

MICROTUNE INC
Form 4
December 02, 2010

FORM 4

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

OMB APPROVAL

OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
LEVECCHIO ANTHONY J

(Last) (First) (Middle)
2201 TENTH STREET
(Street)
PLANO, TX 75074
(City) (State) (Zip)

2. Issuer Name and Ticker or Trading Symbol
MICROTUNE INC [TUNE]

3. Date of Earliest Transaction
(Month/Day/Year)
11/30/2010

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

Director 10% Owner
 Officer (give title below) Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
 Form filed by One Reporting Person
 Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price
							\$
Common Stock	11/30/2010		D		26,050	D	2.92
							0
							<u>(1)</u>

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474
(9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned (e.g., puts, calls, warrants, options, convertible securities)

Edgar Filing: MICROTUNE INC - Form 4

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	Amount or Number of Shares
Restricted Stock Units	(2)	11/30/2010		D	14,000	(6) (6)	Common Stock	14,000
Stock Options (right to buy)	(6)	11/30/2010		D	134,688	(4) (6)	Common Stock	134,688

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
LEVECCHIO ANTHONY J 2201 TENTH STREET PLANO, TX 75074		X		

Signatures

/s/ Phillip D. Peterson, by power of attorney 12/02/2010

__Signature of Reporting Person Date

Explanation of Responses:

- * If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).
- ** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).
- (1) Disposed of pursuant to the Agreement and Plan of Merger between Issuer, Zoran Corporation ("Zoran") and Maple Acquisition Corp. dated September 7, 2010 (the "Merger Agreement"), in exchange for \$2.92 per share in cash.
- (2) Each restricted stock unit represents a contingent right to receive one share of Microtune common stock.
- (3) Pursuant to the Merger Agreement, the restricted stock units were cancelled in exchange for \$2.92 per share in cash (\$40,880.00).
- (4) Pursuant to the Merger Agreement, the options vested in full immediately prior to the effectiveness of the merger.
- (5) Pursuant to the Merger Agreement, the options were cancelled upon the effectiveness of the merger in exchange for a cash payment of \$4,000.00, which represents the excess of \$2.92 over the per share exercise price of the option.
- (6) Please reference the Issuer's latest proxy statement.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure. Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. million, from \$2.2 million for the nine months ended September 30, 2005. The increase in interest and investment income is a result of a significant increase in our cash, cash equivalents, and short-term investment balances between periods, which is primarily the result of the cash proceeds received from the sale of the GSS Business in December 2005.

Edgar Filing: MICROTUNE INC - Form 4

Income Tax Provision. Income tax provision for the: (i) three months ended September 30, 2006 was \$9.4 million, or an effective income tax rate of 35%, compared to an income tax provision of \$8.3 million, or an effective income tax rate of 36% for the three months ended September 30, 2005; and (ii) nine months ended September 30, 2006 was \$28.4 million, or an estimated annual effective income tax rate of 37%, compared to an income tax provision of \$23.9 million, or an estimated annual effective income tax rate of 36% for the nine months ended September 30, 2005. The decrease in the effective income tax rate for the third quarter of 2006 is primarily due to certain tax benefits being realized during the quarter. The increase in the effective income tax rate for the nine months ended September 30, 2006 over the comparable period in 2005 is primarily due to: (i) an increase in the state effective tax rate as a result of a reduction in 2006 of benefits received from a state incentive program; and (ii) recognition of certain tax benefits during the first half of 2005 that did not recur in the first half of 2006. For the full year of 2006, we estimate that our overall effective income tax rate will range between 36% and 37%, and beyond that in the near term, we expect our effective income tax rate to approximate our historical effective income tax rates of between 37% and 39%.

Table of Contents

As of September 30, 2006, our \$34.0 million of net deferred income tax assets represented approximately 5% of total assets. We continue to believe that sufficient taxable income will be generated in the future in order to realize the benefit of these net deferred income tax assets. Our assumptions of future profitable operations are supported by our strong operating performances over the last several years.

Discontinued Operations. As discussed above, as a result of the sale of the GSS and plaNet businesses in December 2005, the GSS and plaNet businesses have been reflected as discontinued operations in our results of operations for all periods presented.

During the third quarter of 2006, we made a \$6.0 million payment to Comverse related to the settlement of a dispute over a joint tax election associated with the sale of our GSS Business to Comverse in December 2005. This payment to Comverse was considered a reduction in the purchase price previously paid by Comverse, and thus is reflected as part of discontinued operations. This settlement payment had not been anticipated by us, and we do not expect any similar purchase price adjustments in future periods. The loss from discontinued operations (net of tax) of \$3.8 million, or \$0.08 per diluted share, in the third quarter of 2006 relates primarily to the after-tax impact of the \$6.0 million payment to Comverse.

Liquidity

Basis of Presentation. Cash flows have not been segregated between continuing operations and discontinued operations in the accompanying Condensed Consolidated Statements of Cash Flows. Therefore, all historical cash flow information presented below reflects the cash flow results from both continuing and discontinued operations.

