduce new offerings, lower total cost of ownership and focus on their customers, which we believe drove our growth in the first quarter of fiscal 2006 and will continue to drive our growth in fiscal 2006.

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We believe that demand for our ICM Enabling Systems is driven by, among other key factors:

- global use of communications services,
- emergence of new communications products and services, especially video, broadband, data and content services and IP convergence services, such as Internet Protocol Television, or IPTV, Voice over IP, or VoIP and services based on IP Multimedia Subsystem systems,
- technological changes, such as the introduction of 3G wireless technology, next-generation content systems, and WiFi and WiMax based access technologies,
- ongoing consolidation within the communications industry,
- continued convergence of communications services, broadband cable and satellite industries,
- business needs of communications service providers to reduce costs and retain high value customers in a highly competitive environment, and
- a shift from in-house management to vendor solutions.

We also believe that additional drivers of demand are the continuing trend for communications service providers to offer their customers multiple service packages, commonly referred to as bundled or convergent services (combinations of voice, broadband, electronic and mobile commerce and IP services), and the ability of our ICM Enabling Systems to improve customer satisfaction, loyalty, profitability and overall productivity.

We derive our revenue principally from:

- the initial sales of licenses to use our products and related services, including modification, implementation and integration services,
- providing Managed Services and other related services for our solutions, and
- recurring revenue from ongoing support and maintenance provided to our customers, and from incremental license fees resulting from increases in a customer's business volume.

Revenue is recognized only when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectability of the fee is reasonably assured. We usually sell our software licenses as part of an overall solution offered to a customer that combines the sale of software licenses with a broad range of services, which normally include significant customization, modification, implementation and integration. As a result, we generally recognize combined license and service revenue over the course of these long-term projects, using the percentage of completion method of accounting. Initial license fee revenue is recognized as work is

performed, using the percentage of completion method of accounting. Subsequent

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license fee revenue is recognized upon completion of specified conditions in each contract, based on a customer's subscriber level or number of users when greater than the level specified in the contract for the initial license fee. Service revenue that involves significant ongoing obligations, including fees for software customization, implementation and modification, also is recognized as work is performed, under the percentage of completion method of accounting. Revenue from software solutions that do not require significant customization and modification is recognized upon delivery or as services are provided. In Managed Services contracts, we typically recognize revenue from the operation of a customer's system either ratably over the service period or as services are performed. Revenue from ongoing support services is recognized as work is performed. Revenue from third-party hardware sales is recognized upon delivery and installation, and revenue from third-party software sales is recognized upon delivery. Maintenance revenue is recognized ratably over the term of the maintenance agreement. As a result of a significant portion of our revenue being subject to the percentage of completion accounting method, the size and timing of customer projects and our progress in completing such projects may significantly affect our annual and quarterly operating results.

Revenue from Managed Services arrangements is included in both license and service revenue from the sale of ICM Enabling Systems and Directory Systems. Managed Services projects are a significant part of our business, generating substantial, long-term revenue streams, cash flow and operating income. Revenue from managed services customers was approximately 35% and 40% of our total revenue in the first quarters of fiscal 2006 and 2005, respectively. In the initial period of our Managed Services projects, we generally invest in modernization and consolidation of the customer's systems. Invoices are usually structured on a periodic fixed or unit charge basis. As a result, Managed Services projects can be less profitable in the initial period. Margins tend to improve over time as we benefit from the operational efficiencies provided by system modernization and consolidation. We expect that our Managed Services relationships will generate margins comparable to sales of our other products and related license and services over the entire term of the relationships.

ADOPTION OF NEW ACCOUNTING STANDARDS

Accounting for Stock-Based Compensation

Effective October 1, 2005, we adopted FASB Statement No. 123 (revised 2004), "Share-Based Payment," a revision of SFAS No. 123 ("SFAS 123(R)"). SFAS 123(R) supersedes Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and related interpretations, and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Pro forma disclosure is no longer an alternative. In March 2005, the U.S. Securities and Exchange Commission, or the SEC, issued Staff Accounting Bulletin No. 107 ("SAB 107"), which provides supplemental implementation guidance on SFAS 123(R). We have applied the provisions of SAB 107 in our adoption of SFAS 123(R). Prior to October 1, 2005 the Company accounted for share-based payments to employees under the recognition and measurement provisions of APB No. 25. Stock-based compensation expense recognized under SFAS 123(R) for the first quarter of fiscal 2006 was \$11.1 million. Stock-based compensation expense recognized under APB No. 25 for the first quarter of fiscal 2005 was not material.

