

UCN INC
Form 424B3
August 14, 2006
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Rule 424(b)(3)

SEC file No. 333-130748

Prospectus Supplement No. 2 dated August 11, 2006

To Prospectus dated April 10, 2006

UCN, INC.

COMMON STOCK

The prospectus covers 2,882,000 shares of the common stock of UCN, Inc., that may be sold from time to time by the persons listed under the caption Selling Security Holders, beginning on page 3 of the prospectus. The shares were registered under a registration statement on Form S-1 filed with the Securities and Exchange Commission in December 2005.

The 2,882,000 shares consist of 2,332,000 shares issued in private placements that closed in November and December 2005, and 550,000 shares issuable at a price of \$2.00 per share upon exercise of warrants issued in the same private placements. None of the warrants have been exercised. UCN will receive the proceeds from exercise of the warrants, if any are exercised. UCN will not receive any proceeds or benefit from resale of the shares by the selling security holders. Of the 2,882,000 shares registered, to our knowledge 132,000 have been sold by the selling security holders.

Quotations for our common stock are reported on the OTC Bulletin Board under the symbol UCNN. On August 10, 2006, the closing bid price for our common stock was \$2.70 per share.

A copy of our quarterly report on Form 10-Q (without exhibits) for the interim period ended June 30, 2006, filed with the Securities and Exchange Commission on August 11, 2006 is included in this supplement. A copy of our quarterly report on Form 10-Q (without exhibits) for the interim period ended March 31, 2006, is included in Supplement No. 1 dated May 15, 2006. Our prospectus dated April 10, 2006, incorporates by reference information presented in our annual report on Form 10-K for the year ended December 31, 2005, filed with the Securities and Exchange Commission on March 29, 2006, and our current report on Form 8-K dated March 20, 2006, filed on March 20, 2006. Please see Where You Can Find Information About UCN beginning on page 3 of the prospectus.

See Item 1A. Risk Factors beginning on page 12 of our annual report on Form 10-K for the year ended December 31, 2005, for information you should consider before you purchase shares. Also see Item 1A. Risk Factors under Part II of our quarterly report on Form 10-Q for the interim period ended June 30, 2006, beginning on page 26 for information you should consider before you purchase shares.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

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Notice About Information Presented In This Supplement

This supplement may be used by the Selling Security Holders to offer their shares only if accompanied by the prospectus dated April 10, 2006, and Supplement No. 1 to the prospectus dated May 15, 2006.

This supplement provides information that supersedes, or is in addition to, information presented in the prospectus. If there is any difference between the information presented in this supplement and the information contained in the prospectus, you should rely on the information in this supplement.

You should rely only on the information provided in this supplement, the prospectus, and Supplement No. 1. We have not authorized anyone to provide you with different information.

We do not claim the information contained in this supplement or the accompanying prospectus is accurate as of any date other than the dates on their respective covers.

Forward-looking Statements

You should carefully consider the risk factors set forth in the prospectus, as well as the other information contained in this supplement and the prospectus. This supplement and the prospectus contain forward-looking statements regarding events, conditions, and financial trends that may affect our plan of operation, business strategy, operating results, and financial position. You are cautioned that any forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties. Actual results may differ materially from those included within the forward-looking statements as a result of various factors. Cautionary statements in the Risk Factors and Management's Discussion and Analysis of Operating Results and Financial Condition sections of our quarterly report on Form 10-Q, annual report on Form 10-K, and the prospectus identify important risks and uncertainties affecting our future, which could cause actual results to differ materially from the forward-looking statements made in this supplement and the prospectus.

Selling Security Holders

We are advised that the stock position of one of the selling security holders has changed through the purchase of additional shares. Select Contrarian Value Partners, LP, is the beneficial owner of 1,951,200 shares of common stock, of which 1,110,000 have been registered for sale and are offered under the prospectus. Kaizen Fundamental Value Fund is the beneficial owner of 110,000 shares of UCN common stock and is managed by the same person that manages Select Contrarian Value Partners, so these shares may be deemed to be held by an affiliate of Select Contrarian Value Partners. Assuming all of the shares offered under the prospectus are sold, Select Contrarian Value Partners and its affiliate would hold 3.75 percent of the issued and outstanding shares of common stock based on 25,141,984 shares of common stock outstanding at August 10, 2006.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

x **Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2006

or

.. **Transition report pursuant to section 13 or 15(d) of the Securities Exchange act of 1934**
For the transition period from _____ to _____

Commission File No. 0-26917

UCN, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

14870 Pony Express Road, Bluffdale, Utah 84065

(Address of principal executive offices and Zip Code)

(801) 320-3300

(Registrant's telephone number, including area code)

87-0528557
(IRS Employer

Identification No.)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 25,141,984 shares of common stock as of August 10, 2006.

