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Forward Looking Statements

Some of the information in this section contains forward looking statements that involve substantial risks and uncertainties. You can identify these statements by forward looking words such as “expect”, “anticipate”, “believe”, “seek”, “estimate” and similar words. Statements that we make in this section that are not statements of historical fact also may be forward looking statements. Forward looking statements are not guarantees of our future performance, and involve risks, uncertainties and assumptions that may cause our actual results to differ materially from the expectations 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.

Introduction

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

- what factors affect our business,
- what our revenue and costs were in the fiscal years ended September 30, 2000, 1999 and 1998,
- why those revenue and costs were different from year to year,
- the sources of our revenue,
- how all of this affects our overall financial condition,
- what our expenditures were in the fiscal years ended September 30, 2000, 1999 and 1998, and
- the sources of our cash to pay for future capital expenditures.

In this section, we also analyze and explain the annual changes in the specific line items in our consolidated statements of operations. This section should be read in conjunction with our consolidated financial statements, which follow.

Overview of Business and Trend Information

We are a leading provider of software products and services to the communications industry. Our Business Support Systems (“BSS”) consist of families of customized software products and services designed to meet the mission-critical needs of specific communications market sectors. We provide primarily Customer Care, Billing and Order Management Systems (“CC&B Systems”) for communications and Internet Protocol (“IP”) service providers. Our systems support a wide range of communications services, including wireline, wireless, broadband, electronic and mobile commerce and IP services. We also support companies that offer multiple service packages, commonly referred to as convergent services. In addition, we provide a full range of Directory Sales and Publishing Systems (“Directory Systems”) to

publishers of both traditional printed yellow page and white page directories and electronic Internet directories. Due to the complexity of BSS projects and the expertise required for system support, we also provide extensive customization, implementation, system integration, ongoing support, system enhancement, maintenance and outsourcing services.

We derive our revenue principally from:

- the initial sale of our products and related services, including license fees and customization, implementation and integration services, and
- recurring revenue from ongoing maintenance, support, outsourcing and other related services provided to our customers and, to a lesser degree, from incremental license fees resulting from increases in a customer's subscribers.

License revenue is primarily recognized as work is performed, using the percentage of completion method of accounting. Service revenue that involves significant ongoing obligations, including fees for customization, implementation and initial support services, is also recognized as work is performed, under the percentage of completion method of accounting. In outsourcing contracts, revenue from operation and maintenance of customers' billing systems is recognized in the period in which the bills are produced. Revenue from ongoing support services is recognized as work is performed. Revenue from third-party hardware and software sales is recognized upon delivery. Maintenance revenue is recognized ratably over the term of the maintenance agreement. As a result of our 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.

License and service fee revenue from the sale of CC&B Systems amounted to \$986.6 million in the year ended September 30, 2000, representing 88.2% of our revenue for such period, as compared to \$468.2 million in fiscal 1999 and \$251.8 million in fiscal 1998, where license and service fee revenue from the sale of CC&B Systems represented 74.7% and 62.4%, respectively, of our revenue for such periods.

We believe that the demand for CC&B Systems will continue to increase due to, among other key factors:

- the growth and globalization of the communications market,
- intensifying competition among communications carriers,
- rapid technological changes, such as the introduction of wireless Internet services via WAP (Wireless Application Protocol), GPRS (General Packet Radio Services) and UMTS (Universal Mobile Telecommunications System) technology,
- the proliferation of new communications products and services, especially IP and data services, and
- a shift from in-house management to vendor solutions and outsourcing.

We also believe that a key driver of demand is the continuing trend for communications and IP service providers to offer to their subscribers multiple service packages, commonly referred to as convergent services (combinations of voice, broadband, electronic and mobile commerce and IP services).

Another significant current market trend impacting our business is the growth of the IP services industry and market. The emergence and expansion of IP services creates significant opportunities for companies like us that offer CC&B Systems. Specifically, the development of this market permits us to offer our CC&B Systems to a growing group of new market entrants and to enhance our offerings to existing customers to facilitate their entry into the IP services market.

Although we believe that we are a leading provider of Directory Systems in most of the markets that we serve, revenue from this business is not expected to grow significantly.

License and service fee revenue from the sale of Directory Systems totaled \$131.8 million in the year ended September 30, 2000, accounting for 11.8% of our revenue for such period, as compared to \$158.6 million in fiscal 1999 and \$151.9 million in fiscal 1998, where license and service fee revenue from the sale of Directory Systems represented 25.3% and 37.6%, respectively, of our revenue for such periods.

The decrease in revenue from Directory Systems primarily reflects a reduction in the volume of Directory Systems services required by our existing customers. We expect that the demand for our Directory Systems will remain relatively stable in future periods and that the contribution to total revenue, as a percentage of revenue, of license and service fees from Directory Systems services will continue to decrease over time.

Research and Development, Patents and Licenses

Our research and development activities involve the development of new software modules and product offerings in response to an identified market demand, either in conjunction with a customer project or as part of our product development program. We also expend additional amounts on applied research and software development activities to keep abreast of new technologies in the communications and IP market. Research and development expenditures amounted to \$74.9 million, \$40.9 million and \$25.6 million in fiscal 2000, 1999 and 1998, respectively, representing 6.7%, 6.5% and 6.3%, respectively, of our revenue in these fiscal years. In the next several years, we intend to continue to make substantial investments in our research and development activities and anticipate a significant increase in absolute dollar terms in research and development expenditures.

We regard significant portions of our software products and systems as proprietary and rely on a combination of statutory and common law copyright, trademark and trade secret laws, customer licensing agreements, employee and third-party nondisclosure agreements and other methods to protect our proprietary rights. We generally enter into confidentiality agreements with our employees, consultants, customers and potential customers and limit access to, and distribution of, our proprietary information. We believe that the sophistication and complexity of our BSS offerings make it very difficult to copy such information or to subject such information to unauthorized use. We maintain sole ownership of our products.

Acquisitions

On November 30, 1999, we completed the purchase of International Telecommunication Data Systems, Inc. ("ITDS") in a stock-for-stock transaction. The acquisition of ITDS, a leading provider of solutions to communications companies for outsourcing of billing operations, has expanded the scope of our CC&B Systems offering and, we believe, has further established our leadership in providing total solutions to the communications industry. In connection with the consummation of this transaction, we issued 6,461,376 ordinary shares and granted 1,102,955 options to purchase ordinary shares. The total purchase price of \$189.0 million included issuance of ordinary shares, the grant of options and transaction costs. The acquisition was accounted for using the purchase method of accounting. The fair market value of ITDS' assets and liabilities has been included in our balance sheet as of the acquisition date. An acquired technology valuation, which was determined by an independent specialist, included both existing technology and in-process research and development. The valuation of these items was made by applying the income forecast method, which considered the present value of cash flows by product lines. The fair value of existing technology products was valued at \$12.3 million and is being amortized over five years. In-process research and development, valued at \$19.9 million, was charged as an expense immediately following the completion of the acquisition since this technology had not reached technological feasibility and had no alternative use. Additional development, coding and testing efforts were required before technological feasibility could be determined. The fair value of customer base was valued at \$0.6 million and the fair value of workforce-in-place was valued at \$5.4 million, both of which are being amortized over five years. The excess of the purchase price over the net assets acquired, or goodwill, of \$71.2 million is being amortized over 15 years.

On April 5, 2000, we completed the purchase of Solect Technology Group Inc. ("Solect"), in a stock-for-stock transaction. The acquisition of Solect, a leading provider of billing and customer care software to IP service providers, including wireless and application service providers, or ASPs, has expanded our IP service provider customer base for CC&B Systems. Under the terms of our combination agreement with Solect, all then outstanding Solect common shares were exchanged for shares of a newly issued class of exchangeable shares of Solect. The Solect exchangeable shares entitle holders to dividends and other rights economically equivalent to our ordinary shares, including the right, through a voting trust, to vote at our shareholder meetings, and are exchangeable at the option of the holders into our ordinary shares on a one-for-one basis. The total purchase price of \$1,087.7 million included the issuance of 13,846,302 exchangeable shares, the grant of options to purchase 1,653,662 ordinary shares and transaction costs. An aggregate 1,170,000 of the exchangeable shares issued in the transaction have been placed in escrow until April 2001 to indemnify us against any breaches of representations or warranties under the combination agreement. The acquisition was accounted for using the purchase method of accounting. The fair market value of Solect's assets and liabilities has been included in our balance sheet as of the acquisition date. An acquired technology valuation, which was determined by an independent specialist, included both existing technology and in-process research and development. The valuation of these items was made by applying the income forecast method, which considered the

present value of cash flows by product lines. The fair value of existing technology products was valued at \$18.3 million and is being amortized over two years. In-process research and development, valued at \$50.4 million, was charged as an expense immediately following the completion of the acquisition since this technology had not reached technological feasibility and had no alternative use. Additional development, coding and testing efforts were required before technological feasibility could be determined. The fair value of customer base was valued at \$1.2 million and the fair value of workforce-in-place was valued at \$3.3 million, both of which are being amortized over three years. The excess of the purchase price over the net assets acquired, or goodwill, of \$986.3 million is being amortized over five years.

In the future, we may consider additional acquisitions in order to acquire new products or services or otherwise enhance our market position or strategic strength.