As of December 31, 2005, there was \$53.4 million of unrecognized compensation expense related to nonvested stock options and nonvested restricted stock awards. We recognize compensation costs using the graded vesting attribution method which results in a weighted average period of approximately one year over which the unrecognized compensation expense is expected to be

recognized.

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We adopted SFAS 123(R) using the modified prospective method. Under this transition method, compensation costs recognized in the first quarter of fiscal 2006 include (a) compensation costs for all share based payments granted prior to, but not yet vested as of October 1, 2005, based on the grant date fair value estimated in accordance with the pro forma provisions of SFAS 123, and (b) compensation costs for the share based payments granted subsequent to October 1, 2005, based on the grant date fair value estimated in accordance with SFAS 123(R). Our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R). We selected the Black-Scholes option pricing model as the most appropriate fair value method for our stock based awards and recognize compensation costs using the graded vesting attribution method that results in an accelerated recognition of compensation costs in comparison to the straight line method.

As a result of the adoption of SFAS 123(R) on October 1, 2005, our income before income taxes and net income for the first quarter of fiscal 2006 (not including restricted stock expense), were \$10.4 million and \$9.1 million lower, respectively, than if we had continued to account for share based compensation under APB No. 25. Basic and diluted earnings per share for the first quarter of fiscal 2006 would have been \$0.42 and \$0.40, respectively, if we had not adopted SFAS 123(R), compared to reported basic and diluted earning per share of \$0.38 and \$0.36, respectively.

Prior to the adoption of SFAS 123(R), we presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the statement of cash flows. SFAS 123(R) requires the cash flows resulting from the tax deductions in excess of the compensation costs recognized for those stock options to be classified as financing cash flows. The \$0.61 million excess tax benefit classified as financing cash inflows would have been classified as an operating cash inflow if the Company had not adopted SFAS 123(R).

In conjunction with the adoption of SFAS 123(R), we began to use the implied volatility of the Company's traded options as the expected volatility assumption required in the Black-Scholes option valuation model. Prior to October 1, 2005, we had used our historical stock price volatility in accordance with SFAS 123 for purpose of presenting pro forma information. The selection of the implied volatility approach was based upon the availability of actively traded options on the Company's shares and the Company's assessment that implied volatility is more representative of future share price trends than historical volatility. As stock-based compensation expense recognized in the Consolidated Statement of Operations for the first quarter of fiscal 2006 is based on awards ultimately expected to vest, it has been reduced for estimated forfeitures. SFAS 123(R) requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In the Company's pro forma information required under SFAS 123 for the periods prior to fiscal 2006, we accounted for forfeitures as they occurred.

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RESULTS OF OPERATIONS

The following table sets forth for the three months ended December 31, 2005 and 2004 certain items in our consolidated statements of income reflected as a percentage of total revenue:

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	THREE MONTHS ENDED DECEMBER 31,	
	2005	2004
Revenue:		
License	5.4%	4.3%
Service	94.6	95.7
	-----	-----
	100.0	100.0
	-----	-----
Operating expenses:		
Cost of license	0.2	0.3
Cost of service	63.7	62.8
Research and development	7.3	7.0
Selling, general and administrative	13.4	11.7
Amortization of purchased intangible assets ..	1.3	0.8
	-----	-----
	85.9	82.6
	-----	-----
Operating income	14.1	17.4
Interest income and other, net	1.4	1.1
	-----	-----
Income before income taxes	15.5	18.5
Income taxes	2.7	3.7
	-----	-----
Net income	12.8%	14.8%
	=====	=====

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THREE MONTHS ENDED DECEMBER 31, 2005 AND 2004

The following is a tabular presentation of our results of operations for the three months ended December 31, 2005 compared to the three months ended December 31, 2004. Following the table is a discussion and analysis of our business and results of operations for the mentioned periods.