Cash and Liquidity

As of September 30, 2006, our principal sources of liquidity included cash, cash equivalents, and short-term investments of \$414.9 million, compared to \$414.3 million as of June 30, 2006 and \$392.2 million as of December 31, 2005. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market risks. We have ready access to all of our cash, cash equivalents, and short-term investment balances.

In addition to the above sources of liquidity, we also have a five-year, \$100 million senior secured revolving credit facility (the 2004 Revolving Credit Facility) with a syndicate of U.S. financial institutions that expires in September 2009. The 2004 Revolving Credit Facility has a \$40 million sub-facility for standby and commercial letters of credit and a \$10 million sub-facility for same day advances. As of the date of this filing, we have made no borrowings under the 2004 Revolving Credit Facility. Our ability to borrow under the 2004 Revolving Credit Facility is subject to a limitation of total indebtedness based upon the results of consolidated leverage and interest coverage ratio calculations, and a minimum liquidity requirement. As of September 30, 2006, we were in compliance with the financial ratios and other covenants of the 2004 Revolving Credit Facility, and had the entire \$100 million available to us.

Cash Flows From Operating Activities

We calculate our cash flows from operating activities in accordance with accounting principles generally accepted in the U.S., beginning with net income, adding back the impact of non-cash items (e.g., depreciation, amortization, stock-based compensation, etc.), and then factoring in the impact of changes in working capital items. See our 2005 10-K for a description of the primary uses and sources of our cash flows from operating activities.

Table of Contents

Our 2005 and 2006 net cash flows from operating activities, broken out between operations and changes in working capital assets and liabilities, for the indicated periods are as follows (in thousands):

	Operations	Changes in Working Capital Assets and Liabilities	Net Cash Provided by Operating Activities Quarter Totals
Cash Flows from Operating Activities:			
2005:			
March 31(1)	\$ 25,147	\$ (6,282)	\$ 18,865
June 30 (1)	30,704	12,579	43,283
September 30	26,245	(1,533)	24,712
December 31 (2)	29,576	(13,862)	15,714
2006:			
March 31 (2)	25,872	(3,894)	21,978
June 30 (3)	29,358	9,393	38,751
September 30	31,489	(2,937)	28,552

- (1) Cash flows from operating activities for the first quarter of 2005 were negatively impacted by approximately \$9 million due to a key client delaying payment of an invoice until after quarter-end. This amount was subsequently paid in April 2005, which resulted in the payment of four monthly invoices by this client in the second quarter of 2005. The payment of the delayed invoice, along with a contract termination settlement and client bankruptcy settlement contributed approximately \$12 million to our cash flows from operating activities for the second quarter of 2005.
- (2) Cash flows from operating activities for the fourth quarter of 2005 were negatively impacted by approximately \$10 million due to a key client delaying payment of an invoice until after quarter-end. The first quarter of 2006 cash flows reflect three monthly invoice payments from this client.
- (3) Cash flows from operating activities for the second quarter of 2006 were positively impacted by favorable changes in working capital items during the quarter, primarily related to the reduction in the accounts receivable balance.

We believe the table presented above demonstrates our ability to consistently generate strong cash flows and the importance of managing our working capital items. As the table above illustrates, the operations portion of our cash flows from operating activities remains relatively consistent between periods. The variations in our net cash provided by operating activities is primarily the result of the changes in our working capital assets and liabilities related to our operations.

Significant fluctuations in key working capital items between September 30, 2006 and December 31, 2005 that impacted our cash flows from operating activities are as follows.

Billed Trade Accounts Receivable

Management of our billed trade accounts receivable is one of the primary factors in maintaining strong quarterly cash flows from operating activities. Our billed trade accounts receivable balance includes billings for several non-revenue items (primarily postage, sales tax, and deferred revenue items). As a result, we evaluate our performance in collecting our accounts receivable through our calculation of days billings outstanding (DBO) rather than a typical days sales outstanding (DSO) calculation. DBO is calculated based on the billings for the period (including non-revenue items) divided by the average monthly net trade accounts receivable balance for the period. Our target range for our DBO is 55-65 days.

Table of Contents

Our gross and net billed trade accounts receivable and related allowance for doubtful accounts receivable (Allowance) as of the end of the indicated periods, and our DBOs for the quarters then ended, are as follows (in thousands, except DBOs):

Quarter Ended	Gross	Allowance	Net Billed	DBO
2005:				
March 31	\$ 95,857	\$ (1,950)	\$ 93,907	57
June 30	91,224	(1,403)	89,821	60
September 30	95,775	(1,338)	94,437	60
December 31 (1)	106,136	(1,324)	104,812	61
2006:				
March 31 (2)	110,415	(1,008)	109,407	60
June 30 (3)	97,404	(1,059)	96,345	63
September 30 (3)	108,707	(1,143)	107,564	62

- (1) The increase in both the gross and net billed trade accounts receivable between September 30, 2005 and December 31, 2005 relates primarily to a key client delaying payment of approximately \$10 million until after quarter end, as noted above.
- (2) The increase in both the gross and net billed trade accounts receivable between December 31, 2005 and March 31, 2006 is a result of increased postage billings in the first quarter of 2006 and the timing of payments from certain clients.
- (3) The change in gross and net billed trade accounts receivable between March 31, 2006, June 30, 2006, and September 30, 2006 relates primarily to fluctuations in the timing of invoicing and payments from certain clients at or around each quarter end.

