FINAL TRANSCRIPT

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PRESENTATION

Operator

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

Tom O'Brien - *Amdocs Limited - VP, IR*

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

Management uses this information in its internal analysis in order to exclude the acquisitions and other significant items that may have a disproportionate effect in a particular period.

Accordingly, Management believes isolating the effects of such an event enables Management and Investors to consistently analyze the critical components and results of operations of the Company's business and to having meaningful comparison to prior periods. For more information regarding our use of non-GAAP financial measures, including reconciliations of these measures, we refer you to today's earnings release which will also be furnished to the SEC on Form 6-K. Also this call includes information that constitutes forward-looking statements.

Although we believe the expectations reflected in such forward-looking statements are based upon reasonable assumptions we can give no assurance that our expectations will be obtained or that any deviations will not be material. Such statements involve risks and uncertainties that may cause future results to differ from these anticipated.

These risks include but are not limited to the effects of general economic conditions and such other risks as discussed in our earnings release today and at greater length in the Company's filings with the Securities & Exchange Commission including in our Annual Report on Form 20-F for the fiscal year ended September 30, 2008, as filed on December 8, 2008. Amdocs may elect to update these forward-looking statements at some point in the future, however, the Company specifically disclaims any obligation to do so.

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

Dov Baharav - *Amdocs Limited - President, CEO*

Thank you, Tom. Good afternoon, ladies and gentlemen. Tonight we reported our business results for the first quarter of fiscal 2009 with revenue of $754 million and non-GAAP operating income of $136 million. Clearly, we are disappointed with the first quarter revenue as our results came in well below our expectations.

While we discussed the potentially negative implications of macroeconomic factors last quarter, we have not anticipated that the conditions would deteriorate as quickly as they did. Service providers rapidly adjusted their spending behavior as part of their 2009 budgeting processes and in response to the worsening economic outlook. As a result, we did not make our revenue numbers in Q1.

We are now planning for significantly lower revenue outlook for the rest of the year. In response to the demand environment we have been taking proactive measures to protect our margins and our cash flow, two metrics that are better under our control at this stage of the business cycle. We tightened our expense controls and further reduced our workforce to adjust our cost structure to the more challenging growth prospects.

As a result, we delivered on our profit margin target with an 18% non-GAAP operating margin in the first quarter, 10 basis points above the fourth quarter of 2008 despite a $44 million miss in revenue relative to the midpoint of our guidance. Our focus on margin enabled us to generate $0.55 in non-GAAP EPS in Q1 which was within guidance. Furthermore, we generated $111 million in free cash flow in Q1, also in line with expectations outlined in early November demonstrating our increased focus on cash flow.

In light of the quarter results, let me try to provide answers to what we believe will be key questions from the market. First, what changed between early November and the close of the quarter to cause the negative revision to the revenue and to the outlook? Second, do we think it will get worse? If so, how much worse? And, third, how is Amdocs responding to the change in the demand from tactical and strategic standpoint?

In response to the first question, what changed during the quarter? The answer is we saw global economic conditions significantly worsen and our customers responded in realtime by adjusting their budgets.

Specifically, the vast majority of the shortfall in our Q1 revenue was the result of delays in deal closing and we now assume that our ability to convert our pipeline will be far more strained over the course of 2009 than we had previously planned, particularly for large deals that will require C-level and board approval in this environment. To provide more color, the delays were widespread across geographies and business lines with our cable and satellite business being the only notable exception where we actually out performed our expectations.

Europe continues to be particularly weak for us as we are more dependent on project revenues there as compared to North America where we have large multi-year services deals. Additionally, we are seeing a slight reduction in development work of existing customers as discretionary spending is cut back.

While a more modest component of our lowered revenue outlook it is further evident that customers are really tightening their belts. We also saw a slightly greater than expected decline in our directory business mainly due to foreign exchange.

In response to the second question of will this get worse, the answer is we don't know for certain, but expect it will. We are now internally planning our cost structure for a year in which sales cycle may lengthen farther and revenue could be down as much as 9% to 12% relative to fiscal year 2008 with currency effects constituting roughly 3% of the decline.

We are not providing full year guidance because it would suggest the precision in forecasting that we simply do not have. That being said, the communications industry remains in relatively sound financial condition and we have a strong recurring revenue stream of managed services and ongoing support agreements comprising roughly 70% of our total revenue.

As such, we expect that the sequential changes in revenue will become smaller as the year progresses, and revenue level more closely approach our core recurring base. As for the last question, how is Amdocs responding? Well, we are using every tool we have. From a tactical standpoint we have proactively adjusted our workforce relative to the demand outlook, particularly in higher cost geographies and restricted our discretionary spending in areas like travel and marketing. We are managing the business with cash flow, margins and capital preservation as priorities.

Strategically, we continue to move forward with our four key growth drivers - cable, managed services, emerging markets, and OSS; areas where spending environments remain more favorable than in the industry at large and should, therefore, drive market share gains for Amdocs over the next year. Additionally, we expect there will be opportunities to expand our leadership with M&A over the course of this downturn.

Cash is a strategic asset and given the strength of our balance sheet, we are in a unique position to pursue initiatives when other firms are facing more challenging financial prospects. Summing up, as we navigate through these challenging economic conditions, it is our view that Amdocs has every opportunity to emerge from this crisis with a stronger franchise and competitive position even though it will certainly be choppy along the way.