	THREE MONTHS ENDED DECEMBER 31,		INCREASE (DECREASE)	
	2005	2004	AMOUNT	%
	-----	-----	-----	-----
	(in thousands)			
Revenue:				
License	\$ 31,661	\$ 20,366	\$ 11,295	55.5%
Service	555,367	449,166	106,201	23.6
	-----	-----	-----	-----
	587,028	469,532	117,496	25.0
	-----	-----	-----	-----

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Operating expenses:				
Cost of license	1,062	1,155	(93)	(8.1)
Cost of service	374,051	294,947	79,104	26.8
Research and development	43,114	32,911	10,203	31.0
Selling, general and administrative	78,550	54,960	23,590	42.9
Amortization of purchased intangible assets	7,572	3,718	3,854	103.7
	-----	-----	-----	
	504,349	387,691	116,658	30.0
	-----	-----	-----	
Operating income	82,679	81,841	838	1.0
Interest income and other, net ..	8,414	4,959	3,455	69.7
	-----	-----	-----	
Income before income taxes	91,093	86,800	4,293	4.9
Income taxes	15,759	17,357	(1,598)	(9.2)
	-----	-----	-----	
Net income	\$ 75,334	\$ 69,443	\$ 5,891	8.5%
	=====	=====	=====	

REVENUE. Total revenue increased by \$117.5 million, or 25.0%, in the first quarter of fiscal 2006 to \$587.0 million from \$469.5 million in the first quarter of fiscal 2005. Approximately \$57.2 million of the increase was attributable to revenue contributed by DST Innovis, and the remainder was attributable to additional revenue from existing and new customers.

License and service revenue attributable to the sale of ICM Enabling Systems was \$518.9 million in the first quarter of fiscal 2006, an increase of \$111.4 million, or 27.3%, over the first quarter of fiscal 2005. Approximately \$57.2 million of the increase was attributable to revenue contributed by DST Innovis, and the remainder was attributable to additional revenue from existing and new customers. License and service revenue resulted from the sale of ICM Enabling Systems represented 88.4% and 86.8% of our total revenue in the first quarters of fiscal 2006 and 2005, respectively. The demand for our ICM Enabling Systems is primarily driven by the need for communications service providers to continue to integrate their billing, CRM and order management systems into an ICM approach. In the first quarter of fiscal 2006, we observed strong demand for our offerings.

License and service revenue resulted from the sale of Directory Systems was \$68.1 million in the first quarter of fiscal 2006, an increase of \$6.1 million, or 9.9 %, over the first quarter of fiscal 2005. The increase in Directory Systems revenue in the first quarter of fiscal 2006 was attributable to an increase in business related to Managed Services customers. License and service revenue from the sale of Directory Systems represented 11.6% and 13.2% of our total revenue in the first quarters of fiscal 2006 and 2005, respectively. We believe that we are a leading provider of Directory Systems in most of the markets we serve. We expect that our revenue from Directory Systems in absolute amount will slightly increase in fiscal 2006.

In the first quarter of fiscal 2006, revenue from customers in North America, Europe and the rest of the world accounted for 73.1%, 18.4% and 8.5%, respectively, of total revenue compared to 67.9%, 23.4% and

8.7%, respectively, in the first quarter of fiscal 2005. Approximately 50% of the increase in revenue from customers in North America was attributable to

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revenues contributed by DST Innovis, and the remainder was attributable to additional revenue from existing and new customers. Revenue from customers in Europe in the first quarter of fiscal 2006, in absolute amounts, was relatively stable compared to the first quarter of fiscal 2005, and this resulted in a decrease in revenue from customers in Europe as a percentage of total revenue. Revenue from customers in the rest of the world increased in absolute amounts in the first quarter of fiscal 2006, but the increase was less than the 25.0% increase in our total revenue which resulted in a decrease in revenue from customers in the rest of the world as a percentage of total revenue.

COST OF LICENSE. Cost of license mainly includes amortization of purchased computer software and intellectual property rights. Because such amortization is relatively stable from period to period and, absent impairment, is generally fixed in amount, an increase or decrease in license revenue will cause a significant fluctuation in cost of license as a percentage of license revenue. In the first quarter of fiscal 2006, cost of license, as a percentage of license revenue, was 3.4%, compared to 5.7% in the first quarter of fiscal 2005.