Other Current Assets

The decrease in other current assets from \$17.1 million as of December 31, 2005 to \$5.9 million as of September 30, 2006 primarily relates to:

The completion of the sale of our corporate aircraft in January 2006. As of December 31, 2005, other current assets included \$7.1 million related to the carrying value of the aircraft we purchased and sold in December 2005 in conjunction with the buyout of our operating lease. The proceeds from the sale were received in cash in the first quarter of 2006 and were reflected in cash flows from investing activities as discussed below; and

The final purchase price for the GSS Business due from Comverse. As of December 31, 2005, other current assets included \$3.8 million related to the final purchase price due from Comverse. This amount was received in cash in February 2006 and is reflected in cash flows from investing activities.

Client Deposits

Client deposits consist of advanced payments from our clients related to their expected postage costs. The increase in client deposits from \$19.7 million as of December 31, 2005 to \$25.4 million as of September 30, 2006 relates primarily to: (i) increasing the number of days worth of postage deposit collected from a key client; and (ii) having duplicate postage deposits related to the Adelphia Acquired Customer Accounts that were transferred to our Comcast and Time Warner contracts in August 2006 (with Adelphia's postage deposit returned in October 2006).

Accrued Employee Compensation

The decrease in accrued employee compensation from \$32.4 million as of December 31, 2005 to \$21.4 million as of September 30, 2006 is primarily due to: (i) the \$7.6 million of retirement benefits accrued as of December 31, 2005 and paid during the first nine months of 2006 related to our former CEO; and (ii) a decrease in our incentive bonus program accrual as of September 30, 2006, which represented only nine months of accrued expense, compared to our incentive bonus program accrual as of December 31, 2005, which represented twelve months of

accrued expense.

Income Taxes

The change from an income taxes receivable of \$5.0 million as of December 31, 2005 to an income taxes payable of \$3.3 million as of September 30, 2006 is due primarily to us generating Federal taxable income during the nine months ended September 30, 2006 and the timing of estimated Federal income tax payments.

Table of Contents

Cash Flows From Investing Activities

During the nine months ended September 30, 2006 our cash flows from investing activities included three unique items: (i) the acquisition of Telution; (ii) the net proceeds from the sale of the corporate aircraft held for sale; and (iii) the \$6.0 million payment made to Comverse, as discussed above. Our typical investing activities consist of purchases/sales of short-term investments, purchases of property and equipment, and investments in client contracts, which are discussed below:

Purchases/Sales of Short-term Investments. We generally invest our excess cash balances in low-risk, short-term investments to limit our exposure to market risks. These short-term investments are readily convertible back into cash. During the nine months ended September 30, 2006, we purchased \$183.7 million and sold (or had mature) \$98.1 million of short-term investments. We continually evaluate the possible uses of our excess cash balances and will likely purchase and sell additional short-term investments in the future.

Property and Equipment/Client Contracts. Our capital expenditures for the nine months ended September 30, 2006 and 2005 for property and equipment, and investments in client contracts, excluding the acquisition of Telution, were as follows (in thousands):

	Nine Months Ended September 30, 2006 2005	
Property and equipment	\$ 5,198	\$ 9,356
Client contracts	6,549	5,508

The property and equipment expenditures during the first nine months of 2006 consisted principally of computer hardware and related equipment, and other internal infrastructure items.

The investments in client contracts for the nine months ended September 30, 2006 and 2005 relate primarily to client incentive payments (\$5.3 million and \$1.3 million respectively) and the deferral of costs related to conversion/set-up services provided under long-term processing contracts (\$1.2 million and \$4.2 million, respectively).

Cash Flows From Financing Activities

Our financing activities typically consist of various debt-related transactions, and activities with our common stock.

Repurchase of Common Stock. As discussed above, during the nine months ended September 30, 2006 and 2005, we repurchased shares of our common stock under the guidelines of the Stock Repurchase Program for \$42.8 million and \$58.0 million, respectively. In addition, outside of the Stock Repurchase Program, during the nine months ended September 30, 2006 and 2005, we repurchased from our employees and then cancelled approximately 78,000 shares and 175,000 shares of our common stock for \$1.8 million and \$3.3 million, respectively, in connection with minimum tax withholding requirements resulting from the vesting of restricted stock under our stock incentive plans.