Operatings Results

The following table sets forth for the fiscal years ended September 30, 2000, 1999 and 1998, certain items in our consolidated statements of operations reflected as a percentage of total revenue:

	Year ended September 30,			
	2000		1999	1998
	Pro forma (*)	As reported		
Revenue:				
License	11.2%	11.2%	11.9%	10.6%
Service	88.8	88.8	88.1	89.4
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Operating expenses:				
Cost of license	0.5	0.5	0.9	2.7
Cost of service	57.2	57.2	57.1	57.3
Research and development	6.7	6.7	6.5	6.3
Selling, general and administrative	12.3	12.3	12.1	12.7
Amortization of goodwill and purchased intangible assets	—	9.9	—	—
In-process research and development and other indirect acquisition related costs	—	6.8	—	—
	<u>76.7</u>	<u>93.4</u>	<u>76.6</u>	<u>79.0</u>
Operating income	23.3	6.6	23.4	21.0
Other income (expense), net	1.0	1.0	(1.0)	(6.0)
Income before income taxes	24.3	7.6	22.4	15.0
Income taxes	7.3	7.1	6.7	7.5
Cumulative effect of change in accounting principles, net	—	—	—	(**)
Net income	<u>17.0%</u>	<u>0.5%</u>	<u>15.7%</u>	<u>7.5%</u>

(*) The pro forma financial information excludes purchased in-process research and development charges and other indirect acquisition related costs, amortization of goodwill and purchased intangible assets (collectively, the "ITDS and Solect acquisition related charges") and related tax effects attributable to the ITDS and Solect transactions.

(**) Less than 0.1%

Years Ended September 30, 2000 and 1999

Revenue. Revenue for the year ended September 30, 2000 was \$1,118.3 million, an increase of \$491.5 million, or 78.4%, compared to fiscal 1999. Over 70% of the increase in revenue was due to the continued growth in the demand for our CC&B Systems solutions in our traditional target markets of high-end and mid-tier communications companies and less than 30% was attributable to our acquisitions of ITDS and Solect. Demand for customer care, billing and order management systems is diverse, as reflected by the broad cross section of new projects we were awarded in fiscal 2000. These projects covered customers in, among other locations, Europe, North America and Latin America, working within a wide range of operating environments, including wireline, wireless and IP. In many cases, we expanded our ongoing relationships with existing customers. In fiscal 2000, the demand for our CC&B Systems was primarily driven by the need for communications companies to upgrade their customer care, billing and order management systems in response to growth in their subscriber base, increased competition in the subscriber markets, and the need to offer convergent and IP services.

License revenue increased from \$74.4 million in fiscal 1999 to \$124.8 million in the year ended September 30, 2000, an increase of 67.8%. Service revenue increased from \$552.5 million in fiscal 1999 to \$993.5 million in fiscal 2000, an increase of \$441.0 million, or 79.8%.

Total CC&B Systems revenue for the year ended September 30, 2000 was \$986.6 million, an increase of \$518.3 million, or 110.7%, compared to fiscal 1999.

Revenue from Directory Systems decreased to \$131.8 million for the year ended September 30, 2000, from \$158.6 million for the prior fiscal year. The decrease in revenue from Directory Systems primarily reflects a reduction in the volume of Directory Systems services required by our existing customers.

In the year ended September 30, 2000, revenue from customers in North America, Europe and the rest of the world accounted for 45.6%, 42.4% and 12.0%, respectively, compared to 36.1%, 41.8% and 22.1%, respectively, in the year ended September 30, 1999. The growth in North America was primarily attributable to revenue we gained from existing ITDS customers and to our forming or expanding relationships with new or existing customers in North America in fiscal 2000.

Cost of License. Cost of license for fiscal 2000 was \$5.6 million, an increase of \$0.1 million from cost of license for the prior fiscal year. Cost of license includes amortization of purchased computer software and intellectual property rights. The increase in cost of license for fiscal 2000 was primarily attributable to new purchases of computer software in fiscal 2000 and the related amortization.

Cost of Service. Cost of service for fiscal 2000 was \$639.9 million, an increase of \$282.1 million, or 78.8%, compared to cost of service of \$357.8 million for the year ended September 30, 1999. Cost of service is predominantly related to salary and employee related expenses. The absolute increase in cost of service is consistent with the increase in revenue for fiscal 2000, and reflects increased employment levels required to support our continued growth.

Research and Development. Research and development expense is primarily comprised of compensation expense attributed to research and development activities, either in conjunction with customer projects or as part of our product development programs. In fiscal 2000, research and development expense was \$74.9 million, or 6.7% of revenue, compared with \$40.9 million, or 6.5% of revenue, in the previous fiscal year. The bulk of the increase in research and development expense represents ongoing expenditures primarily for CC&B Systems, with the balance attributable to Directory Systems.

Selling, General and Administrative. Selling, general and administrative expense is primarily comprised of compensation expense and increased by 81.1% to \$137.0 million, or 12.3% of revenue, in fiscal 2000, from \$75.7 million, or 12.1% of revenue, in the year ended September 30, 1999. The increase in selling, general and administrative expense is consistent with the increase in our revenue for fiscal 2000 and with our acquisitions of ITDS and Solect.

Amortization of Goodwill and Purchased Intangible Assets. Amortization of goodwill and purchased intangible assets in the year ended September 30, 2000 relates to the ITDS and Solect transactions.

In-process Research and Development and Other Indirect Acquisition Related Costs. In-process research and development and other indirect acquisition related costs in the year ended September 30, 2000 consisted primarily of one-time charges related to the ITDS and Solect transactions of \$19.9 million and \$50.4 million, respectively, for write-offs of purchased in-process research and development.

Operating Income. Operating income for the year ended September 30, 2000 was \$74.1 million, as compared with \$147.0 million for the previous fiscal year, a decrease of 49.6%, primarily due to the ITDS and Solect acquisition related charges. Pro forma operating income for the year ended September 30, 2000, excluding the ITDS and Solect acquisition related charges, was \$260.9 million, or 23.3% of revenue, as compared with \$147.0 million, or 23.4% of revenue, in the year ended September 30, 1999, an increase of 77.5%.

Other Income (Expense), Net. Other income (expense), net consists primarily of interest income. In the year ended September 30, 2000, other income, net was \$10.7 million, an increase of \$16.9 million from other expense, net of \$6.2 million in the prior fiscal year. The increase in other income (expense), net is primarily attributed to increases in interest earned on cash equivalents and short-term interest-bearing investments.

Income Taxes. Income taxes in fiscal 2000 were \$78.9 million on income before income taxes of \$84.9 million. Our effective tax rate in fiscal 2000 (calculated based on the income taxes out of the income before income taxes, excluding non recurring charges for write-offs of purchased in-process research and development and other indirect acquisition related costs) was 49%, resulting from the non-cash amortization of goodwill related to the acquisitions of ITDS and Solect, much of which is not tax deductible. The pro forma effective tax rate for the year ended September 30, 2000, excluding the ITDS and Solect acquisition related charges, was 30%. Income taxes were \$42.2 million on income before income taxes of \$140.8 million in fiscal 1999. Our effective tax rate in fiscal 1999 was 30%. See discussion below - "Effective Tax Rate".

Net Income. Net income was \$6.0 million in the year ended September 30, 2000, as compared to \$98.5 million for the previous fiscal year. Net income was 0.5% of revenue for fiscal 2000, as compared to 15.7% for fiscal 1999. Pro forma net income in fiscal 2000, excluding the ITDS and Solect acquisition related charges, increased by 93.0% from fiscal 1999, reaching \$190.1 million, representing 17.0% of revenue.

Diluted Earnings per Share. Diluted earnings per share was \$0.03 for the year ended September 30, 2000, as compared with \$0.49 in fiscal 1999. Pro forma diluted earnings per share in the year ended September 30, 2000, excluding the ITDS and Solect acquisition related charges, increased by 79.6% from the year ended September 30, 1999, reaching \$0.88 per diluted share.

Years Ended September 30, 1999 and 1998

Revenue. Revenue for the year ended September 30, 1999 was \$626.9 million, an increase of \$223.1 million, or 55.3%, compared to fiscal 1998. The increase in revenue was primarily due to the growth in the demand for our CC&B Systems solutions in our traditional target markets of high-end and mid-tier communications companies. In fiscal 1999, the demand for our CC&B Systems was primarily driven by the need for communications companies to upgrade their customer care, billing and order management systems in response to growth in their subscriber base, increased competition in the subscriber markets, and the need to offer convergent services.

License revenue increased from \$42.9 million in fiscal 1998 to \$74.4 million in the year ended September 30, 1999, an increase of 73.4%. Service revenue increased by \$191.6 million, or 53.1%, in fiscal 1999, from \$360.9 million in fiscal 1998 to \$552.5 million.

Total CC&B Systems revenue for the year ended September 30, 1999 was \$468.2 million, an increase of \$216.4 million, or 85.9%, compared to fiscal 1998.

Revenue from Directory Systems grew to \$158.6 million for the year ended September 30, 1999, from \$151.9 million for the prior fiscal year.

In the year ended September 30, 1999, revenue from customers in Europe, North America and the rest of the world accounted for 41.8%, 36.1% and 22.1%, respectively, compared to 27.2%, 52.2% and 20.6%, respectively, in the year ended September 30, 1998. The growth in revenue from customers in Europe was primarily attributable to increased competition among communications companies within Europe and deregulation of the European market.

Cost of License. Cost of license for fiscal 1999 was \$5.5 million, a decrease of \$5.2 million, from cost of license for the prior fiscal year. Cost of license included amortization of purchased computer software and intellectual property rights. The decrease in cost of license for fiscal 1999 was attributable primarily to reductions in the required amortization of certain purchased computer software.

Cost of Service. Cost of service for fiscal 1999 was \$357.8 million, an increase of \$126.4 million, or 54.7%, compared to cost of service of \$231.4 million for the year ended September 30, 1998. Cost of service was predominantly related to salary and employee related expenses. The absolute increase in cost of service was consistent with the increase in revenue for the year ended September 30, 1999.