Looking back in history, that is precisely what happened over the course of the 2001-2003 downturn when Amdocs' strong recurring base of business proved more resilient than the pack. As we did then, our strategy is to utilize our financial strength to continue investing in R&D, to acquire key businesses, to expand our managed services presence.

Let me now turn the call over to Tamar for the financial review.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Thank you, Dov. Our first quarter revenue was $754 million representing growth of 1.6% over last year's first quarter. Sequentially, revenue decreased by $71 million with approximately $30 million of the decrease attributable to foreign exchange effect. Our non-GAAP EPS, which excludes acquisition related costs, restructuring charges and equity-based compensation expense net of the related tax effect, was $0.55 per diluted share. GAAP EPS was $0.35 per diluted share.

I will spend a minute on a few non-GAAP items. License revenue increased to $44.6 million this quarter driven by percentage of completion accounting on implementation projects, subsequent license fees and some point solutions. Given the slower pace of new signings this quarter and expected decline in revenue next quarter, we believe that license revenue will decline in Q2.

Operating margin was 18%, up 10 basis points sequentially and 30 basis points over the prior year. The improvement was driven primarily by the cost control efforts that Dov described previously. While it still remains our goal to maintain margins at around this level, this will be difficult if the revenue comes towards the bottom end of our Q2 range and in this scenario we would likely have to take further cost actions and that will take time to implement.

Other income improved from Q4 primarily due to much smaller foreign exchange impact as our enhanced hedging strategy took hold. Also in the quarter, we repurchased $100 million of our $450 million convertible notes, financed by tapping our credit facility. This resulted in a $1.8 million pre-tax gain in the quarter net of fees within other income.

We anticipate that the remaining $350 million of the converts will be put to the Company on March 15 and we are likely to settle in cash although we have the option to use shares as well. If these are put to us and we settle in cash, we will no longer need to include the if-converted shares in our fully diluted share count. You may want to consider this in your models for Q3 and Q4, but the impact either way on Q2 EPS is immaterial.

The effective tax rate in Q4 was 15.7%, slightly above our guidance of 13% to 15%. We continue to believe the 13% to 15% range is reasonable for fiscal 2009, but quarterly rates will fluctuate. Free cash flow in the quarter was $111 million, up 88% over the prior year. Included in the calculation of this number was approximately $30 million in net CapEx, down 12% over the prior year.

Free cash flow in Q2 will be impacted by annual bonus payments which are traditionally made in January. Absent these payments, estimated to be approximately $50 million, free cash flow in Q2 is expected to be similar to Q1. DSO at the end of the quarter was 65 days, up from 63 days last quarter and similar to what we saw last year.

The current balance in deferred revenue is $150 million at the end of Q1 and unbilled accounts receivable was $55 million. The decrease in deferred revenue is a reflection of the more muted deal activity we saw in the quarter. Additionally, as previously disclosed, we received a large up-front payment in Q4 of 2008 and part of the decline in the deferred revenue in Q1 was a natural reversal of this payment as we began working on the project.

Our 12-month backlog, which includes contracts, estimated revenue from managed services contracts, letters of intent, maintenance and estimated ongoing support activities was $2.4 billion at the end of the quarter.

Looking forward, our estimates for the second quarter of fiscal 2009 are for revenue of approximately $700 million to $720 million, and non-GAAP EPS of $0.47 to $0.51 excluding the effect of acquisition-related charges and excluding equity-based compensation expense of approximately $0.05 to $0.06 per share net of related tax effects. We expect fully diluted GAAP EPS of $0.34 to $0.39.

Our EPS guidance for Q2 is based on a fully diluted share count estimate of approximately 210 million shares. Now let me turn the call back over to Dov.

Dov Baharav - *Amdocs Limited - President, CEO*

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

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, the question-and-answer session will be conducted electronically. (Operator Instructions). We'll take our first question from Ashwin Shirvaikar with Citi.

Ashwin Shirvaikar - *Citigroup - Analyst*

Hi. My question is back in 2002 when your demand evaporated, your earnings and cash flow went down worse than your revenues. So far this time that does not seem to be happening, so my question is how much leeway do you have in your cost structure and, Tamar, you did allude to this a little bit, to withstand another couple of quarters of 5% to 10% sequential revenue declines?

Dov Baharav - *Amdocs Limited - President, CEO*

Let me try to take it, Ashwin. Well, I think that we were prepared for this crisis better than in 2002. In 2002 it happened as a complete surprise to us, while this time the global downturn started long ago, so we expected it to get to the telco. As a result of it starting in September we start taking proactive activities, so we were able to maintain the profitability, and there is room moving forward to continue and adjust the expenses to the level of revenue.

So we believe in principle in our ability to protect profitability and continue to generate cash even in a downturn environment, and actually we didn't give guidance in the numbers here, because it will actually convey precision that we do not have in this uncertain environment. The only thing we said is that we, when we are planning our expenses, we take a 9% to 10% reduction of 2009 and comparison to 2008 including --

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Between 9% to 12%.