Capital Resources

As of September 30, 2006, we had \$414.9 million of cash, cash equivalents, and short-term investments available to fund our operations, and we expect to generate additional cash during the remainder of 2006. The following are the key items to consider in assessing our sources and uses of capital resources as of September 30, 2006:

As noted above, we currently have a Stock Repurchase Program which authorizes us to repurchase up to 30 million shares of our common stock from time-to-time as market and business conditions warrant. During the third quarter of 2006, we repurchased 820,000 shares of our stock, at a total price of \$21.9 million, or approximately \$26.69 per share under our Stock Repurchase Program. As a result, as of September 30, 2006, the remaining number of shares authorized for repurchase under the Stock Repurchase Program is 15.1 million shares. The Stock Repurchase Program does not have an expiration date.

Table of Contents

We expect to be actively repurchasing shares under our Stock Repurchase Program in the near term. In fact, in August 2006, we established a new Rule 10b5-1 Plan to facilitate the repurchase of \$350 million of our common stock under our Stock Repurchase Program. This Rule 10b5-1 Plan supplements any stock repurchases made under the existing terms of our Stock Repurchase Program. Any shares repurchased under this Rule 10b5-1 Plan are counted towards the 30 million share limit authorized under the Stock Repurchase Program.

The number of shares repurchased under our new Rule 10b5-1 Plan is based upon predetermined factors that were established when we implemented the plan in August 2006. Over time, there will likely be some variability around the share repurchases based upon changing market conditions, as well as the trading volume of our stock. We remain committed to completing the repurchase of \$350 million of our outstanding common stock, but the time period may extend beyond the original estimate of 12-15 months due to various market factors that may impact the pace at which we buy back our common stock.

In the first nine months of 2006, we spent \$5.2 million on property and equipment. For the fourth quarter of 2006, we expect to spend approximately \$2 to \$4 million on capital expenditures. As of September 30, 2006, we have made no significant capital commitments.

Our Convertible Debt Securities bear interest at a rate of 2.5% per annum, which is payable semiannually in arrears on June 15 and December 15 of each year. The Convertible Debt Securities are callable by us for cash, on or after June 20, 2011. The Convertible Debt Securities can be put back to us by the holders for cash at June 15, 2011, 2016 and 2021, or upon a change of control, at a repurchase price equal to 100% of the principal amount of the Convertible Debt Securities, plus accrued interest. The Convertible Debt Securities are subject to certain conversion triggers based upon: (i) the price of our common stock; (ii) the trading price of the Convertible Debt Securities; (iii) us putting the Convertible Debt Securities back to the holders; (iv) the occurrence of specified corporate transactions, to include a change of control as defined in the bond Indenture; and (v) if a certain level of dividends are declared, or a certain number of shares of our common stock are repurchased under a self-tender offer by us. At this time, we do not expect any of the conversion triggers to occur during the next 12 months. As a result, in the near-term, we expect our annual debt service costs related to the Convertible Debt Securities to be limited to the annual interest payments of \$5.8 million.

The Convertible Debt Securities are convertible into our common stock, under the specified conditions and settlement terms outlined above, at an initial conversion rate of 37.3552 shares per \$1,000 principal amount of Convertible Debt Securities, which is equal to an effective conversion price of \$26.77 per share. The bond Indenture includes anti-dilution provisions for the holders such that the conversion rate (and thus, the effective conversion price) can be adjusted in the future for certain events, to include stock dividends, stock splits/reverse splits, the issuance of warrants to purchase our stock at a price below the then-current market price, cash dividends, and certain purchases of our common stock by us pursuant to a self-tender offer or exchange offer. A lower effective conversion price may have several impacts to us, including a greater potential for: (i) the occurrence of the conversion trigger based upon the price of our common stock; and (ii) the Convertible Debt Securities having an impact on our diluted earnings per share if our common stock price exceeds the then-current effective conversion price. The repurchase of up to \$350 million of our outstanding common stock, as discussed above, will have no impact on the current effective conversion price, or any other terms in the bond indenture.

The interest rate for borrowings under the 2004 Revolving Credit Facility, except for same day advances, is chosen at our option and is based upon a base rate or adjusted LIBOR rate, plus an applicable margin. The base rate represents the higher of a floating prime rate and a floating rate equal to 50 basis points in excess of the Federal Funds Effective Rate. The interest rate for same day advances is based upon base rate, plus an

Table of Contents

applicable margin. The applicable margins are dependent on our leverage ratio, as defined, and range from zero to 100 basis points for base rate loans and 125 to 225 basis points for LIBOR loans. As of September 30, 2006, we had made no borrowings under the 2004 Revolving Credit Facility, and at this time, we do not expect to make any borrowings under the 2004 Revolving Credit Facility in 2006. We pay a quarterly commitment fee on the unused portion of the 2004 Revolving Credit Facility. This rate is dependent on our leverage ratio and ranges from 25 to 50 basis points per annum. As of September 30, 2006, the commitment fee rate was 37.5 basis points per annum. As of September 30, 2006, we had 100%, or \$100 million, of the 2004 Revolving Credit Facility available to us.