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Table of Contents**UCN, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS - (Unaudited)***(in thousands except share data)*

	June 30,	December 31,
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,393	\$ 5,471
Restricted cash	10	651
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,556 and \$1,596, respectively	10,424	11,368
Other current assets	389	561
Total current assets	15,216	18,051
Property and equipment, net	5,126	5,225
Intangible assets, net	8,911	11,545
Other assets	683	822
Total assets	\$ 29,936	\$ 35,643
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Line of credit	\$	\$ 3,328
Current portion of long-term debt	710	2,966
Trade accounts payable	8,789	11,380
Accrued liabilities	2,104	2,268
Accrued commissions	1,266	1,355
Total current liabilities	12,869	21,297
Long-term debt	7,449	5,511
Other long-term liabilities	122	247
Total liabilities	20,440	27,055
Commitments and contingencies (Notes 4, 8, 11, 13 and 15)		
Stockholders' equity:		
Preferred stock, \$0.0001 par value, 15,000,000 shares authorized; Series A 8% cumulative convertible preferred stock; 0 shares issued and outstanding for 2006 and 2005 (liquidation value of \$0)		
Series B 8% cumulative convertible preferred stock; 0 shares issued and outstanding for 2006 and 2005 (liquidation value of \$0)		
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 25,141,984 and 23,114,669 shares issued and outstanding for June 30, 2006 and December 31, 2005, respectively	3	2
Additional paid-in capital	49,218	44,570
Warrants and options outstanding	1,277	735
Accumulated deficit	(41,002)	(36,719)
Total stockholders' equity	9,496	8,588
Total liabilities and stockholders' equity	\$ 29,936	\$ 35,643

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See notes to condensed consolidated financial statements

Table of Contents**UCN, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - (Unaudited)***(in thousands except per share data)*

	Three months ended June 30,	
	2006	2005
Revenue	\$ 20,968	\$ 21,488
Operating expenses:		
Costs of revenue	13,580	14,130
General and administrative	3,223	2,638
Selling and promotion	3,432	4,287
Depreciation and amortization	1,865	1,706
Research and development	352	322
Total operating expenses	22,452	23,083
Loss from operations	(1,484)	(1,595)
Other income (expense):		
Interest income	42	24
Interest expense	(326)	(226)
Loss on early extinguishment of debt	(364)	
Total other expense	(648)	(202)
Net loss before income taxes	(2,132)	(1,797)
Income tax expense	8	
Net loss	(2,140)	(1,797)
Preferred dividends		
Net loss applicable to common stockholders	\$ (2,140)	\$ (1,797)
Net loss per common share:		
Basic and diluted	\$ (0.09)	\$ (0.09)
Weighted average common shares outstanding:		
Basic and diluted	24,053	20,783

See notes to condensed consolidated financial statements

Table of Contents**UCN, INC.****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS - (Unaudited)***(in thousands except per share data)*

	Six months ended June 30,	
	2006	2005
Revenue	\$ 43,590	\$ 37,462
Operating expenses:		
Costs of revenue	29,063	24,501
General and administrative	6,478	4,411
Selling and promotion	7,050	8,122
Depreciation and amortization	3,744	3,210
Research and development	664	628
Total operating expenses	46,999	40,872
Loss from operations	(3,409)	(3,410)
Other income (expense):		
Interest income	82	44
Interest expense	(584)	(410)
Loss on early extinguishment of debt	(364)	
Total other expense	(866)	(366)
Net loss before income taxes	(4,275)	(3,776)
Income tax expense	8	
Net loss	(4,283)	(3,776)
Preferred dividends		(38)
Net loss applicable to common stockholders	\$ (4,283)	\$ (3,814)
Net loss per common share:		
Basic and diluted	\$ (0.18)	\$ (0.19)
Weighted average common shares outstanding:		
Basic and diluted	23,588	20,146

See notes to condensed consolidated financial statements

Table of Contents**UCN, INC.****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY - (Unaudited)***(in thousands)*

	Common Stock		Additional	Warrants/ Options	Accumulated	Total
	Shares	Amount	Paid-in Capital	Outstanding	Deficit	
Balance at January 1, 2006	23,115	\$ 2	\$ 44,570	\$ 735	\$ (36,719)	\$ 8,588
Exercise of employee options to purchase common shares	71		141			141
Stock-based compensation			297			297
Proceeds from private offering, net of issuance costs of \$290	1,956	1	4,210			4,211
Warrant issued in conjunction with debt financing				542		542
Net loss					(4,283)	(4,283)
Balance at June 30, 2006	25,142	\$ 3	\$ 49,218	\$ 1,277	\$ (41,002)	\$ 9,496

See notes to condensed consolidated financial statements

Table of Contents**UCN, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS - (Unaudited)***(in thousands)*

	Six months ended	
	June 30,	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (4,283)	\$ (3,776)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,744	3,210
Amortization of debt financing costs	83	44
Stock-based compensation	297	
Loss on early extinguishment of debt	364	
Changes in operating assets and liabilities:		
Accounts and other receivables, net	944	(407)
Other current assets	69	52
Other non-current assets	33	(3)
Trade accounts payable	(2,774)	3,784
Accrued liabilities	(289)	(1,574)
Accrued commissions	(89)	203