Dov Baharav - *Amdocs Limited - President, CEO*

Between 9% to 12%. Between 2009 to 2008, so that actually suggests, if at all, smaller reduction of the revenue in the second half.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. And question on deferred revenue. It has gone down from September to December in most years. Did that this year also but the magnitude was greater, and past years it has picked back up in the March quarter, so my question is why was there a sharper drop-off this quarter and do you expect a similar March quarter recovery?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

So part of the deferred revenue had to do with the up-front large payments we have received last quarter and the fact we embarked on the work and recognized revenue against that, and some of it was related to other projects. Unfortunately when less projects, less new projects are getting signed and filling that balance, this reduction is not necessarily recoverable, so deferred revenue in general is a balance that may fluctuate from quarter to quarter, and we're not guiding because it is not certain exactly what the balance will be, but I would not count on necessarily recovery in the March quarter.

Ashwin Shirvaikar - *Citigroup - Analyst*

Okay. Got it. Thank you.

Operator

We'll take our next question from Tom Roderick with Thomas Weisel Partners.

Tom Roderick - *Thomas Weisel Partners - Analyst*

Hi. Good afternoon. Thank you.

Dov and Tamar, when you think about visibility, obviously, there is a big portion of your business that is managed services and then there is this portion that is related to projects. How do you think about visibility going into next quarter? What gets impaired in terms of what was impaired this last quarter in terms of the number of project delays, what are you anticipating for project delays in the next quarter, and what gives you the comfort with -- following the challenges you had this past quarter that you can still hit the $700 million to $720 million that you laid out there for guidance?

Dov Baharav - *Amdocs Limited - President, CEO*

Well, one of the methodologies in the practices that we are a very proud of is the fact that we managed the Company in very simple ways, that is to say bottom up. We collect all the projections from the client business executive, talking to the customer, on day-to-day basis, and that actually comprise our projection with some adjustment.

However, in the first quarter what happened is that we were disappointed, that is to say our client business executives are dealing with directors and vice president with the customers where we got promises and guarantees from the customers that is this will be signed.

However, when the deal got to the CEO level, to the board level and other, there were delays, and which surprised the people in the customer and our own client business executives. And so that actually, and that plus all the delays caused actually the, caused us to miss the numbers in Q1. So when we prepare the Q2, we adopted, I would say, additional layer to our regular practice of forecasting by adding more conservative corporate, conservative haircut.

And by that actually taking the internal projection of all the people and apply some conservatism based on some estimates and criteria and as a result of it we think that now given the visibility that we're in, given the amount of delays we have seen so far, given what we see in the marketplace, we feel more comfortable with the projections for Q2 than we think that the probability of meeting it is much higher than last quarter.

Tom Roderick - *Thomas Weisel Partners - Analyst*

Great. Thank you. Just one brief follow-on, if I could. On the issue of backlog, particularly given the challenges in the top line, backlog is hanging in there pretty nicely.

How does this happen? Can you explain the dynamics of what's holding the backlog number up there at a relatively consistent level for right now, and how does the backlog number adjust for contracts that have been signed but perhaps are taking longer to implement or deploy or even get started? How do you think about those dynamics in the context of backlog? Thank you.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Backlog is comprised mainly of the layer of revenue that is the managed service layer and the recurring layer, meaning the 70% as we referred to. It also includes signed projects based on an estimation of how we will recognize the project based on the planned execution. And we reported a 12-month backlog, so by definition there is some kind of a judgment of how this project will be recognized.

But this is, given the fact that we have signed also within Q1 new deals, for example, of managed services that are adding to the backlog as a securing activities through longer-term contracts, that helped to us maintain a relative strong backlog even though we have seen a more sharp drop in the revenue.

Tom Roderick - *Thomas Weisel Partners - Analyst*

Okay. That's helpful. Thank you.

Operator

We'll take our next question from Jason Kupferberg with UBS.

Jason Kupferberg - *UBS - Analyst*

Thanks, and good afternoon, guys. I had a question on the margins. I know you mentioned that you intend to manage the cost structure as if revenues could be down as much as 9% to 12% this fiscal year.

Can you help us think through what this implies from a margin perspective for the year because if I am not mistaken the last quarter your target was to have full year fiscal '09 non-GAAP EBIT margins in the neighborhood of where you were for the fourth quarter fiscal '08, i.e., about 17.9% or so?

How should we think about that because, obviously, you did a little better than you thought in the margin side in the first quarter of fiscal '09, so how should we think about the margin potential for the full year of fiscal '09?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

When we're looking at the potential outcome for the next quarter, we understand, obviously, that we may continue the need to cut costs farther, and we're tracking that very closely in order to protect profitability as much as possible.

As we go lower and lower, obviously, the challenge is quite tough to maintain the 18% that we guided as our target in November, and so I would not commit necessarily this 18% is viable also in the scenario of a further significant decrease in the revenue, but we're doing our utmost, obviously, to achieve the higher margin that is targeting to that level.