In summary, we expect to continue to repurchase our outstanding common stock on the open market under our Stock Repurchase Program. We also expect to continue to make investments in client contracts, capital equipment, and R&D. In addition, as part of our growth strategy, we continually evaluate potential business and asset acquisitions, and investments in market share expansion with our existing and potential new clients. We believe that our current cash, cash equivalents, and short-term investments balances, together with cash expected to be generated from future operating activities and the amount available under the 2004 Revolving Credit Facility (as well as other possible sources of additional debt), will be sufficient to meet our anticipated cash requirements for at least the next 12 months.

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. Earnings is defined as income before income taxes, plus fixed charges. Fixed charges consist of interest expense (including the amortization of deferred financing costs) and the estimated interest component of rental expense. Our consolidated ratio of earnings to fixed charges for the nine months ended September 30, 2006, was 10.37:1.00. See Exhibit 12.10 to this document for information regarding the calculation of our ratio of earnings to fixed charges.

Item 3. *Quantitative and Qualitative Disclosures About Market Risk*

As discussed in our 2005 10-K, we are exposed to market risks related to changes in interest rates, and fluctuations and changes in the market value of our short-term investments. We do not enter into derivatives or other financial instruments for trading or speculative purposes.

Interest Rate Risk

Market Risk Related to Long-Term Debt. We are exposed to interest rate risk related to long-term debt from two sources: our Convertible Debt Securities, and our 2004 Revolving Credit Facility.

The interest rate on the Convertible Debt Securities is fixed, and thus, as it relates to our borrowings under the Convertible Debt Securities, we are not exposed to changes in interest rates. Commencing on June 15, 2011, in any six-month interest period where the average trading price of the Convertible Debt Securities immediately preceding that six-month interest period equals 120% or more of the principal amount of the Convertible Debt Securities, we will pay contingent interest equal to 0.25% of that average trading price.

The interest rate for borrowings under the 2004 Revolving Credit Facility, except for same day advances, is chosen at our option, and is based upon a base rate or adjusted LIBOR rate, plus an applicable margin. The base rate represents the higher of a floating prime rate and a floating rate equal to 50 basis points in excess of the Federal Funds Effective Rate. The interest rate for same day advances is based upon base rate, plus an applicable margin. The applicable margins are dependent on our leverage ratio, as defined, and range from zero to 100 basis points for base rate loans and 125 to 225 basis points for LIBOR loans. As of September 30, 2006, we had made no borrowings under the 2004 Revolving Credit Facility.

Table of Contents

Market Risk Related to Cash Equivalents and Short-term Investments. Our cash and cash equivalents as of September 30, 2006, June 30, 2006 and December 31, 2005 were \$282.7 million, \$344.0 million and \$346.1 million, respectively. Our cash balances are typically swept into overnight money market accounts on a daily basis, and excess funds are invested in low-risk, somewhat longer term, cash equivalent instruments and short-term investments. We have minimal market risk for our cash and cash equivalents due to the relatively short maturities of the instruments.

Our short-term investments as of September 30, 2006, June 30, 2006 and December 31, 2005 were \$132.3 million, \$70.3 million and \$46.1 million, respectively. The day-to-day management of our cash equivalents and short-term investments is performed by two large financial institutions in the U.S., using strict and formal investment guidelines approved by our Board of Directors. Under these guidelines, short-term investments are limited to certain acceptable investments with: (i) a maximum maturity, (ii) a maximum concentration and diversification; and (iii) a minimum acceptable credit quality.

We do not utilize any derivative financial instruments for purposes of managing our market risks related to interest rate risk.

Item 4. *Controls and Procedures*

(a) Disclosure Controls and Procedures

As required by Rule 13a-15(b), our management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), conducted an evaluation as of the end of the period covered by this report of the effectiveness of our disclosure controls and procedures as defined in Rule 13a-15(e). Based on that evaluation, the CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

(b) Internal Control Over Financial Reporting

As required by Rule 13a-15(d), our management, including the CEO and CFO, also conducted an evaluation of our internal control over financial reporting, as defined by Rule 13a-15(f), to determine whether any changes occurred during the quarter covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based on that evaluation, the CEO and CFO concluded that there has been no such change during the quarter covered by this report.

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time-to-time, we are involved in litigation relating to claims arising out of our operations in the normal course of business. We are not presently a party to any material pending or threatened legal proceedings.

Item 1A. Risk Factors

We or our representatives from time-to-time may make or may have made certain forward-looking statements, whether orally or in writing, including without limitation, any such statements made or to be made in MD&A contained in our various SEC filings or orally in conferences or teleconferences. We wish to ensure that such statements are accompanied by meaningful cautionary statements, so as to ensure, to the fullest extent possible, the protections of the safe harbor established in the Private Securities Litigation Reform Act of 1995.