Research and Development. Research and development expense was primarily comprised of compensation expense attributed to research and development activities, either in conjunction with customer projects or as part of our product development programs. In fiscal 1999, research and development expense was \$40.9 million, or 6.5% of revenue, compared with \$25.6 million, or 6.3% of revenue, in the previous fiscal year. The increase in research and development expense represented ongoing expenditures primarily for CC&B Systems and also for Directory Systems.

Selling, General and Administrative. Selling, general and administrative expense was primarily comprised of compensation expense and increased by 47.9% to \$75.7 million, or 12.1% of revenue, in fiscal 1999, from \$51.2 million, or 12.7% of revenue, in the year ended September 30, 1998. The absolute increase in selling, general and administrative expense was consistent with the increase in our revenue for fiscal 1999.

Operating Income. Operating income in the year ended September 30, 1999 was \$147.0 million, as compared with \$84.9 million in the previous fiscal year, an increase of 73.1%. Operating income was 23.4% of revenue for fiscal 1999, as compared to 21.0% for fiscal 1998.

Other Income (Expense), Net. Other income (expense), net consisted primarily of interest expense. In the year ended September 30, 1999, other expense, net was \$6.2 million, a decrease of \$17.9 million from the prior fiscal year. The decrease was primarily attributed to reductions in our bank debt through the use of cash from operations and the proceeds from our initial public offering in June 1998. Interest expense in fiscal 1998 related primarily to senior bank debt and subordinated debt.

Income Taxes. Income taxes in fiscal 1999 were \$42.2 million on income before income taxes of \$140.8 million, representing an overall effective tax rate of 30%. In fiscal 1998, income taxes were \$30.4 million on income before income taxes of \$60.8 million, representing an overall effective tax rate of 50%. This higher tax rate resulted from significant interest expense in a tax jurisdiction where we are tax exempt, giving us no tax benefit to offset the tax incurred by us in other jurisdictions.

Net Income. Net income was \$98.5 million in the year ended September 30, 1999 compared to \$30.1 million for the previous fiscal year. Net income was 15.7% of revenue for fiscal 1999, as compared to 7.5% for fiscal 1998.

Diluted Earnings per Share. Diluted earnings per share increased from \$0.19 in the year ended September 30, 1998 to \$0.49 in fiscal 1999.

Liquidity and Capital Resources

Cash and cash equivalents totaled \$402.3 million as of September 30, 2000, compared to \$85.2 million as of September 30, 1999. The increase in cash and cash equivalents is primarily attributable to cash flows from operations and, to a lesser degree, to cash balances of \$31.9 million and \$35.9 million we acquired as part of our acquisitions of ITDS and Solect, respectively, and to the exercise of employee stock options. Net cash provided by operating activities amounted to \$287.6 million and \$152.3 million for the years ended September 30, 2000 and 1999, respectively. A significant portion of our cash flow from operations during the year ended September 30, 2000 was used to invest in cash equivalents. We currently intend to retain our future earnings to support the further expansion of our business.

As of September 30, 2000, we had short-term revolving lines of credit totaling \$140.0 million from various banks or bank groups, of which \$20.0 million was outstanding.

As of September 30, 2000, we also had utilized approximately \$19.3 million of revolving credit facilities to support outstanding letters of credit or bank guarantees.

As of September 30, 2000, we had positive working capital of \$319.0 million as compared to positive working capital of \$35.9 million as of September 30, 1999. The increase in working capital is primarily attributable to cash generated from operating activities and to the cash obtained from our acquisitions of ITDS and Solect. In our opinion, current cash balances, cash generated from operations and our current lines of credit will provide sufficient resources to meet our near-term requirements.

As of September 30, 2000, we had long-term obligations outstanding of \$32.1 million in connection with leasing arrangements. Currently, our capital expenditures consist primarily of computer equipment and vehicles and are funded principally by operating cash flows and capital leasing arrangements. We do not anticipate any change to this policy in the foreseeable future.

Net Deferred Tax Assets

As of September 30, 2000, deferred tax assets of \$16.7 million, derived primarily from carry-forward net operating losses relating to Solect pre-acquisition losses, were offset by valuation allowances due to the uncertainty of realizing any tax benefit for such losses. Upon the subsequent realization of any such net operating losses, the valuation allowance will be released, resulting in an offsetting reduction of the goodwill recorded in the Solect acquisition.

Effective Tax Rate

Our overall effective tax rate has historically been approximately 30% due to the various corporate income tax rates in the countries in which we operate and the relative magnitude of our business in those countries. Our consolidated effective tax rate (calculated based on the income taxes out of the income

before income taxes, excluding non recurring charges for write-offs of purchased in-process research and development and other indirect acquisition related costs) for the year ended September 30, 2000 was 49%, compared to 30% in the year ended September 30, 1999. This higher effective tax rate was attributable to amortization of goodwill related to our acquisitions of ITDS and Solect, much of which is not tax deductible. Excluding the impact of the ITDS and Solect acquisition related charges, the effective tax rate for the year ended September 30, 2000 was 30%.

Currency Fluctuations

Approximately 89% of our revenue is in U.S. dollars or linked to the dollar and therefore the dollar is our functional currency. Approximately 58% of our operating expenses are paid in dollars or are linked to dollars. Other significant currencies in which we receive revenue or pay expenses are Australian dollars, British pounds, Canadian dollars, the European Monetary Union currency ("euro") and Israeli shekels. Historically, the effect of fluctuations in currency exchange rates has had a minimal impact on our operations. As we expand our operations outside of the United States, 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 contracts. As of September 30, 2000, we had hedged most of our significant exposures in currencies other than the dollar.

Foreign Currency Risk

We enter into foreign exchange forward contracts to hedge some of our foreign currency exposure. We use such contracts to hedge exposure to changes in foreign currency exchange rates associated with revenue denominated in a foreign currency and anticipated costs to be incurred in a foreign currency. We seek to minimize the risk that the fair value of sales of our products and services and cash flow required for our expenses denominated in a currency other than our functional currency, the dollar, will be affected by changes in exchange rates. See Note 20 to our consolidated financial statements. The following table summarizes our foreign currency forward exchange agreements as of September 30, 2000. The table (all dollar amounts in millions) presents the notional amounts, weighted average exchange rates by expected (contractual) maturity dates, and fair value of the total derivative instruments as of September 30, 2000. Notional values and average contract rates are calculated based on forward rates as of September 30, 2000, dollar translated.

	For the year ended September 30,			As of
	2001	2002	2003	September 30, 2000
				Fair Value of Derivative
Forward contracts to sell foreign currency				
in dollars:				
British Pounds				
Notional value	\$ 19.35	—	—	\$ (1.10)
Average contract rate	1.57	—	—	—
Canadian Dollars				
Notional value	\$ 1.96	\$ 6.37	—	\$ (0.17)
Average contract rate	1.46	1.46	—	—
Euro (Deutsche Marks)				
Notional value	\$ 0.18	—	—	(*)
Average contract rate	2.19	—	—	—
Forward contracts to buy foreign currency				
for dollars:				
Australian Dollars				
Notional value	\$ 11.54	\$ 6.00	\$ 4.70	\$ 3.05
Average contract rate	0.61	0.65	0.65	—
Israeli Shekels				
Notional value	\$196.70	—	—	\$ (4.79)
Average contract rate	4.15	—	—	—

(*) Less than \$100,000

Interest Rate Risk

Our interest expenses and income are sensitive to changes in interest rates, as all of our cash reserves and borrowings are subject to interest rate changes. Excess liquidity is invested in short-term interest-bearing investments. Such short-term interest-bearing investments consist primarily of United States governmental securities and commercial paper and currently bear minimal interest rate risk. As of September 30, 2000, we had approximately \$20.0 million outstanding on our revolving line of credit and short-term credit agreements and \$32.1 million recorded as long-term lease obligations, which in the aggregate bear minimal interest rate risk.

To the Board of Directors and Shareholders
Amdocs Limited

We have audited the accompanying consolidated balance sheets of Amdocs Limited as of September 30, 2000 and 1999, and the related statements of operations, changes in shareholders' equity (deficit) and cash flows for each of the three years in the period ended September 30, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Amdocs Limited as of September 30, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2000, in conformity with accounting principles generally accepted in the United States.

The image shows a handwritten signature in black ink that reads "Ernst & Young LLP". The signature is written in a cursive, flowing style.

Ernst & Young LLP
St. Louis, Missouri
November 2, 2000

	As of September 30,	
	2000	1999
Assets		
Current assets:		
Cash and cash equivalents	\$ 402,300	\$ 85,174
Accounts receivable, including unbilled of \$4,203 and \$4,243, less allowances of \$6,868 and \$0, in 2000 and 1999, respectively (*)	263,100	159,312
Deferred income taxes and taxes receivable	35,179	29,899
Prepaid expenses and other current assets	34,327	16,390
Total current assets	734,906	290,775
Equipment, vehicles and leasehold improvements, net	128,081	83,997
Deferred income taxes	13,900	5,605
Goodwill and other intangible assets, net	1,011,053	22,798
Other noncurrent assets	47,145	26,836
Total assets	\$1,935,085	\$ 430,011
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 128,249	\$ 68,594
Accrued personnel costs	70,196	40,092
Short-term financing arrangements	20,000	2,381
Deferred revenue	133,546	104,688
Short-term portion of capital lease obligations	8,713	5,722
Deferred income taxes and taxes payable	55,197	33,412
Total current liabilities	415,901	254,889
Long-term portion of capital lease obligations	23,417	17,148
Deferred income taxes	11,191	—
Other noncurrent liabilities	53,804	34,237
Total liabilities	504,313	306,274
Shareholders' equity:		
Preferred Shares - Authorized 25,000 shares; £0.01 par value; 0 shares issued and outstanding	—	—
Ordinary Shares - Authorized 550,000 shares; £0.01 par value; 221,165 and 198,800 outstanding in 2000 and 1999, respectively	3,539	3,181
Additional paid-in capital	1,784,816	489,099
Accumulated other comprehensive income (loss)	1,159	(1,157)
Unearned compensation	(1,164)	(3,830)
Accumulated deficit	(357,578)	(363,556)
Total shareholders' equity	1,430,772	123,737
Total liabilities and shareholders' equity	\$1,935,085	\$ 430,011

(*) See Note 4.