Jason Kupferberg - *UBS - Analyst*

Okay. And then can you talk about in the geographies, I know you mentioned briefly Europe you have a lot more project-based work there and obviously down really substantially as was Asia Pac, and I am assuming some of this is currency related. So it would be helpful, first of all, if you could tell us what the constant currency quarter-over-quarter growth rates in Europe and Asia Pac were and maybe give a little more texture around what exactly happened in those regions because obviously being down in the range of 25% or 30% sequentially is pretty amazing.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

What we have seen in Europe is as you said a significant decline. It has to do with the fact that in Europe, unlike North America where we have very large managed service deals and a large customer base with recurring revenue, in Europe our revenue has historically been more vulnerable to the pace of new projects and the fact we have completed some projects and did not have enough pipeline closed of new projects coming in caused significant drop in the Europe region revenues.

So out of this $40 million drop that we have seen in Europe, about a quarter has to do with foreign exchange headwind, but about three quarters has to do with the constant currency base reduction. What we see in the rest of the world, yes, we have seen some headwinds from foreign exchange, for example, in Australia on the top line, but most of the APAC region, other than Australia, is actually dominated in U.S. dollar.

And in total when we're looking on emerging markets activities, we have actually seen also there some delays in the closure of projects, but revenue being able to hold much stronger than obviously what we have seen in Europe.

Jason Kupferberg - *UBS - Analyst*

One quick clarification. The managed services business, if we are thinking about the potential for a 9% to 12% overall revenue decline this fiscal year, would that mean the managed service business, that 40% of your revenue base in and of I itself would be down year-over-year? Is there any way we can think about that versus your project base business?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

By definition the managed services activity is much less vulnerable. However, not all of the 40% is contractually committed for, so we may see in the edges some changes in the level, for example, of the people doing the development around legacy, but that's marginal relative to the more sensitivity we have on the top layer that we consider the 30% layer that we consider project revenue, where it is much more impacted by the downward cycle.

Dov Baharav - *Amdocs Limited - President, CEO*

So we expect in proportion of the managed services to be higher at the end of the year.

Jason Kupferberg - *UBS - Analyst*

Okay. Thank you very much.

Dov Baharav - *Amdocs Limited - President, CEO*

Thank you, Jason.

Operator

We'll take our next question from Julio Quinteros with Goldman Sachs.

Julio Quinteros - *Goldman Sachs - Analyst*

Great. Real quickly on the comments you made about the outperformance of cable and wireless, how much of that is from Comcast and where are we at in the ramp of that contract?

Dov Baharav - *Amdocs Limited - President, CEO*

Overall there are no questions that Comcast deal where we won a strategic bidding contract gave us a lot of credibility in the industry, and that was, if you couple it with the announcement that we had today, of the substantial win with Rogers Communications, we are performing there a full transformation of cable, wireless, wireline activity to create one Rogers.

Actually that's, this, two substantial contracts positions us as leading vendor partner to the cable companies with the ability to provide them the quadruple play. So Rogers is delivering in Canada and in the cable area and even the wireless, and Comcast is delivering in the United States, and we are -- we announced last quarter a more deals in the cable area. So as we said the activity, we saw the customers actually was more than what we expected, and we expect additional excessive growth in 2009.

Julio Quinteros - *Goldman Sachs - Analyst*

Great. Thanks. Just coming back as a follow-up on the service provider spending, can you just go back through some of the comments? You walked through a lot of different variable there is in terms of what was changing on the margin as far as server provider spending was concerned.

Can you give us those points again? It sounded like there was less development work and a couple of other factors that were part of the surprise on the numbers there.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Actually most of the changes we have seen as the quarter progressed was in the pace of commitments to new projects.

Julio Quinteros - *Goldman Sachs - Analyst*

Okay.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Yes, there was small amount of changes in development around the existing implementations or ongoing support, but that was the smaller part of the reason for the decline surprises.

Julio Quinteros - *Goldman Sachs - Analyst*

Got it. Okay. And then just lastly for me, the reductions in cost containment efforts and some of the reduction in workforce, did you quantify how much that is supposed to contribute to cost savings as we go forward?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

We did not quantify it specifically, but as you can see already Q1 versus the Q4 you see about $60 million decline in the overall costs of the Company, a lot of that is contributed by this cost initiative that have taken place.

Julio Quinteros - *Goldman Sachs - Analyst*

Great. Thank you.

Dov Baharav - *Amdocs Limited - President, CEO*

Thank you very much, Julio.

Operator

We'll take our next question from Tal Liani from Banc of America-Merrill Lynch.

Tal Liani - *BAS-ML - Analyst*

Hello, Banc of America Securities-Merrill Lynch to be precise.

Dov Baharav - *Amdocs Limited - President, CEO*

(laughter).

Tal Liani - *BAS-ML - Analyst*

I have two questions. First, we went when I say we, I mean our estimates, we went from roughly give or take 10% growth estimate for '09 in a short period of time we're now at minus 10% if I take the midpoint of your guidance, so there is a 20% swing, and the question is how low could it go?

When you look -- I am trying to understand what is recurring, of your revenues, what is the managed services you're giving, what's the percentage of revenues? And then try to build on top of it other things that are likely to come back, and just to understand what's contractually going to be recurring and what you think could be recurring and so on and so forth to understand that the downside risk if it is going to be worse than you expect, so that's one thing.

Second thing is I want to go back to your, you filed recently your K for the year, and there I think you say customer number one, which we know is AT&T, I think from memory it is up something like 42%, and I think Sprint is down 15% year-over-year. I am trying to understand whether there is any substantial risk with this 40% growth in AT&T or not.