COST OF SERVICE. The increase in cost of service in the first quarter of fiscal 2006 was 26.8%, which is greater than the increase in our total revenue in the first quarter of fiscal 2006. As a percentage of revenue cost of service was 63.7% in the first quarter of fiscal 2006, compared to 62.8% in the first quarter of fiscal 2005. Cost of service in the first quarter of fiscal 2006 includes the effect of \$4.4 million of stock-based compensation expense related to employee stock options, and there was no stock-based compensation expense related to employee stock options in the first quarter of fiscal 2005. Our cost of service and gross margin may vary depending on the types and geographic locations of projects that we undertake.

RESEARCH AND DEVELOPMENT. Research and development expense was primarily comprised of compensation expense. Research and development expense increased by \$10.2 million, or 31.0%, in the first quarter of fiscal 2006 to \$43.1 million from \$32.9 million in the first quarter of fiscal 2005. Research and development expense increased as a percentage of revenue from 7.0% in the first quarter of fiscal 2005 to 7.3% in the first quarter of fiscal 2006. The increase in research and development expenses was attributable mainly to research and development activities related to the DST Innovis acquisition, including integration efforts of DST Innovis' products into our ICM Enabling Systems. Research and development in the first quarter of fiscal 2006 includes the effect of \$1.1 million of stock-based compensation expense related to employee stock options, and there was no stock-based compensation expense related to employee stock options in the first quarter of fiscal 2005. We believe that our research and development efforts are a key element of our strategy and are essential to our success. However, an increase or a decrease in our total revenue would not necessarily result in a proportional increase or decrease in the levels of our research and development expenditures, which could affect our operating margin.

SELLING, GENERAL AND ADMINISTRATIVE. Selling, general and administrative expense increased by \$23.6 million, or 42.9%, in first quarter of fiscal 2006 to \$78.6 million, from \$55.0 million in the first quarter of fiscal 2005. Selling, general and administrative expense is primarily comprised of compensation expense. The increase in selling, general and administrative expense in the first quarter of fiscal 2006 was attributable to an overall increase in our operations and sales fees, as well as to the inclusion of \$5.7 million of stock-based compensation expense related to employee stock options. There was no stock-based compensation expense related to employee stock options in the first quarter of fiscal 2005.

AMORTIZATION OF PURCHASED INTANGIBLE ASSETS. Amortization of purchased intangible assets in the first quarter of fiscal 2006 was \$7.6 million, compared to \$3.7 million in the first quarter of fiscal 2005. The increase in amortization of purchased intangible assets was due to purchased intangible

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assets acquired in the DST Innovis and Longshine acquisitions, partially offset by purchased intangible assets that were fully amortized in the first quarter of fiscal 2005.

OPERATING INCOME. Operating income slightly increased by \$0.8 million, or 1.0%, in the first quarter of fiscal 2006, to \$82.7 million, or 14.1% of revenue, from \$81.8 million, or 17.4% of revenue, in the first quarter of fiscal 2005. The decrease in operating income as a percentage of revenue was attributable to a 30.0% increase in operating expense which grew at a greater rate than the 25.0% increase in revenue during the first quarter of fiscal 2006. Total compensation expense related to employee stock options included in operating expense for the first quarter of fiscal 2006 was \$11.1 million or 1.9% of revenue.

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INTEREST INCOME AND OTHER, NET. Interest income and other, net increased by \$3.4 million in the first quarter of fiscal 2006 to \$8.4 million from \$5.0 million in the first quarter of fiscal 2005. The increase in interest income and other, net, is primarily attributable to the increase in market interest rates on our short-term interest-bearing investments.

INCOME TAXES. Income taxes for the first quarter of fiscal 2006 were \$15.8 million on pretax income of \$91.1 million, an effective tax rate of 17.3% compared to 20.0% in the first quarter of fiscal 2005. Our effective tax rate for fiscal year 2006 is expected to be approximately 17% on an annualized basis compared to 20% in fiscal year 2005. Approximately 2% of the reduction in our effective tax rate is attributable to our continued expansion into countries with lower effective tax rates and approximately 1% is attributable to the effect of acquisition-related costs and stock based compensation expense. Our effective tax rate may fluctuate between quarters as a result of discrete items that may affect a specific quarter.

NET INCOME. Net income was \$75.3 million in the first quarter of fiscal 2006, compared to a net income of \$69.4 million in the first quarter of fiscal 2005. The increase in net income is attributable to the increase in interest income and other, net, and the decrease of our effective tax rate during the first quarter of fiscal 2006.