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

	Year ended September 30,		
	2000	1999	1998
Revenue:			
License (*)	\$ 124,822	\$ 74,387	\$ 42,891
Service (*)	993,498	552,468	360,876
	<u>1,118,320</u>	<u>626,855</u>	<u>403,767</u>
Operating expenses:			
Cost of license	5,624	5,515	10,732
Cost of service (*)	639,900	357,809	231,360
Research and development	74,852	40,874	25,612
Selling, general and administrative (*)	137,004	75,659	51,168
Amortization of goodwill and purchased intangible assets	111,199	—	—
In-process research and development and other indirect acquisition related costs	75,617	—	—
	<u>1,044,196</u>	<u>479,857</u>	<u>318,872</u>
Operating income	74,124	146,998	84,895
Other income (expense), net (*)	10,734	(6,223)	(24,126)
Income before income taxes and cumulative effect	84,858	140,775	60,769
Income taxes	78,880	42,232	30,385
Income before cumulative effect	5,978	98,543	30,384
Cumulative effect of change in accounting principle, net of \$0, \$0 and \$277 tax, respectively	—	—	277
Net income	<u>\$ 5,978</u>	<u>\$ 98,543</u>	<u>\$ 30,107</u>
Basic earnings per share:			
Income before cumulative effect	\$ 0.03	\$ 0.50	\$ 0.19
Cumulative effect of change in accounting principle (\$0, \$0 and less than \$0.01, respectively)	—	—	—
Net earnings per share	<u>\$ 0.03</u>	<u>\$ 0.50</u>	<u>\$ 0.19</u>
Diluted earnings per share:			
Income before cumulative effect	\$ 0.03	\$ 0.49	\$ 0.19
Cumulative effect of change in accounting principle (\$0, \$0 and less than \$0.01, respectively)	—	—	—
Net earnings per share	<u>\$ 0.03</u>	<u>\$ 0.49</u>	<u>\$ 0.19</u>
Basic weighted average number of shares outstanding	<u>212,005</u>	<u>197,436</u>	<u>158,528</u>
Diluted weighted average number of shares outstanding	<u>216,935</u>	<u>200,262</u>	<u>159,442</u>

(*) See Note 4.

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

Amdocs Limited / CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(in thousands, except per share data)

	Ordinary Shares		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Accumulated Deficit	Total Shareholders' Equity (Deficit)
	Shares	Amount					
Balance as of October 1, 1997	124,708	\$ 1,996	\$ 105,779	\$ —	\$ —	\$ (13,522)	\$ 94,253
Net income	—	—	—	—	—	30,107	30,107
Unrealized loss on derivative instruments, net of \$640 tax	—	—	—	(1,495)	—	—	(1,495)
Dividends declared, \$3.76 per share	—	—	—	—	—	(478,684)	(478,684)
Issuance of Ordinary Shares, net	54,092	865	97,583	—	—	—	98,448
Initial public offering of Ordinary Shares, net	18,000	288	233,902	—	—	—	234,190
Stock options granted, net of forfeitures	—	—	10,239	—	(10,239)	—	—
Amortization of unearned compensation	—	—	—	—	1,292	—	1,292
Balance as of September 30, 1998	196,800	3,149	447,503	(1,495)	(8,947)	(462,099)	(21,889)
Net income	—	—	—	—	—	98,543	98,543
Unrealized income on derivative instruments, net of \$145 tax	—	—	—	338	—	—	338
Issuance of Ordinary Shares, net	2,000	32	41,352	—	—	—	41,384
Stock options granted, net of forfeitures	—	—	244	—	(163)	—	81
Amortization of unearned compensation	—	—	—	—	5,280	—	5,280
Balance as of September 30, 1999	198,800	3,181	489,099	(1,157)	(3,830)	(363,556)	123,737
Net income	—	—	—	—	—	5,978	5,978
Employee stock options exercised	2,058	33	21,327	—	—	—	21,360
Tax benefit of stock options exercised	—	—	10,825	—	—	—	10,825
Unrealized other comprehen- sive income, net of \$993 tax	—	—	—	2,316	—	—	2,316
Issuance of Ordinary Shares related to acquisitions, net	20,307	325	1,263,330	—	—	—	1,263,655
Stock options granted	—	—	235	—	—	—	235
Amortization of unearned compensation	—	—	—	—	2,666	—	2,666
Balance as of September 30, 2000	221,165	\$ 3,539	\$1,784,816	\$ 1,159	\$ (1,164)	\$ (357,578)	\$ 1,430,772

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

	Year ended September 30,		
	2000	1999	1998
Cash Flow from Operating Activities:			
Net Income	\$ 5,978	\$ 98,543	\$ 30,107
Reconciliation of net income to net cash provided by operating activities:			
Depreciation and amortization	155,359	30,601	29,096
In-process research and development expenses	70,319	—	—
Loss on sale of equipment	148	549	149
Deferred income taxes	(1,196)	(4,026)	(1,351)
Tax benefit of stock options exercised	10,825	—	—
Unrealized income (loss) on other comprehensive income	3,309	483	(2,135)
Net changes in operating assets and liabilities:			
Accounts receivable	(29,763)	(69,354)	(26,000)
Prepaid expenses and other current assets	(12,408)	(4,400)	(5,244)
Other noncurrent assets	(10,861)	(10,350)	(3,324)
Accounts payable and accrued expenses	38,852	22,893	29,054
Deferred revenue	24,313	75,448	11,800
Income taxes payable	16,071	2,177	(1,429)
Other noncurrent liabilities	16,642	9,739	5,760
Net cash provided by operating activities	<u>287,588</u>	<u>152,303</u>	<u>66,483</u>
Cash Flow from Investing Activities:			
Proceeds from sale of equipment, vehicles and leasehold improvements	1,280	1,461	889
Payments for purchase of equipment, vehicles and leasehold improvements	(56,571)	(42,180)	(26,566)
Investment in noncurrent assets	(9,000)	—	—
Net cash acquired in acquisitions	67,791	—	—
Purchase of computer software and intellectual property	(6,169)	(1,000)	—
Net cash used in investing activities	<u>(2,669)</u>	<u>(41,719)</u>	<u>(25,677)</u>
Cash Flow from Financing Activities:			
Dividends paid	—	—	(478,684)
Net proceeds from issuance of Ordinary Shares	—	42,535	330,638
Proceeds from employee stock options exercised	21,360	—	—
Payments under short-term finance arrangements	(284,464)	(395,345)	(269,946)
Borrowings under short-term finance arrangements	301,933	306,161	358,862
Net proceeds from issuance of long-term debt	—	—	364,127
Principal payments on long-term debt	—	—	(368,521)
Principal payments on capital lease obligations	(6,622)	(4,150)	(2,357)
Payments on issuance of notes payable	—	—	(3,268)
Net cash provided by (used in) financing activities	<u>32,207</u>	<u>(50,799)</u>	<u>(69,149)</u>
Net increase (decrease) in cash and cash equivalents	<u>317,126</u>	<u>59,785</u>	<u>(28,343)</u>
Cash and cash equivalents at beginning of year	85,174	25,389	53,732
Cash and cash equivalents at end of year	<u>\$402,300</u>	<u>\$ 85,174</u>	<u>\$ 25,389</u>

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

Supplementary Cash Flow Information	Year ended September 30,		
	2000	1999	1998
Interest and Income Taxes Paid			
Cash paid for:			
Income taxes, net of refunds	\$ 49,262	\$ 38,369	\$ 32,472
Interest	2,614	6,393	25,150

Non Cash Investing and Financing Activities

Capital lease obligations of \$15,732, \$14,853 and \$5,200 were incurred during the years ended September 30, 2000, 1999 and 1998, respectively, when the Company (as hereinafter defined) entered into lease agreements for vehicles.

As of September 30, 1999, the Company incurred stock issuance costs of \$1,153, which had not been paid as of that date. Such costs were paid during fiscal year 2000.

The Company issued 6,461 Ordinary Shares and 1,103 options in connection with the acquisition of ITDS (as hereinafter defined). The Company issued 13,846 exchangeable shares and 1,654 options in connection with the acquisition of Solect (as hereinafter defined). See Note 3.

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

Note 1 - Nature of Entity

Amdocs Limited (the "Company") is a leading provider of software products and services to the communications industry. The Company and its subsidiaries operate in one business segment, providing business support systems and related services for the communications industry. The Company designs, develops, markets, supports and operates information system solutions to major wireless, wireline and Internet Protocol ("IP") companies throughout the world.

The Company is a Guernsey corporation, which holds directly or indirectly several wholly-owned subsidiaries in the Asia-Pacific region, Australia, Europe, Israel, Latin America and North America. The Company's customers are mainly in North America, Europe, Latin America and the Asia-Pacific region. During fiscal 2000, the Company derived approximately 46 percent of its revenue from North America. The Company's main production and operating facilities are located in Israel, the United States, Ireland, Canada and Cyprus.