Accordingly, the forward-looking statements are qualified in their entirety by reference to and are accompanied by the following meaningful cautionary statements identifying certain important risk factors that could cause actual results to differ materially from those in such forward-looking statements. This list of risk factors is likely not exhaustive. We operate in a rapidly changing and evolving market involving the North American communications industry (e.g., bundled multi-channel video, Internet, voice and IP-based services), and new risk factors will likely emerge. Management cannot predict all of the important risk factors, nor can it assess the impact, if any, of such risk factors on our business or the extent to which any risk factor, or combination of risk factors, may cause actual results to differ materially from those in any forward-looking statements. Accordingly, there can be no assurance that forward-looking statements will be accurate indicators of future actual results, and it is likely that actual results will differ from results projected in forward-looking statements and that such differences may be material.

We Derive a Significant Portion of Our Revenues From a Limited Number of Clients, and the Loss of the Business of a Significant Client Would Materially Adversely Affect Our Financial Condition and Results of Operations. The North American communications industry has experienced significant consolidation over the last few years, resulting in a large percentage of the market being served by a limited number of service providers with greater size and scale. Today, the top seven providers in the video industry serve over 80% of the consumers. Consistent with this market concentration, a large percentage of our revenues are generated from a limited number of clients, with approximately 70% of our revenues being generated from our four largest clients, which are (in order of size) Comcast, EchoStar, Time Warner, and Charter. See our 2005 10-K and the above MD&A for a brief summary of our business relationship with each of these clients.

There are inherent risks whenever a large percentage of total revenues are concentrated with a limited number of clients. One such risk is that, should a significant client: (i) terminate or fail to renew their contracts with us, in whole or in part for any reason; (ii) significantly reduce the number of customer accounts processed on our systems, the price paid for our services, or the scope of services that we provide; or (iii) experience significant financial or operating difficulties, it could have a material adverse effect on our financial condition and results of operations (including possible impairment, or significant acceleration of the amortization of intangible assets).

Our industry is highly competitive, and the possibility that a major client may move all or a portion of its customers to a competitor has increased. While our clients may incur some costs in switching to our competitors, they may do so for a variety of reasons, including if we do not maintain favorable relationships, do not provide satisfactory services and products, or for reasons associated with price.

A Reduction in Demand for Our Key Customer Care and Billing Products and Services Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations. Historically, a substantial percentage of our

Table of Contents

total revenues have been generated from our core outsourced processing product, ACP, and related services. These products and services are expected to continue to provide a large percentage of our total revenues in the foreseeable future. Any significant reduction in demand for ACP and related services could have a material adverse effect on our financial condition and results of operations, including possible impairment to intangible assets.

We May Not Be Able to Respond to the Rapid Technological Changes in Our Industry. The market for customer care and billing systems is characterized by rapid changes in technology and is highly competitive with respect to the need for timely product innovations and new product introductions. As a result, we believe that our future success in sustaining and growing our revenues depends upon the continued market acceptance of our products, especially ACP, and our ability to continuously adapt, modify, maintain, and operate our products to address the increasingly complex and evolving needs of our clients, without sacrificing the reliability or quality of the products. In addition, the market is demanding that our products have greater architectural flexibility and are more easily integrated with other computer systems, and that we are able to meet the demands for technological advancements to our products and services at a greater pace. Attempts to meet these demands subjects our R&D efforts to greater risks.

As a result, substantial R&D will be required to maintain the competitiveness of our products and services in the market. Technical problems may arise in developing, maintaining and operating our products and services as the complexities are increased. Development projects can be lengthy and costly, and may be subject to changing requirements, programming difficulties, a shortage of qualified personnel, and/or unforeseen factors which can result in delays. In addition, we may be responsible for the implementation of new products and/or the migration of clients to new products, and depending upon the specific product, we may also be responsible for operations of the product.

There is an inherent risk in the successful development, implementation, migration, and operations of our products and services as the technological complexities, and the pace at which we must deliver these products and services to market, continues to increase. There can be no assurance:

of continued market acceptance of our products and services;

that we will be successful in the development of product enhancements or new products that respond to technological advances or changing client needs at the pace the market demands; or

that we will be successful in supporting the implementation, migration and/or operations of product enhancements or new products.

Our Business is Dependent on the North American Communications Industry. We generate our revenues by providing products and services to the U.S. and Canadian communication industries. A decrease in the number of customers served by our clients, loss of business due to non-renewal of client contracts, industry and client consolidations, an adverse change in the economic condition of these industries, movement of customers from our systems to a competitor's system as a result of regionalization strategies by our clients, and/or changing consumer demand for services could have a material adverse effect on our results of operations. Additionally, our current clients' distribution methods could be disrupted by new entrants into the communications industry. There can be no assurance that new entrants into the communications market will become our clients. Also, there can be no assurance that communication providers will be successful in expanding into other segments of the converging communications industry. Even if major forays into new markets are successful, we may be unable to meet the special billing and customer care needs of that market.