DILUTED EARNINGS PER SHARE. Diluted earnings per share increased by \$0.04, or 12.5%, in the first quarter of fiscal 2006 to \$0.36 from \$0.32 in the first quarter of fiscal 2005. The increase in diluted earnings per share resulted from the increase in net income and from the reduction in diluted weighted average number of shares outstanding due to our share repurchases during fiscal 2005, partially offset by stock options exercises. The adoption of SFAS 123(R) with respect to share based payments to employees had the effect of reducing diluted earnings per share by \$0.04 in the first quarter of fiscal 2006.

LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and short-term interest-bearing investments totaled \$1,220.9 million as of December 31, 2005, compared to \$1,145.6 million as of September 30, 2005. The increase is mainly attributable to positive cash flows from operations. Net cash provided by operating activities amounted to \$83.5 million and \$83.0 million for the first quarters of fiscal 2006 and 2005, respectively.

Our policy is to retain substantial cash balances in order to support the growth of the Company. We believe that our current cash balances, cash generated

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from operations and our current lines of credit will provide sufficient resources to meet our liquidity needs for at least the next fiscal year.

As of December 31, 2005, \$450.0 million and \$0.3 million aggregate principal amount of our 0.50% Notes and 2% Notes were outstanding, respectively. As of December 31, 2005, we had available short-term general revolving lines of credit totaling \$31.0 million, pursuant to which \$1.0 million of loans were outstanding, and outstanding letters of credit and bank guarantees from various banks totaling \$16.5 million. As of December 31, 2005, we had outstanding a short term loan of \$1.7 million secured by specified pledges and guaranties and outstanding long-term obligations of \$1.8 million in connection with leasing arrangements.

We have contractual obligations for our convertible notes, financing arrangements, capital leases and non-cancelable operating leases that were summarized in a table of contractual obligations in our Annual Report on Form 20-F for fiscal 2005. Since September 30, 2005, there have been no material changes in contractual obligations outside the ordinary course of our business.

Our capital expenditures were approximately \$14.1 million in the first quarter of fiscal 2006. Approximately 90% of these expenditures consisted of purchases of computer equipment, and the remainder to leasehold improvements. We funded our capital expenditures principally from operating cash flows. We do not anticipate any changes to this policy in the foreseeable future.

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CURRENCY FLUCTUATIONS

We manage our foreign subsidiaries as integral direct components of our operations. The U.S. dollar is our functional currency. According to the salient economic factors indicated in SFAS No.52, "Foreign Currency Translation", our cash flow, sale price, sales market, expense, financing and intercompany transactions and arrangement indicators are predominately denominated in the U.S. dollar. The operations of our foreign subsidiaries provide the same type of services with the same type of expenditure throughout the Amdocs group.

During the first quarter of fiscal 2006, approximately 75% of our revenue and approximately 60% of our operating expenses were in U.S. dollars or linked to the U.S. dollar. As a result of long-term contracts in currencies other than the U.S. dollar and more customers seeking contracts that are denominated in currencies such as the Euro, the percentage of our revenue and operating expenses in U.S. dollar or linked to the U.S. dollar may decrease slightly over time. Historically, the effect of fluctuations in currency exchange rates has had a minimal impact on our consolidated operations. As more of our customers seek contracts that are denominated in currencies other than the U.S. dollar, our exposure to fluctuations in currency exchange rates could increase. In managing our foreign exchange risk, we enter from time to time into various foreign exchange hedging contracts. We do not hedge all of our exposure in currencies other than the U.S. dollar, but rather our policy is to hedge significant net exposures in the major foreign currencies in which we operate. We periodically assess the applicability of the U.S. dollar as our functional currency by reviewing the salient indicators.

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PART II OTHER INFORMATION

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ITEM 1. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Not applicable

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ITEM 2. REPORTS ON FORM 6-K

(a) Reports on Form 6-K

The Company furnished or filed the following reports on Form 6-K during the three months ended December 31, 2005:

- (1) Form 6-K dated October 31, 2005.
- (2) Form 6-K dated November 10, 2005.
- (3) Form 6-K dated December 19, 2005.
- (4) Form 6-K dated December 23, 2005.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMDOCS LIMITED

/s/ THOMAS G. O'BRIEN

Thomas G. O'Brien
Treasurer and Secretary
Authorized U.S. Representative

Date: February 15, 2005