Could there be delays in projects? Could we see certain projects are supposed to be rolled out over three years, suddenly it is being rolled out over five years, just to understand again the commitment of the customer to roll it out on the original timeframe or in the original timeframe.

Dov Baharav - *Amdocs Limited - President, CEO*

So, Tal, thank you for the question. Let me start with the first one, how low it can go. We indicated about 70% of our revenue is recurring revenues, say about 40% is for managed services and 30% from just recurring revenue, and the rest of the revenue new projects. No question that the 30% of the new projects is the most vulnerable portion of the revenue of the Company. That's what happens.

Immediately we see that when the environment is changing, and there are delays, and we, and less projects are in the marketplace, and the projects that are discussed are getting in the slower pace, and this 30% is a hurt. And it is clear also that the more you get to the -- the closer you get to the 70%, the slower is the pace of revenue, the potential revenue reduction. Now, we feel very comfortable that the 40% of managed services is relatively, highly secure.

We feel that the 30%, and you can take the 2008 numbers and calculate what is the 40% and what is the 30%, and the 30% of the recurring revenue is also with high probability. No, it is not guaranteed because if the carriers will stop doing business and disappear off of the revenue, of course, they will find way not to pay us.

However, we feel that the 70% is highly, highly, I would say, assured or we feel very comfortable with it because of the following wisdom. First of all, the telecommunications industry will continue to operate. We will -- people will continue to talk over the phone. People will continue to use the Internet. People will continue to use wireless and to watch TV.

So maybe there is some contraction, but overall the industry will continue to operate. Secondly, we serve the largest and the strongest service providers on this planet. So the AT&T of the world, the Comcasts of the world, the Bell Canada, it's Rogers, it's TMO, it's Vodafone, it is Deutsche Telekom, it's Telstra Australia, they will weather the storm and they might suffer here and there, but they're going to continue to do their business.

More than that, we serve them with managed services, and some of them with managed services contracts that are long-term, that they cannot breach right now. More than that we serve them in the mission-critical areas. That is to say billing operations, supporting the CRM, they cannot stop the billing.

We cannot stop the support of the customer. So as a result of it we feel that the 70% of the managed services and the recurring revenue which is generated from a largest service providers on this planet where we serve them in managed services and mission-critical systems is relatively with high probability. So we believe that to some extent this area is well protected. More than that, from the 30%, the additional 30% that is left there from new projects, they won't disappear because still there is a lot of competition in the marketplace, and they need to compete, and they need to acquire new capabilities.

They need to create their new digital lifestyle. They need to -- the cable company needs to introduce the quadruple play, and they also have this idea that in such crisis the strong become stronger. So they would like, some of them would like to invest, and so we will capture some of the revenue in this area. So we believe that, yes, we might lose additional revenue, but we will see slower pace of reducing revenue in the second half of the year.

Now, to the next question of AT&T, that is maybe the largest customer, and what is the risk there? I would say what characterizes Amdocs is they work with the largest service providers including AT&T, including Sprint, including T-Mobile, including Bell Canada, including Deutsche Telekom and others. The point is that we first of all see stability in North America, and the relationships that we have with them, the trust that we have created, the value that we bring to them on day-to-day basis actually enable us to come with new ideas how we can help them to cope with this crisis, how we help them to reduce their expenses, and by that increasing our revenue.

And that is what we've done in 2008 and we are doing it as we speak. So to some extent I feel more comfortable that with will be successful with our large customers and rather than acquiring substantial new customers in the coming few quarters.

Tal Liani - *BAS-ML - Analyst*

Last point I wanted to ask you is about the M&A activity. You mentioned it again today. You have been mentioning it for about a year that you're going to take the current environment as an opportunity to expand maybe via M&A.

So I remember you saying it maybe for about a year, maybe I am wrong, but around a year. Why didn't it happen so far just to understand what are the give and take of the inputs in your decision process? Second, are you trying to expand into new area completely or are you trying to cement something you already have just with other features, and are you open to a big acquisition or are you open to just small acquisitions of kind of features you're missing?

Dov Baharav - *Amdocs Limited - President, CEO*

Well, first of all, you're right. I am talking about M&A for long time. However, I said all the time we are committed to bring value to the shareholders and create value to the shareholders and not just as I said will do some M&A, so we'll do it no matter what.

I must admit, we have not found the right target and there was no -- the right opportunity that matured that enabled us to create value to the shareholders. So we will not do anything that we don't find it creating value to the shareholders.

So moving forward, and I am not so sorry that we have not done it given the market condition right now, looking at the valuation of companies these days, and so maybe today to do the acquisition is better than six months ago or a year ago.

Tal Liani - *BAS-ML - Analyst*

Right.

Dov Baharav - *Amdocs Limited - President, CEO*

So we accelerate our activity in this regard, and we'll find targets that on one end will augment our line of products so enable us to have stronger portfolio, and maybe help us to provide better services, and on top of that, or expand our services in other areas, and, of course, when looking we'll do something that will make sense taking into consideration the cash that we have on one hand, the risk that we undertake, and how we can bring value to the shareholders.