Note 2 - Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States.

Consolidation

The financial statements include the accounts of the Company and all its subsidiaries, which are wholly-owned. All significant intercompany transactions and balances have been eliminated in consolidation.

Functional Currency

The U.S. dollar is the functional currency for the Company and its subsidiaries, as the U.S. dollar is the predominant currency of the Company's revenue and expenses.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term investments with insignificant interest rate risk and original maturities of 90 days or less.

Investments

From time to time the Company invests in short-term interest-bearing investments. The Company classifies all of its short-term interest-bearing investments as available-for-sale securities. Such short-term interest-bearing investments consist primarily of United States governmental securities and commercial paper, which are stated at market value. Unrealized gains and losses are comprised of the difference between market value and amortized costs of such securities and are reflected, net of tax, as other comprehensive income in shareholders' equity. Realized gains and losses on short-term interest-bearing investments are included in earnings and are derived using the specific identification method for determining

the cost of securities. Except for its cash and cash equivalents, the Company has no short-term interest-bearing investments as of September 30, 2000.

The Company also has certain investments in non-publicly traded companies. These investments are included in other noncurrent assets in the Company's balance sheet and are generally carried at cost. The Company monitors these investments for impairment and will make appropriate reductions in carrying values if necessary. There were no impairment charges in fiscal 2000.

Equipment, Vehicles and Leasehold Improvements

Equipment, vehicles and leasehold improvements are stated at cost. Assets under capital leases are recorded at the present value of the future minimum lease payments at the date of acquisition. Depreciation is computed using the straight-line method over the estimated useful life of the asset, which ranges from 2 to 12 years and includes the amortization of assets under capitalized leases. Leasehold improvements are amortized over the shorter of the estimated useful lives or the term of the lease. Management reviews property and equipment and other long-lived assets on a periodic basis to determine whether events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable.

The Company accounts for certain costs incurred in connection with developing or obtaining software for internal use in accordance with Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed for or Obtained for Internal-Use". SOP 98-1 requires the capitalization of certain costs incurred in connection with developing or obtaining software for internal use.

Goodwill and Other Intangible Assets

The total purchase price of product line or business acquisitions accounted for using the purchase method is allocated first to identifiable assets and liabilities based on estimated fair values. The excess of the purchase price over the fair value of net assets of purchased businesses is recorded as goodwill. Goodwill is amortized on a straight-line basis over its estimated useful life.

Other intangible assets consist of purchased computer software, intellectual property rights, core technology, workforce-in-place and customer base.

Purchased computer software is reported at the lower of amortized cost or net realizable value, and is amortized over its estimated useful life based on the ratio of the current gross revenue for each product to the total current and anticipated future gross revenue for each product. This accounting policy result in amortization of purchased computer software on a basis faster than the straight-line method.

Intellectual property rights, core technology, workforce-in-place and customer base acquired by the Company are amortized over their estimated useful lives on a straight-line basis.

Periodically, the Company considers whether there are indicators of impairment that would require the evaluation of the net realizable value of goodwill and other intangible assets in comparison to their carrying value. Any impairment would be recognized when the expected future operating cash flows derived from such intangible assets is less than their carrying value.

Stock Split

In May 1998, the Board of Directors of the Company authorized a stock split that was effected as a dividend of Ordinary Shares. All references in the consolidated financial statements referring to shares, per share amounts and contingently issuable shares have been adjusted retroactively for the stock split.

Comprehensive Income

The Company accounts for comprehensive income under the provisions of Statement of Financial Standards (SFAS) No. 130, "Reporting Comprehensive Income", which established standards for the reporting and display of comprehensive income and its components. 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.

Income Taxes

The Company records deferred income taxes to reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for tax purposes. Deferred taxes are computed based on tax rates anticipated to be in effect (under applicable laws at the time the financial statements are prepared) when the deferred taxes are expected to be paid or realized. A valuation allowance is provided for deferred tax assets if it is more likely than not these items will either expire before the company is able to realize their benefit, or that future deductibility is uncertain. In the event that a valuation allowance relating to business acquisitions is subsequently reduced, the adjustment may reduce the original amount allocated to goodwill.

Deferred tax liabilities and assets are classified as current or noncurrent based on the classification of the related asset or liability for financial reporting, or according to the expected reversal dates of the specific temporary differences, if not related to an asset or liability for financial reporting, and also include anticipated withholding taxes due on subsidiaries' earnings when paid as dividends to the Company.

Revenue Recognition

The Company's software products require significant customization and therefore the development projects are recognized as long term contracts in conformity with Accounting Research Bulletin (ARB) No. 45 "Long Term Construction Type Contracts", SOP 81-1 "Accounting for Performance of Construction Type and Certain Production Type Contracts" and SOP 97-2 "Software Revenue Recognition". Initial license fee revenue is recognized as work is performed, under the percentage of completion method of accounting. Subsequent license fee revenue is recognized upon completion of the specified conditions in each contract. Service revenue that involves significant ongoing obligations, including fees for customization, implementation and initial support services, is recognized as work is performed, under the percentage of completion method of accounting. In outsourcing contracts, revenue from operation and maintenance of customers' billing systems is recognized in the period in which the bills are produced. Revenue from ongoing support is recognized as work is performed. Revenue from third-party hardware and software sales is recognized upon delivery, and recorded at gross or net amount according to the criteria established in Emerging Issues Task Force (EITF) 99-19 "Recording Revenue Gross as a Principal versus Net as an Agent" and Staff Accounting Bulletins (SAB) 101 "Revenue Recognition in Financial

Statements". Maintenance revenue is recognized ratably over the term of the maintenance agreement, which in most cases is one year or less. Losses are recognized on contracts in the period in which the liability is identified. As a result of its percentage of completion accounting policies, the Company's annual and quarterly operating results may be significantly affected by the size and timing of customer projects and the Company's progress in completing such projects.

Deferred revenue represents billings to customers for licenses, services and third-party products for which revenue has not been recognized.

Included in service revenue are sales of third-party products. Revenue from sales of such products includes third-party computer hardware and computer software products and was less than 10 percent of total revenue in fiscal 2000, 1999 and 1998.

Cost of License and Cost of Service

Cost of license and service consists of all costs associated with providing services to customers, including warranty expense. Estimated costs related to warranty obligations are initially provided at the time the product is delivered and are revised to reflect subsequent changes in circumstances and estimates. Cost of license includes royalty payments to software suppliers, amortization of purchased computer software and intellectual property rights.

Included in cost of service are costs of third-party products associated with reselling third-party computer hardware and computer software products to customers, when revenue from third-party products is recognized at gross amount. Customers purchasing third-party products from the Company generally do so in conjunction with the purchase of services.

Research and Development

Research and development expenditures consist of costs incurred in the development of new software modules and product offerings, either in conjunction with customer projects or as part of the Company's product development program. Research and development costs, which are in conjunction with a customer project, are expensed as incurred. Certain computer software costs are capitalized in accordance with SFAS No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed", which requires capitalization of software development costs subsequent to the establishment of technological feasibility.

Based on the Company's product development process, technological feasibility is established upon completion of a detailed program design or, in the absence thereof, completion of a working model. Costs incurred by the Company after achieving technological feasibility and before the product is ready for customer release have been insignificant.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees". Pursuant to this accounting standard, the Company records 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 shares at that date. Deferred compensation is amortized to compensation expense over the vesting period of the underlying options. No compensation expense is recorded for stock options that are 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. See Note 17 for pro forma disclosures required in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation".

Compensation expenses that are deductible in a tax return in a period different from the one in which they are reported as expenses in measuring net income are temporary differences that result in deferred taxes. To the extent that compensation is not recorded for stock-based compensation, the benefit of the related tax deduction is recorded as an increase to additional paid-in capital in the period of the tax reduction.

Fair Value of Financial Instruments

The financial instruments of the Company consist mainly of cash and cash equivalents, short-term interest-bearing investments, accounts receivable, short-term financing arrangements, forward exchange contracts and lease obligations. In view of their nature, the fair value of the financial instruments included in the accounts of the Company does not significantly vary from their carrying amount. The fair values of the Company's foreign currency exchange contracts are estimated based on quoted market prices of comparable contracts.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist principally of trade receivables. The Company invests its excess cash primarily in highly liquid U.S. dollar-denominated securities with major U.S. and U.K. institutions. The Company does not expect any credit losses in respect of these items. The Company's revenue is generated primarily in North America and Europe and to a lesser extent in the Asia-Pacific region and Latin America. Most customers are among the largest communications and directory publishing companies in the world (or are owned by them). The Company performs ongoing credit analyses of its customer base and generally does not require collateral.

Earnings per Share

The Company accounts for earnings per share based on SFAS No. 128 "Earnings per Share". SFAS No. 128 requires companies to compute earnings per share under two different methods, basic and diluted earnings per share, and to disclose the methodology used for the calculations. Basic earnings per share is calculated using the weighted average number of shares outstanding during the period. Diluted earnings per share is computed on the basis of the weighted average number of shares outstanding and the effect of the dilutive outstanding stock options using the treasury stock method.

Derivatives and Hedging

Effective July 1, 1998, the Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 requires the Company to recognize all derivatives on the balance sheet at fair value. If the derivative meets the definition of a hedge and is so designated, depending on

the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a derivative's change in fair value is recognized in earnings. The adoption of SFAS No. 133 on July 1, 1998 did not have a material impact on results of operations but resulted in the cumulative effect of change in accounting principle of \$277, net of tax in 1998.