The Consolidation of the North American Communications Industry May Have a Material Adverse Effect on Our Results of Operations. The North American communications industry is undergoing significant ownership changes at an accelerated pace. One facet of these changes is that communications service providers are consolidating, decreasing the potential number of buyers for our products and services. Such client consolidations carry with them the inherent risk that the consolidators may choose to move their purchased customers to a competitor's system. Should this consolidation result in a concentration of customer accounts being owned by companies with whom we do not have a relationship, or with whom competitors are entrenched, it could negatively affect our ability to maintain or expand our market share, thereby having a material adverse effect on our results of operations. In addition, service providers may choose to use their size and scale to exercise more severe pressure on pricing negotiations.

Table of Contents

In addition, it is widely anticipated that communication service providers will continue their aggressive pursuit of providing convergent services. Traditional wireline and wireless telephone providers have recently entered the residential video market, a market dominated by our clients. Should these traditional telephone service providers be successful in their video strategy, it could threaten our market share and processing revenues in this area, as generally speaking, these companies do not currently use our products and services.

We Face Significant Competition in Our Industry. The market for our products and services is highly competitive. We directly compete with both independent providers of products and services and in-house systems developed by existing and potential clients. In addition, some independent providers are entering into strategic alliances with other independent providers, resulting in either new competitors, or competitors with greater resources. Many of our current and potential competitors have significantly greater financial, marketing, technical, and other competitive resources than our company, many with significant and well-established domestic and international operations. There can be no assurance that we will be able to compete successfully with our existing competitors or with new competitors.

Client Bankruptcies Could Adversely Affect Our Business, and Any Accounting Reserves We Have Established May Not Be Sufficient. In the past, certain of our clients have filed for bankruptcy protection. Companies involved in bankruptcy proceedings pose greater financial risks to us, consisting principally of possible claims of preferential payments for certain amounts paid to us prior to the bankruptcy filing date, as well as increased collectibility risk for accounts receivable, particularly those accounts receivable that relate to periods prior to the bankruptcy filing date. We consider such risks in assessing our revenue recognition and the collectibility of accounts receivable related to our clients that have filed for bankruptcy protection, and for those clients that are seriously threatened with a possible bankruptcy filing. We establish accounting reserves for our estimated exposure on these items. However, there can be no assurance that our accounting reserves related to this exposure will be adequate. Should any of the factors considered in determining the adequacy of the overall reserves change adversely, an adjustment to the accounting reserves may be necessary. Because of the potential significance of this exposure, such an adjustment could be material.

We May Incur Additional Material Restructuring Charges in the Future. Since the third quarter of 2002, we have recorded restructuring charges related to involuntary employee terminations, various facility abandonments, and various other restructuring activities. The accounting for facility abandonments requires significant judgments in determining the proper accounting treatment for such matters. We continually evaluate our assumptions, and adjust the related restructuring reserves based on the revised assumptions at that time. Moreover, we continually evaluate ways to reduce our operating expenses through new restructuring opportunities, including more effective utilization of our assets, workforce and operating facilities. As a result, there is a reasonable likelihood that we may incur additional material restructuring charges in the future.

Failure to Attract and Retain Our Key Management and Other Highly Skilled Personnel Could Have a Material Adverse Effect on Our Business. Our future success depends in large part on the continued service of our key management, sales, product development, and operational personnel. We believe that our future success also depends on our ability to attract and retain highly skilled technical, managerial, operational, and marketing personnel, including, in particular, personnel in the areas of R&D and technical support. Competition for qualified personnel at times can be intense, particularly in the areas of R&D, conversions, software implementations, and technical support, especially now that market conditions are improved and the demand for such talent has increased. For these reasons, we may not be successful in attracting and retaining the personnel we require, which could have a material adverse effect on our ability to meet our commitments and new product delivery objectives.

We May Not Be Successful in the Integration of Our Acquisitions. As part of our growth strategy, we seek to acquire assets, technology, and businesses which will provide the technology and technical personnel to expedite our product development efforts, provide complementary products or services, or provide access to new markets and clients.

Acquisitions involve a number of risks and difficulties, including: (i) expansion into new markets and business ventures; (ii) the requirement to understand local business practices; (iii) the diversion of management's attention to the assimilation of acquired operations and personnel; and (iv) potential adverse effects on a company's operating results for various reasons, including, but not limited to, the following items: (a) the inability to achieve revenue

Table of Contents

targets; (b) the inability to achieve certain operating synergies; (c) charges related to purchased in-process R&D projects; (d) costs incurred to exit current or acquired contracts or activities; (e) costs incurred to service any acquisition debt; and (f) the amortization or impairment of intangible assets.

Due to the multiple risks and difficulties associated with any acquisition, there can be no assurance that we will be successful in achieving our expected strategic, operating, and financial goals for any such acquisition.

Failure to Protect Our Proprietary Intellectual Property Rights Could Have a Material Adverse Effect on Our Financial Condition and Results of Operations. We rely on a combination of trade secret and copyright laws, nondisclosure agreements, and other contractual and technical measures to protect our proprietary rights in our products. We also hold a limited number of patents on some of our newer products, but do not rely upon patents as a primary means of protecting our rights in our intellectual property. There can be no assurance that these provisions will be adequate to protect our proprietary rights. Although we believe that our intellectual property rights do not infringe upon the proprietary rights of third parties, there can be no assurance that third parties will not assert infringement claims against us or our clients.