Operator

(Operator Instructions). We'll go next to Scott Sutherland with Wedbush Securities.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Great. Thank you. Good afternoon.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

Hi, Scott.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

So I had a question on your managed services. I think you've been running around 40% of revenue, and I know you're rounding there, but kind of tell us how that may be is higher than the low 40s now because your overall revenue base is down, if that's more stable I would have expected to have moved up from the 40% comment you said last quarter, so did it grow, did it shrink a little bit, has it been relatively flat? That's my first question.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

As we said when we are talking about the 40% and 30% layer, it is around a number to give you a flavor of the recurring level of revenue and the visibility we have.

We have not seen any significant change in the existing managed service deals, and we have signed new managed service deals. So as we move during this year actually we see managed services as one of the potential areas in which we can expand business given the immediate cost savings that can generate to our customers.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

I am just trying to get at we talked about the future and what you see in managed services, but what happened this quarter? Was it relatively flat, was it slightly down, slightly up as far as a revenue component?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

I don't think as a percentage of revenue it has changed that much. On the one hand, we completed some activities around existing managed service deals and on the other end we signed new ones, but they do not have yet a full quarter impact.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

So it is about flat on a percentage basis?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

On a percentage basis it is rounding to the 40%, again maybe 1% up or down. I am not sure.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

I am trying to think on an absolute basis, is it up or down? If it is flat or up a little bit on a percentage basis, that would be down on a sequential basis overall.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

I am not sure I have the exact absolute number.

Scott Sutherland - *Wedbush Morgan Securities - Analyst*

Maybe we can follow up on that later. II want to see how it held up this quarter.

My second question is when you look at the cable market, you've won some market share there and got some good deals with Comcast, and you have looking at subscriber growth, that's relatively flat, but more people are adding more services. Are you seeing growth in that fashion from cable that there is just more services in quad playing cable or are you seeing more market share gains driving your growth there?

Dov Baharav - *Amdocs Limited - President, CEO*

Our revenue from the cable line of business is mainly providing services to our customers and even in some cases paid by the bills, but I would say the main factors that actually affected the volume of the revenue is how much license, how much services we sell to them and that is -- and that is affected, or maybe I would say driven by the need of the service providers in the cable satellite industry to be more competitive, to provide quadruple play, the data, voice-over IP and being creative these days.

And that's, we believe that will continue to be the driver, and this industry has to go through evolution, and we think that the growth drivers that Amdocs built over the last few years will help us out, and as we said before we have the OSS. It is a new area for Amdocs where we announced that we had several deals in this regard. We bought Jacobs Rimell, which is an OSS Company, a full cable company. So here we see that generates revenue for us in the cable industry.

On top of it we strengthened the managed services, and we believe we will see managed services in this industry as well, that will help us to drive. On top of it, we see the digital lifestyle, our activity in promoting online experience as another driver in this industry. So the, our position, CES, customer experience systems, with the BSS, actually strengthened by the OSS, the managed services, the digital lifestyle, all that actually creating for us additional driver to grow in the cable industry.

Operator

We'll take our next question from Shyam Patil with Raymond James.

Shyam Patil - *Raymond James & Associates - Analyst*

Hi. Thank you. Dov, you mentioned earlier the 30% of the non-new deal business was considered recurring, and just wanted to get a sense how much of that piece is maintenance, and how much of it is ongoing support which potentially could get cut in this environment?

Dov Baharav - *Amdocs Limited - President, CEO*

I would say, again, 40% is managed services, 30% is recurring revenue, and the rest of it, the residual are new project. The 30% of the recurring revenue includes maintenance, yes, that we are getting in ongoing support. Now, the vast majority of it is ongoing support that our services are, and, yes, we say it is not bullet proof. It is not 100% guaranteed.

However, since it is mission-critical, since it serves the main element that helps them to compete, we believe that it is a less relevant. So we think that out of the residual of the new project we are not going to lose only 30%, we will lose part of it, and even if we lose even something in the recurring revenue, that will be compensated by the new projects that we still continue to win.

Shyam Patil - *Raymond James & Associates - Analyst*

Okay. You also commented in the script for expense planning purposes you're assuming 9% to 12% revenue growth. Under that scenario if you look at this quarter, you spent about $618 million in OpEx. Is that the right dollar amount you can maintain for the next few quarters or can that decline further and if so, what range should we be thinking about there?

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Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

We assume that if the situation continues to deteriorate and revenue will go down, we will take further cost cutting initiatives, so first of all some of the things we've already done did not have yet a full quarter impact within Q1.

So this will generate more savings as we go into Q2 and helping to mitigate for the further reduction in revenue we're expecting. In addition to that, yes, if people will see further deterioration in the revenue to take further actions that will help us to protect profitability.

Operator

We'll take our next question from Lauren Ye with JPMorgan.

Lauren Ye - *JPMorgan - Analyst*

Hi. This is Lauren for Sterling Auty. I wanted to understand the cost initiative a little better once again. Can you talk about specifically what areas you cut this quarter to cut that $60 million, and then going forward what exactly the areas of you're going to continue to cut? And I guess you just mentioned about there, you should see more impact or more cost-cutting from some of the initiatives you have already done. What would those be?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

First of all, naturally as a Company driving about 95% of its revenue from services that are done by people, when we see contraction in the level of services, and this quarter we've already seen contraction in the level of services from new projects, especially, we have taken a cap on the number of people, mainly in the high cost regions, so some of it is in change of mix and some of it is absolute reduction.