Reclassifications

Certain amounts in prior years' financial statements have been reclassified to conform to the current year's presentation.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. The Company's most significant estimates are related to contract accounting estimates used to recognize revenue under the percentage of completion method of accounting. Actual results could differ from those estimates.

Note 3 - Acquisitions

ITDS

On November 30, 1999, the Company completed a stock-for-stock acquisition transaction of International Telecommunication Data Systems, Inc. ("ITDS"), a leading provider of solutions to communications companies for outsourcing of billing operations. The total purchase price of \$189,034, based on a per share price of \$28.25 for the Company's Ordinary Shares, included issuance of 6,461 Ordinary Shares, the grant of 1,103 options and transaction costs. The acquisition was accounted for using the purchase method of accounting. The fair market value of ITDS' assets and liabilities has been included in the Company's balance sheet as of the acquisition date. The results of ITDS' operations are included in the Company's consolidated statement of operations, commencing December 1, 1999. An acquired technology valuation, which was independently determined, included both existing technology and in-process research and development. The valuation of these technologies was made by applying the income forecast method, which considered the present value of cash flows by product lines. The fair value of core technology was valued at \$12,342 and is being amortized over five years. Purchased in-process research and development, valued at \$19,876, was charged as an expense immediately following the completion of the acquisition since this technology had not reached technological feasibility and had no alternative use. This technology required additional development, coding and testing efforts before technological feasibility could be determined. The fair value of customer base was valued at \$647 and the fair value of workforce-in-place was valued at \$5,407, each of which is being amortized over five years. The excess of the purchase price over the fair value of the net assets acquired, or goodwill, of \$71,154 is being amortized over 15 years.

Solect

On April 5, 2000, the Company completed a stock-for-stock acquisition transaction of Solect Technology Group Inc. ("Solect"), a leading provider of customer care and billing software to IP service providers. Under the terms of the combination agreement, all then outstanding Solect common shares were exchanged for shares of a newly issued class of exchangeable shares of Solect. The Solect exchangeable shares entitle holders to dividends and other rights economically equivalent to the Company's Ordinary Shares, including the right, through a voting trust, to vote at the Company's shareholder meetings, and are exchangeable at the option of holders into the Company's Ordinary Shares on a one-for-one basis. The total purchase price of \$1,087,711, based on a per share price of \$69.875 for the Company's Ordinary Shares, included both the issuance of 13,846 exchangeable shares, the grant of options to purchase 1,654 Ordinary Shares, as well as transaction costs. An aggregate 1,170 of the exchangeable shares issued in the transaction have been placed in escrow until April 2001 to indemnify the Company against any breaches of representations or warranties under the combination agreement. The acquisition was accounted for using the purchase method of accounting. The fair market value of Solect's assets and liabilities has been included in the Company's balance sheet as of the acquisition date. The results of Solect's operations are included in the Company's consolidated statement of operations, commencing April 6, 2000. An acquired technology valuation, which was independently determined, included both existing technology and in-process research and development. The valuation of these technologies was made by applying the income forecast method, which considered the present value of cash flows by product lines. The fair value of core technology was valued at \$18,259 and is being amortized over two years. Purchased in-process research and development, valued at \$50,443, was charged as an expense immediately following the completion of the acquisition since this technology had not reached technological feasibility and had no alternative use. This technology required varying additional development, coding and testing efforts before technological feasibility could be determined. The fair value of customer base was valued at \$1,211 and the fair value of workforce-in-place was valued at \$3,259, each of which is being amortized over three years. The excess of the purchase price over the fair value of net assets acquired, or goodwill, of \$986,312 is being amortized over five years.

Set forth below is the pro forma revenue, operating income (loss), net loss and loss per share as if ITDS and Solect had been acquired as of October 1, 1998, excluding the write off of purchased in-process research and development and other indirect acquisition related costs:

	Year ended September 30,		
	2000	1999	1998
Revenue	\$1,152,783	\$ 775,653	\$ 500,554
Operating income (loss)	41,516	(43,744)	(134,543)
Net loss	(25,516)	(97,933)	(161,239)
Basic loss per share	(0.12)	(0.45)	(1.03)
Diluted loss per share	(0.12)	(0.45)	(1.03)

Note 4 - Related Party Transactions

The following related party balances are included in the balance sheet:

	As of September 30,	
	<u>2000</u>	<u>1999</u>
Accounts receivable, including unbilled of \$0 and \$828 in 2000 and 1999, respectively	\$27,116	\$14,128

The following related party transactions are included in the statements of operations:

	Year ended September 30,		
	<u>2000</u>	<u>1999</u>	<u>1998</u>
Revenue (1):			
License	\$ 15,888	\$ 743	\$ 2,300
Service	144,859	98,761	82,100
Operating expenses (2):			
Cost of service	2,814	2,656	2,325
Selling, general and administrative	700	570	510
Other income (expense), net (3)	—	—	(6,268)

(1) The Company licenses software and provides computer systems integration and related services to several affiliates of a significant shareholder of the Company (the "Affiliates").

(2) The Company leases office space in Israel on a month-to-month basis and purchases other miscellaneous support services from affiliates of certain shareholders.

(3) On September 22, 1997, the Company issued junior subordinated notes payable in the aggregate amount of \$3,268 to certain persons affiliated with the investors party to the Share Subscription Agreement referred to in Note 16. The notes bore an interest rate of 5.75 percent per annum and were originally due September 22, 1998. The notes were paid in March 1998. In January 1998, the Company issued \$123,500 in principal amount of 10 percent subordinated notes to affiliates of certain shareholders which were party to the Conditional Investment Agreement referred to in Note 16. The subordinated notes were repaid in 1998.

Note 5 - Compensating Balances

The Company was required to maintain compensating cash balances of \$4,777 and \$2,791 as of September 30, 2000 and 1999, respectively, primarily relating to foreign currency contracts, letters of credit and bank guarantees.

Note 6 - Equipment, Vehicles and Leasehold Improvements, Net

Components of equipment, vehicles and leasehold improvements, net are:

	<u>As of September 30,</u>	
	<u>2000</u>	<u>1999</u>
Furniture and fixtures	\$ 24,297	\$ 14,009
Computer equipment	110,583	67,416
Vehicles furnished to employees	44,766	31,541
Leasehold improvements	30,593	19,315
	<u>210,239</u>	<u>132,281</u>
Less accumulated depreciation	82,158	48,284
	<u>\$ 128,081</u>	<u>\$ 83,997</u>

The Company has entered into various arrangements for the leasing of vehicles for periods of five years, carrying interest rates of LIBOR plus an interest rate of 0.5 percent (7.3 percent as of September 30, 2000). The Company has accounted for these as capital leases and amortization costs have been included in depreciation expense. Capital lease payments, excluding interest, due over the next five years are as follows:

2001	\$ 8,713
2002	8,068
2003	7,368
2004	5,234
2005	2,747

Note 7 - Goodwill and Other Intangible Assets, Net

Goodwill and other intangible assets, net are:

	Estimated useful life (in years)	<u>As of September 30,</u>	
		<u>2000</u>	<u>1999</u>
Goodwill	5-15	\$1,057,466	\$ —
Intellectual property rights and purchased computer software	2-10	74,107	39,200
Other intangible assets	3-5	12,403	—
		<u>1,143,976</u>	<u>39,200</u>
Less accumulated amortization		132,923	16,402
		<u>\$1,011,053</u>	<u>\$ 22,798</u>

Note 8 - Other Noncurrent Assets

Other noncurrent assets consist of the following:

	As of September 30,	
	2000	1999
Funded personnel benefit costs	\$ 25,913	\$ 18,264
Noncurrent investments, at cost	9,250	—
Other	11,982	8,572
	<u>\$ 47,145</u>	<u>\$ 26,836</u>

Note 9 - Income Taxes

The provision for income taxes consists of the following:

	Year ended September 30,		
	2000	1999	1998
Current	\$ 80,076	\$ 46,258	\$ 31,736
Deferred	(1,196)	(4,026)	(1,351)
	<u>\$ 78,880</u>	<u>\$ 42,232</u>	<u>\$ 30,385</u>

All income taxes are from continuing operations reported by the Company in the applicable taxing jurisdiction. Income taxes also include anticipated withholding taxes due on subsidiaries' earnings when paid as dividends to the Company.

Deferred income taxes are comprised of the following components:

	As of September 30,	
	2000	1999
Deferred tax assets:		
Deferred revenue	\$ 19,560	\$ 21,021
Accrued personnel costs	15,733	8,184
Computer software and intellectual property	3,496	—
Warranty and maintenance accruals	—	195
Net operating loss carry forwards	18,713	—
Other	5,685	4,947
Valuation allowances	(16,743)	—
Total deferred tax assets	<u>46,444</u>	<u>34,347</u>
Deferred tax liabilities:		
Anticipated withholdings on subsidiaries' earnings	(17,391)	(14,033)
Intangible assets, computer software and intellectual property	(11,191)	(2,071)
Other	(500)	—
Total deferred tax liabilities	<u>(29,082)</u>	<u>(16,104)</u>
Net deferred tax assets	<u>\$ 17,362</u>	<u>\$ 18,243</u>

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

	Year ended September 30,		
	2000	1999	1998
Statutory Guernsey tax rate	20%	20%	20%
Guernsey tax-exempt status	(20)	(20)	(20)
Foreign taxes	30	30	50
Effect of acquisition-related costs	19	—	—
Effective income tax rate	<u>49%</u>	<u>30%</u>	<u>50%</u>

In fiscal 2000, the Company incurred certain non-tax deductible indirect acquisition related costs and non deductible goodwill amortization related to the acquisitions of ITDS and Solect. As a result, the Company's effective income tax rate in 2000 (calculated based on the income taxes out of the income before income taxes, excluding non recurring charges for write-offs of purchased in-process research and development and other indirect acquisition related costs) is significantly higher than the 1999 effective income tax rate.