We continually assess whether there are any risks to our intellectual property rights. Should these risks be improperly assessed or if for any reason should our right to develop, produce and distribute our products be successfully challenged or be significantly curtailed, it could have a material adverse effect on our financial condition and results of operations.

The Delivery of Our Products and Services is Dependent on a Variety of Computing Environments and Communications Networks, Which May Not Be Available or May Be Subject to Security Attacks. Our products and services are generally delivered through a variety of computing environments operated by us, which we will collectively refer to herein as Systems. We provide such computing environments through both out-sourced arrangements, such as our data processing arrangement with First Data Corporation, as well as internally operating numerous distributed servers in geographically dispersed environments. The end users are connected to our Systems through a variety of public and private communications networks, which we will collectively refer to herein as Networks. Our products and services are generally considered to be mission critical customer management systems by our clients. As a result, our clients are highly dependent upon the continuous availability and uncompromised security of our Networks and Systems to conduct their business operations.

Our Networks and Systems are subject to the risk of an extended interruption or outage due to many factors such as: (i) planned changes to our Systems and Networks for such things as scheduled maintenance and technology upgrades, or migrations to other technologies, service providers, or physical location of hardware; (ii) human and machine error; (iii) acts of nature; and (iv) intentional, unauthorized attacks from computer hackers. In addition, we continue to expand our use of the Internet with our product offerings thereby permitting, for example, our clients customers to use the Internet to review account balances, order services or execute similar account management functions. Allowing access to our Networks and Systems via the Internet increases their vulnerability to unauthorized access and corruption, as well as increasing the dependency of our Systems reliability on the availability and performance of the Internet s infrastructure.

As a means to mitigate certain risks in this area of our business, we have done the following: (i) established policies and procedures related to planned changes to our Systems and Networks; (ii) implemented a business continuity plan, and test certain aspects of this plan on a periodic basis; and (iii) implemented a security and data privacy program (utilizing ISO 17799 as a guideline) designed to mitigate the risk of an unauthorized access to the Networks and Systems primarily through the use of network firewalls, procedural controls, intrusion detection systems and antivirus applications. In addition, we undergo periodic security reviews of certain aspects of our Networks and Systems by independent parties.

The method, manner, cause and timing of an extended interruption or outage in our Networks or Systems are impossible to predict. As a result, there can be no assurances that our Networks and Systems will not fail, or that our business continuity plans will adequately mitigate all damages incurred as a consequence. Should our Networks or Systems: (i) experience an extended interruption or outage, (ii) have their security breached, or (iii) have their data lost, corrupted or otherwise compromised, it would impede our ability to meet product and service delivery

Table of Contents

obligations, and likely have an immediate impact to the business operations of our clients. This would most likely result in an immediate loss to us of revenue or increase in expense, as well as damaging our reputation. Any of these events could have both an immediate, negative impact upon our financial condition and our short-term revenue and profit expectations, as well as our long-term ability to attract and retain new clients.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information with respect to purchases of company common stock made during the three months ended September 30, 2006 by CSG Systems International, Inc. or any affiliated purchaser of CSG Systems International, Inc., as defined in Rule 10b-18(a)(3) under the Exchange Act.

Period	Total Number of Shares Purchased ²	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plan or Programs ¹
July 1 July 31	13,262	\$ 24.13		15,960,908
August 1 August 31	360,000	26.77	360,000	15,600,908
September 1 September 30	462,952	26.62	460,000	15,140,908
Total	836,214	\$ 26.65	820,000	

¹ Effective July 12, 2006, our Board of Directors approved a 10 million share increase in the number of shares we are authorized to repurchase under the Stock Repurchase Program, bringing the total number of authorized shares to 30 million. The Stock Repurchase Program does not have an expiration date.

² The total number of shares purchased that are not part of the Stock Repurchase Program represents shares purchased and cancelled in connection with stock incentive plans

Item 3. None

Item 4. None

Item 5. None

Item 6. Exhibits

The Exhibits filed or incorporated by reference herewith are as specified in the Exhibit Index.

Table of Contents

SIGNATURES

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

Dated: November 8, 2006

CSG SYSTEMS INTERNATIONAL, INC.

/s/ Edward C. Nafus
Edward C. Nafus
Chief Executive Officer and President
(Principal Executive Officer)

/s/ Randy R. Wiese
Randy R. Wiese
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

Table of Contents

CSG SYSTEMS INTERNATIONAL, INC.

INDEX TO EXHIBITS

Exhibit Number	Description
10.20G*	Eighth Amendment to the CSG Master Subscriber Management System Agreement between CSG Systems, Inc. and Comcast Cable Communications Management, LLC
12.10	Statement regarding computation of Ratio of Earnings to Fixed Charges
31.01	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.02	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.01	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Portions of the exhibit have been omitted pursuant to an application for confidential treatment, and the omitted portions have been filed separately with the Commission.