In addition to that we have placed very strict controls around the items such as travel, items such as marketing expenses, cutback on some discretionary areas, and when I am saying that not necessarily we have seen the full impact of that in Q1, it is because of some of the reduction in force was done during Q1, and yet to happen during Q2, so the full quarter impact is yet to happen.

Lauren Ye - *JPMorgan - Analyst*

Okay. Great.

And then I just wanted to understand a little better about this backlog and maybe a better way for me to ask it is just looking towards next quarter. Your backlog, this quarter was relatively held in, I guess, compared to revenue, but next quarter will you see -- do you think we'll see the same patterns where backlog will hold in a little better than revenue?

And I guess specifically if you are seeing contracts lengthen, how are those contracts exactly structured? Does it stay in your backlog and is that the reason for perhaps the revenue's discrepancy this quarter?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

So first of all we're not guiding to the backlog number for next quarter because that depends very specifically on the timing of signing new contracts, so this exact number is hard to predict.

Looking on the lengthening, actually what we referred to was mainly to the lengthening of the sales cycle, and that enables us to sign new projects rather than lengthening of existing projects even though it may happen that sometimes they also an existing project that is within backlog has some changes in timeline. But that currently and so far is not the main issue we have seen that caused the reduction in the revenue.

Operator

We'll take our next question from Shaul Eyal with Oppenheimer.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Thank you. Hi. Good afternoon. Two quick questions from my end. Tamar, I just want to clarify one thing. The foreign exchange impact this quarter out of the $40 million was that $10 million?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

The foreign exchange impact, out of the $71 million reduction in revenue Q1 versus Q4, about $30 million was FX headwind and about $40 million on the constant currency basis.

Shaul Eyal - *Oppenheimer & Co. - Analyst*

Got it. All right. Thank you for that.

On the cable and satellite segments, obviously, you guys are doing quite well relative to the other segments. What do you think are the implications from DISH extending their contract for a year, only a year maybe we should say, with CSG, how could that impact your business down the road?

Dov Baharav - *Amdocs Limited - President, CEO*

Well, it looks like there is an opening there, and we have never hidden our intention to sell to DISH and to sell to Time-Warner and to sell to Cox and to sell to Charter, so we will try to sell to every potential customer.

The fact that we embarked on this large project with Rogers and the strategic billing with Comcast actually signals to the industry that there is a solution for the quadruple play for the new role for the cable and satellite companies. And I believe that every cable satellite company will consider Amdocs very seriously moving forward, and we intend to do every effort in order to win every opportunity available.

Operator

We'll take our next question from Daniel Meron with RBC Capital Markets.

Daniel Meron - *RBC Capital Markets - Analyst*

Hi, Dov, and Tamar. Can you give us a little bit more color on what kind of deals you expect to come in this period? Is there any characteristics that encompasses all of those? On the other side, what kind of deal you don't expect as it is related to the health of the carrier or is it just lack of urgency on their part? Thank you.

Dov Baharav - *Amdocs Limited - President, CEO*

We believe that we are well equipped to offer meaningful and product projects solutions to our customers in this very special time. So first of all I would say given the pressure on revenue and I would say cutting expenses is might be one of the first priorities, and the managed services maybe is the best tool right now for this market, and we see an increased demand for managed services.

We -- as you know, we established a special unit to actually promote the managed services, and we had wins this quarter. And we see additional substantial potential moving forward of managed services for the rest of the year, and we believe that we are able to close the deal in this environment just because of this weak environment. So that will be a major driver to our activity in 2009. On top of it, the cable, people maybe won't go to restaurants, but they watch TV, and maybe consume more services by cable company, so we believe that we will see growth in the cable activity.

Emerging markets, we think emerging markets will be hurt less, and still there is growth in number of subscribers, and they mature there and they are moving from initial system to more mature system with more competition, so we expect more activity in emerging markets. We are building our presence there. We see substantial traction, and we believe we will see growth in this area.

The OSS might be also an area that we'll see activity, and I would say that the digital lifestyle, all of this online activity content, digital services, and other might represent another growth area. So overall we think that we have several growth drivers that will help us to offset the, some of the negative trends of the industry in 2009.

Daniel Meron - *RBC Capital Markets - Analyst*

Thank you. And then on the strategic picture, you mentioned that you see yourself improving your positioning compared to your peers. Can you give a little bit more color on that as far as are you seeing more weakness from the larger players or lowering their focus on this segment like Ericsson or others, or do you see more weakness coming from the system integrators like [inaudible] that, obviously, blew up or regional players, small ones in eastern Europe or China or anywhere else? Can you give us a little bit more color on where you see your positioning improving?

Dov Baharav - *Amdocs Limited - President, CEO*

Well, I think that if we take 2002 as an example, we got into the crisis of 2002 competing with many other vendors. In 2004, I think that the number of competitors has been reduced substantially, and maybe was cut by half or even more. So when there is a storm, I would say the small guys suffer more, and the people with less quality offering cannot make it.