In fiscal 1998, the Company incurred tax expense on the income of its operations in various countries and sustained a loss in a tax jurisdiction in which the Company is tax-exempt. This resulted in no tax benefit to offset the expense incurred. No such loss occurred in 1999 or 2000 and, as a result, the Company's effective income tax rate in 1998 was significantly higher than the 1999 effective income tax rate.

The Company's Israeli subsidiary, which accounted for approximately 34%, 36% and 34% for 2000, 1999 and 1998, respectively, of the Company's income before income taxes, enjoys tax benefits from Approved Enterprise status, as established under Israeli law. The benefits from this status began phasing out in 1999. However, the effect on the 1999 and 2000 effective income tax rate on the Company is not significant.

As of September 30, 2000, the Company had \$41,900 of Canadian net operating loss carry-forwards, most of which were acquired in the Solect transaction. The net operating loss carry-forwards will expire within 5-10 years. Given the uncertainty of the realization of these assets through future taxable earnings, a valuation allowance of \$16,743 has been recorded.

Note 10 - Short-term Financing Arrangements

The Company's financing transactions are described below:

In December 1997, the Company entered into various credit agreements (the "Credit Agreements") with several commercial banks. According to an amendment to the Credit Agreements (the "Revolving Credit Agreement") entered into in July 1998, the Company may borrow up to \$100,000 under a revolving line of credit. This agreement expires in June 2001. The revolving line of credit bears a variable interest

rate (7.3 percent as of September 30, 2000). The Revolving Credit Agreement has various covenants, that limit the Company's ability to make investments, incur debt, pay dividends and dispose of property. The Company is also required to maintain certain financial ratios as defined in the Revolving Credit Agreement. Except for vehicles, substantially all of the Company's assets have been pledged as security under the terms of the Revolving Credit Agreement. As of September 30, 2000, the outstanding balance under this arrangement was \$20,000.

According to an agreement with several commercial banks the Company may borrow up to \$40,000 under a short-term credit line. The short-term credit line bears a variable interest rate. As of September 30, 2000, there was no outstanding balance.

As of September 30, 2000, the Company had utilized approximately \$19,295 of revolving credit facilities to support letters of credit or bank guarantees.

The maximum amount of short-term borrowings under the revolving bank credit arrangements at the end of any month was approximately \$31,700 in 2000 and \$97,300 in 1999. The average short-term borrowings during the year were approximately \$13,300 in 2000 and \$63,500 in 1999. The weighted average interest rates approximated 7.0 percent in 2000, 6.0 percent in 1999 and 6.4 percent in 1998.

Note 11 - Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following:

	As of September 30,	
	2000	1999
Accrued personnel costs	\$ 49,313	\$ 32,441
Long term forward exchange obligations	2,987	231
Other	1,504	1,565
	<u>\$ 53,804</u>	<u>\$ 34,237</u>

Note 12 - Comprehensive Income

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

	Year ended September 30,		
	2000	1999	1998
Net income	\$ 5,978	\$ 98,543	\$ 30,107
Other comprehensive income:			
Unrealized income (loss) on derivative instruments, net of tax	2,333	338	(1,495)
Unrealized income on cash equivalents, net of tax	(17)	—	—
Comprehensive income	<u>\$ 8,294</u>	<u>\$ 98,881</u>	<u>\$ 28,612</u>

Note 13 - Other Income (Expense), Net

Other income (expense), net consists of the following:

	Year ended September 30,		
	2000	1999	1998
Interest income	\$ 14,274	\$ 1,680	\$ 3,445
Interest expense	(2,528)	(5,654)	(24,267)
Interest expense relating to settlement of tax claims	—	—	(680)
Other, net	(1,012)	(2,249)	(2,624)
	<u>\$ 10,734</u>	<u>\$ (6,223)</u>	<u>\$ (24,126)</u>

Note 14 - Commitments

The Company leases office space under non-cancelable operating leases in various countries in which it does business. Future minimum lease payments required for the five-year period beginning October 1, 2000 are as follows:

For the years ended September 30,	
2001	\$ 27,100
2002	27,000
2003	22,800
2004	19,100
2005	17,300
	<u>\$113,300</u>

Rent expense was approximately \$20,400, \$12,600 and \$8,000 for 2000, 1999 and 1998, respectively.

Note 15 - Employee Benefits

The Company accrues severance pay for the employees of its Israeli operations in accordance with Israeli law and certain employment procedures on the basis of the latest monthly salary paid to these employees and the length of time that they have worked for the Israeli operations. The severance pay liability, which is included in other noncurrent liabilities, is partially funded by amounts on deposit with insurance companies, which are included in other noncurrent assets. Severance pay expenses were approximately \$17,614, \$9,200 and \$7,100 for 2000, 1999 and 1998, respectively.

The Company sponsors defined contribution plans covering substantially all employees in the U.S., U.K. and Canada. The plans provide for Company matching contributions based upon a percentage of the employees' voluntary contributions. The Company's 2000, 1999 and 1998 plan contributions were not significant.

Note 16 - Capital Transactions

The following are details of the Ordinary Shares outstanding:

	As of September 30,	
	2000	1999
Voting Ordinary Shares	198,029	174,590
Non-Voting Ordinary Shares	23,136	24,210
	<u>221,165</u>	<u>198,800</u>

All the Non-Voting Ordinary Shares are held by a single shareholder. Under the Company's Articles of Association, upon the transfer or sale of such shares to another party, the shares automatically convert to Voting Ordinary Shares.

The Company's capital transactions are described below:

On September 22, 1997, the Company entered into a Share Subscription Agreement, under which 11,072 Ordinary Shares and 990 voting shares (Voting Shares) and \$3,268 principal amount of junior promissory notes were issued to certain investors. These notes were repaid in March 1998. Also, on September 22, 1997, the Company entered into a Conditional Investment Agreement whereby such investors were to be obligated to purchase 51,508 Ordinary Shares of the Company in second quarter 1998 for approximately \$99,000, if the Company achieved certain financial performance targets. In addition, the Company entered into a note purchase agreement with certain affiliates of the investors to issue, at its election, up to \$125,000 of subordinated notes.

In January 1998, the Company issued 36 additional Voting Shares at par value, which were redeemed in May 1998, as discussed below, and issued 2,584 contingently issuable Ordinary Shares, which were paid in advance in the amount of \$2,000 pursuant to a 1995 Stock Subscription Agreements with certain shareholders.

In January 1998, the Company's Board of Directors declared dividends of \$478,684, which were paid at that time. The dividends were financed by the proceeds of the Credit Agreements and subordinated notes from affiliates of certain shareholders, and surplus working capital.

In March 1998, the Company issued 51,508 Ordinary Shares according to the Conditional Investment Agreement discussed above. The net proceeds to the Company after the deduction of transaction costs amounted to \$96,448.

In May 1998, in contemplation of the Company's initial public offering, the Board of Directors took the following actions: (i) redeemed the outstanding Voting Shares at the par value thereof; (ii) amended the terms of the Ordinary Shares to create two classes: voting and non-voting; (iii) authorized 25,000 Preferred Shares, 500,000 Ordinary Shares and 50,000 Non-Voting Ordinary Shares; and (iv) declared

a stock split of 52-for-1 for each Ordinary Share outstanding. The rights of the two classes of Ordinary Shares are identical except as to voting rights. After the initial public offering, all of the outstanding Non-Voting Ordinary Shares have been held by one existing shareholder of the Company. All references to the number of shares and earnings per share have been restated to reflect the stock split and the redemption of Voting Ordinary Shares has been given retroactive effect.

On June 19, 1998, the Company conducted an initial public offering on the New York Stock Exchange of 18,000 Ordinary Shares. Total net proceeds to the Company, after deduction of offering expenses and underwriting commissions, amounted to \$234,190.

On June 7, 1999, the Company and certain shareholders of the Company completed a public offering pursuant to which the Company sold 2,000 Ordinary Shares. The net proceeds to the Company, after deduction of underwriting discounts and offering expenses, amounted to \$41,384.

On November 30, 1999 the Company issued 6,461 Ordinary Shares in connection with the acquisition of ITDS. On April 5, 2000 the Company issued 13,846 exchangeable shares in connection with the acquisition of Solect. See Note 3.

Total proceeds from the exercise of employee stock options amounted to \$21,360 in fiscal 2000.

Note 17 - Stock Option and Incentive Plan

In January 1998, the Company adopted, and in January 1999 and January 2000 the Company amended, the Amdocs Limited 1998 Stock Option and Incentive Plan, as amended ("the Plan"). Under the provisions of the Plan, 13,300 Ordinary Shares are available to be granted to officers, directors, employees and consultants. Such options fully vest over two to nine years and have a term of ten years.

On November 30, 1999, the Company issued 1,103 additional options in connection with the acquisition of ITDS to replace then issued ITDS options. On April 5, 2000, the Company issued 1,654 additional options in connection with the acquisition of Solect to replace then issued Solect options. See Note 3.

The following table summarizes information about share options, as well as changes during the years ended September 30, 2000, 1999 and 1998:

	Number of Share Options	Weighted Average Exercise Price
Outstanding as of October 1, 1997	—	\$ —
Granted	3,527.4	3.93
Exercised	—	—
Forfeited	(7.8)	1.92
Outstanding as of September 30, 1998	3,519.6	3.93
Granted	2,752.6	21.67
Exercised	—	—
Forfeited	(35.3)	6.23
Outstanding as of September 30, 1999	6,236.9	11.75
Granted	4,948.7	52.82
Options exchanged in acquisitions	2,756.7	18.24
Exercised	(2,057.5)	10.38
Forfeited	(656.7)	30.11
Outstanding as of September 30, 2000	<u>11,228.1</u>	<u>\$ 30.62</u>

The following table summarizes information about share options outstanding as of September 30, 2000:

Outstanding as of September 30, 2000			Exercisable as of September 30, 2000		
Exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 0-3.01	2,384.4	7.68	\$ 1.92	640.7	\$ 1.85
8.75-16.75	1,659.3	8.22	11.39	261.5	9.27
18.70-28.05	1,990.5	8.72	23.56	88.3	24.37
28.06-37.40	1,452.3	9.15	33.63	20.1	31.63
37.41-46.74	205.9	7.10	41.39	125.9	41.74
53.19-65.44	2,678.5	9.74	59.09	44.8	64.32
65.45-77.25	857.2	9.51	70.82	100.3	71.96

The following table summarizes information about share options outstanding as of September 30, 1999:

Outstanding as of September 30, 1999				Exercisable as of September 30, 1999	
Exercise price	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 1.92	2,492.6	8.27	\$ 1.92	—	\$ —
8.75-16.75	1,613.4	9.08	11.62	166.75	9.08
21.90-23.63	2,130.9	9.82	23.34	—	—

The weighted average grant-date fair value of the 4,948.7 and 2,752.6 options granted amounted to \$35.71 and \$13.92 for 2000 and 1999, respectively, per option. The Company utilized the Black-Scholes option-pricing model to estimate fair value, utilizing the following assumptions for the year (all in weighted averages):

	Year ended September 30,		
	2000	1999	1998
Risk-free interest rate	5.75%	5.31%	5.24%
Expected life of options	9.51	7.3	7.1
Expected annual volatility	1.086	0.550	0.945
Expected dividend yield	None	None	None

Had compensation cost for the Company's options been determined based on fair value at the grant dates for awards made in 2000, 1999 and 1998 in accordance with SFAS 123, the Company's pro forma net income (loss) and earnings (loss) per share would have been as follows:

	Year ended September 30,		
	2000	1999	1998
Pro forma net income (loss)	\$ (23,022)	\$ 92,624	\$ 29,463
Pro forma diluted earnings (loss) per share	(0.11)	0.46	0.18

Note 18 - Earnings Per Share

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

	Year ended September 30,		
	2000	1999	1998
Numerator:			
Income before cumulative effect	\$ 5,978	\$ 98,543	\$ 30,384
Denominator:			
Denominator for basic earnings per share – weighted average number of shares outstanding (*)	212,005	197,436	158,528
Effect of dilutive stock options granted	4,930	2,826	914
Denominator for dilutive earnings per share – adjusted weighted average shares and assumed conversions (*)	216,935	200,262	159,442
Basic earnings per share	\$ 0.03	\$ 0.50	\$ 0.19
Diluted earnings per share	\$ 0.03	\$ 0.49	\$ 0.19

(*) The weighted average number of shares outstanding includes the Solect exchangeable shares.

Note 19 - Segment Information and Sales to Significant Customers

Geographic Information

The following is a summary of revenue and long-lived assets by geographic area. Revenue is attributed to geographic region based on the location of the customers.

	Year ended September 30,		
	2000	1999	1998
Revenue			
North America	\$ 510,129	\$ 226,387	\$ 210,867
Europe	474,300	261,726	109,752
Australia	51,093	61,237	33,215
Other	82,798	77,505	49,933
Total	\$ 1,118,320	\$ 626,855	\$ 403,767
Long-lived Assets			
North America (*)	\$ 1,041,383	\$ 35,228	\$ 30,441
Israel (**)	85,518	61,472	38,917
Other	33,466	18,772	7,378
	\$ 1,160,367	\$ 115,472	\$ 76,736

(*) Primarily goodwill, computer software and intellectual property rights.

(**) Primarily computers and vehicles.

Revenue and Customer Information

Customer care, billing and order management systems (CC&B) include systems for wireline, wireless, broadband, electronic and mobile commerce and IP services. Directory includes directory sales and publishing systems for publishers of both traditional printed yellow pages and white pages directories and electronic Internet directories.

	Year ended September 30,		
	2000	1999	1998
CC&B	\$ 986,553	\$ 468,216	\$ 251,829
Directory	131,767	158,639	151,938
Total	<u>\$1,118,320</u>	<u>\$ 626,855</u>	<u>\$ 403,767</u>

Sales to Significant Customers

The following table summarizes the percentage of sales to significant customers groups (when they exceed 10 percent of total revenue for the year).

	Year ended September 30,		
	2000	1999	1998
Customer 1	14%	(*)%	(*)%
Customer 2	13	16	21
Customer 3	(*)	(*)	16

(*) less than 10 percent of total revenue

Note 20 - Financial Instruments

The Company enters into forward contracts to sell foreign currency in order to hedge its exposure associated with most firm commitments from customers in non-U.S. dollar-based currencies and treats these for accounting purposes as fair value hedges. The Company also enters into forward contracts in foreign currency to reduce the exposure associated with estimated receipts from customers and with liabilities (primarily personnel costs), in non-U.S. dollar-based currencies and treats these as cash flow hedges. The derivative financial instruments are afforded hedge accounting because they are effective in managing foreign exchange risks and are appropriately assigned to the underlying exposures. The Company does not engage in currency speculation. Generally, the Company measures the differential between forward rates and spot rates on forward exchange contracts as the inherent ineffectiveness of a hedging arrangement. Accordingly, changes in the fair value of forward exchange contracts, which are classified as fair value hedges, offset the change in the fair value of the hedged item to the extent of the arrangement's effectiveness. The effective portion of the change in the fair value of forward exchange contracts, which are classified as cash flow hedges, is recorded as comprehensive income until the underlying transaction is recognized in earnings.

The following table describes forward contracts outstanding:

	As of September 30,	
	2000	1999
Contracts treated as fair value hedges for the sale of:		
British pounds	\$ 19,346	\$ 24,567
Canadian dollars	8,332	11,394
Austrian schillings	—	10,779
Japanese yen	—	770
Other currencies	178	4,658
	\$ 27,856	\$ 52,168
Contracts treated as cash flow hedges for the purchase of:		
Israeli shekels	\$ 196,700	\$ 145,000
Australian dollars	22,240	31,655
	\$ 218,940	\$ 176,655

The fair values of the forward derivatives were \$3,016 and \$(3,412) on September 30, 2000 and 1999, respectively. The Company currently enters into forward exchange contracts exclusively with major financial institutions.

Note 21 - Selected Quarterly Results of Operations (Unaudited)

The following are details of the unaudited quarterly results of operations for the three months ended:

	September 30,	June 30,	March 31,	December 31,
2000				
Revenue	\$ 315,067	\$ 297,002	\$ 270,745	\$ 235,506
Operating income (loss)	20,955	(39,806)	60,115	32,860
Net income (loss)	12,993	(67,159)	42,863	17,281
Basic earnings (loss) per share	0.06	(0.31)	0.21	0.09
Diluted earnings (loss) per share	0.06	(0.31)	0.20	0.08
1999				
Revenue	\$ 182,716	\$ 164,884	\$ 147,830	\$ 131,425
Operating income	43,430	37,782	35,625	30,161
Net income	29,839	25,421	23,141	20,142
Basic and diluted earnings per share	0.15	0.13	0.12	0.10
1998				
Revenue	\$ 116,704	\$ 106,497	\$ 94,008	\$ 86,558
Operating income	26,104	22,821	19,125	16,845
Net income	11,598	6,443	4,105	7,961
Basic and diluted earnings per share	0.06	0.04	0.03	0.06

The fiscal quarters ended December 31, 1999 and June 30, 2000 include purchased in-process research and development and other indirect acquisition related costs of \$19,876 and \$55,741, respectively.

Directors

Bruce K. Anderson
Chairman of the Board

Adrian Gardner

Stephen Hermer

James S. Kahan

Paz Littman

John T. McLennan

Robert A. Minicucci

Avinoam Naor

Lawrence Perlman

Michael J. Price

Urs Suter

Executive Officers

Bruce K. Anderson
Chief Executive Officer
Amdocs Limited

Robert A. Minicucci
Chief Financial Officer
Amdocs Limited

Avinoam Naor
President & Chief Executive Officer
Amdocs Management Limited

Dov Baharav
*Senior Vice President &
Chief Financial Officer*
Amdocs Management Limited

Nehemia Lemelbaum
Senior Vice President
Amdocs Management Limited

Mario Segal
Senior Vice President
Amdocs Management Limited

Eli Gelman
Senior Vice President
Amdocs Management Limited

Paul Atkinson
Senior Vice President
Amdocs Management Limited

Shlomo Baleli
Senior Vice President
Amdocs Management Limited

Thomas G. O'Brien
Treasurer and Secretary
Amdocs Limited

Simon Cassif
Senior Vice President
Amdocs (UK) Limited

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Amdocs (UK) Limited

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General Manager
Amdocs Development Limited

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Shares

The Company's shares are traded on the New York Stock Exchange under the symbol DOX.

Annual Meeting

The Annual Meeting of Shareholders will be held on January 24, 2001 at 10:00 am, at the Drake Swisshotel New York, 440 Park Avenue, New York, New York 10022. All shareholders are invited to attend.

Investors Information

For a copy of the Company's Annual Report on Form 20-F, filed with the Securities and Exchange Commission, please contact:

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Corporate, product, financial and shareholder information, including news releases, financial filings and stock quotes are available at the Amdocs web site: www.amdocs.com

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