So we believe that our way of comprehensive substantially offering of products and services that can bring value to the customers easing in cutting their expenses or making them more competitive. I think that will help us. So what we can see right now from a competitive point of view, we see that the fact that we can provide them end-to-end solutions where we can guarantee the results, we can guarantee the delivery, on time, on budget, with the quality, with the references, that actually plays to how we see demand growing to our services.

So people stop believing in slogans, and they just new promises by new players in the market that will provide some magic solution. And this consolidating market, by the way, actually is controlled by large service providers where the CIO there are usually experienced people, and it is very difficult to sell them stories and some promises that have no basis, and are not founded on reality.

So in this environment we believe that we can gain market share, and given all our rich portfolio and now unique offering, we believe that we are gaining market share and we will continue to gain market share, and with the additional investment in R&D that we do today, and additional M&A that we do today, and with all of that we will emerge out of this quite stronger.

Operator

We'll take our next question from Karl Keirstead with Kaufman Brothers.

Karl Keirstead - *Kaufman Brothers - Analyst*

Yes, hi, good afternoon. It is certainly true that Amdocs is not the only IT vendor experiencing discretionary project cuts and bookings delays, but most of the other IT vendors are also admitting to pricing pressure in their respective industries and that's a subject that you haven't addressed yet on the call, and I am wondering if you could add a little bit of color as to the extent of pricing pressure you're seeing in yours? Thanks.

Dov Baharav - *Amdocs Limited - President, CEO*

Well, the reason we don't mention it because this is a very basic fact of life for us for the last five years. So the question is whether we have 5-atmosphere of pressure or 7-atmosphere pressure, it is difficult to differentiate. All the time we have price pressure.

The point is that we have unique offerings that enable us to offer cost performance and value to the customer that does not depend on the unit price. When we offer solution that is a unique combination of CRM and billing and OSS, the only company that offers a business support system and an operating support system integrated. That creates an offering that does not depend on the unit price, and when we combine it with consulting, and some business processes that enable the customer to generate the value, again, it is not unit price.

Nobody competes with us with business processes. There is no price for business process, so eventually the customer can evaluate the total cost of a solution with business processes that is provided to him. And there we think that we do not have too much competition, and as a result of it we believe that we can handle very well the price pressure.

Karl Keirstead - *Kaufman Brothers - Analyst*

Okay. Terrific. Just a quick follow-up for Tamar. Can you talk a little bit how you're going to protect your margins by potentially shifting your mix of employees on-site to offshore and give a little bit of update as to your offshore resource head counts? Thanks.

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

We continue to increase our offshore a number of employees on an ongoing basis, and definitely that's going to continue as a trend. The fact that we've increased our number of employees in India, for example, from about zero five years ago to almost 4,000 now is definitely major change in the mix of employees around the world.

In addition to the change of mix, obviously, one of the major contributors to the ability to adjust our cost structure is reducing the overall amount of the employees and aligning it to the level of activities on the top line as well as the reprioritizing and rationalizing some of the discretionary expenses that we have in terms of what are the right priorities in this environment.

You can see, for example, that the R&D expenses were relatively stable even though we reduced significantly the overall cost structure of the Company because we are very focused to do the cost cuttings while continuing to invest in the growth engines that will serve us the best Company when we this climate actually changes.

Operator

And ladies and gentlemen, we have time for one final question today and it does come from Larry Berlin with First Analysis.

Larry Berlin - *First Analysis Securities - Analyst*

The last, best for last. What's up with the [directories] you have seen a pretty significant drop of revenue there, and I thought it was pretty recurring and very domestic, so the foreign exchange sort of had a big effect on that?

Tamar Rapaport-Dagim - *Amdocs Limited - CFO*

So the directory industry in general is facing pressure for several quarters now, and what we have seen in this business is the end of several projects that are not followed up by new ones. We've expected a step function decline in Q1.

It was a bit higher than what expected regionally, especially due to a foreign exchange. And going forward actually we believe this reduction will stabilize as we have a very high portion out of the directory business that is under managed services arrangements.

Larry Berlin - *First Analysis Securities - Analyst*

Okay. Just one other thing. I was curious what was up with the open market efforts in that division?

Dov Baharav - *Amdocs Limited - President, CEO*

Well, as I said, we are quite excited about the digital lifestyle and a very important part of it is the open market. Open market is a unique activity of the Company where we actually enable content providers and maybe the (inaudible) of content providers to sell content over wireless and actually through all the carriers in North America. So we service the hub, and more than one of the largest in the marketplace.

We see substantial growth. We see profitability, and to some extent it might serve in the future we can expand it farther to be maybe have not only for a certain type of content for wireless, but maybe expand it to a more types of content and maybe make it more meaningful for us. So this is an area that we focus on and we intend to leverage in the future as part of our digital lifestyle and overall we expect substantial revenue growth in this area.

Operator

Ladies and gentlemen, that does conclude today's question-and-answer session. At this time, I would like it turn the call back over to the Company for any closing remarks.

Dov Baharav - *Amdocs Limited - President, CEO*

We appreciate that investing in this market requires patience as growth expectations slow. However, it is our commitment to focus on profitability, cash flow, and shareholder value creating initiatives to deliver an Amdocs that is even stronger when the economy regains momentum. Thank you, and good night.

Operator

This does conclude today's conference call. We appreciate your participation. You may disconnect at this time.
