

UCN INC
Form 424B3
November 13, 2006
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Rule 424(b)(3)

SEC file No. 333-114302

Prospectus Supplement No. 3 dated November 13, 2006

To Prospectus dated April 13, 2006

UCN, INC.

COMMON STOCK

The prospectus relates to the offer and sale, from time to time, of up to 1,268,277 shares of the common stock of UCN, Inc. by the selling security holders listed on page 4 of the prospectus or their transferees.

We registered 5,504,671 shares for sale by selling security holders under a registration statement on Form S-2 filed with the Securities and Exchange Commission, File No. 333-114302, and declared effective April 22, 2004, which is referred to in the prospectus as the 2004 Registration. We registered under the 2004 Registration

5,340,546 shares of common stock, and issued as dividends and on conversion in March 2004 of previously outstanding preferred stock, and

164,125 shares of common stock issuable on exercise of a warrant at an exercise price of \$2.76 per share.

The only shares that remain and may be offered and sold by selling security holders under the prospectus are the 164,125 shares of common stock issuable under the warrants.

We registered 8,779,333 shares for sale by selling security holders under a registration statement on Form SB-2 filed with the Securities and Exchange Commission in 2003, File No. 333-108655, that was first declared effect in October 2003 and last declared effective under a post-effective amendment on April 20, 2005, which is referred to in the prospectus as the 2003 Registration. We registered under the 2003 Registration

Warrants to purchase 109,375 shares at a price of \$1.25 per share

Warrants to purchase 4,466,856 shares at a price of \$2.00 per share

Warrants to purchase 672,700 shares at a price of \$2.50 per share

Options to purchase 2,189,152 shares at prices ranging from \$2.00 to \$5.392 per share

Convertible notes in the amount of \$1,162,500 convertible at \$2.00 per share

Convertible notes in the amount of \$1,775,000 convertible at \$2.50 per share

50,000 shares of common stock

The only shares that remain and may be offered and sold by selling security holders under the prospectus are 1,104,152 shares of common stock issuable on exercise of outstanding options.

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UCN will receive potential proceeds from exercise of the warrants and options described above, which potential proceeds at August 10, 2006, totaled \$3,253,793. UCN will not receive any proceeds or benefit from resale of the shares by the selling security holders.

Quotations for our common stock are reported on the OTC Bulletin Board under the symbol UCNN. On November 10, 2006, the closing bid price for our common stock was \$2.95 per share.

A copy of our quarterly report on Form 10-Q (without exhibits) for the interim period ended September 30, 2006, filed with the Securities and Exchange Commission on November 13, 2006 is included in this supplement. A copy of our quarterly report on Form 10-Q (without exhibits) for the interim period ended June 30, 2006, is included in Supplement No. 2 dated August 11, 2006. 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 September 30, 2006, beginning on page 27 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, Supplement No. 1 to the prospectus dated May 15, 2006., and Supplement No. 2 to the prospectus dated August 11, 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.

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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 September 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: 25,169,784 shares of common stock as of November 9, 2006.

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	<i>(unaudited)</i> September 30,	December 31,
	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 4,540	\$ 5,471
Restricted cash	10	651
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,637 and \$1,596, respectively	10,851	11,368
Other current assets	427	561
Total current assets	15,828	18,051
Property and equipment, net	5,097	5,225
Intangible assets, net	7,638	11,545
Other assets	623	822
Total assets	\$ 29,186	\$ 35,643
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Line of credit	\$	\$ 3,328
Current portion of long-term debt	955	2,966
Trade accounts payable	8,671	11,380
Accrued liabilities	2,337	2,268
Accrued commissions	1,283	1,355
Total current liabilities	13,246	21,297
Long-term debt and revolving credit note	7,906	5,511
Other long-term liabilities	83	247
Total liabilities	21,235	27,055
Commitments and contingencies (Notes 5, 9, 11, 12, 13, 15 and 16)		
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 September 30, 2006 and December 31, 2005, respectively	3	2
Additional paid-in capital	49,322	44,570
Warrants and options outstanding	1,277	735
Accumulated deficit	(42,651)	(36,719)
Total stockholders equity	7,951	8,588

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Total liabilities and stockholders' equity	\$ 29,186	\$ 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 September 30,	
	2006	2005
Revenue	\$ 20,204	\$ 22,152
Operating expenses:		
Costs of revenue	12,708	14,483
Selling and promotion	3,498	3,077
General and administrative	3,303	3,656
Depreciation and amortization	1,879	1,901
Research and development	260	338
Total operating expenses	21,648	23,455
Loss from operations	(1,444)	(1,303)
Other income (expense):		
Interest income	42	26
Interest expense	(244)	(289)
Total other expense	(202)	(263)
Net loss before income taxes	(1,646)	(1,566)
Income tax expense	3	
Net loss	(1,649)	(1,566)
Preferred dividends		
Net loss applicable to common stockholders	\$ (1,649)	\$ (1,566)
Net loss per common share:		
Basic and diluted	\$ (0.07)	\$ (0.08)
Weighted average common shares outstanding:		
Basic and diluted	25,142	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)*

	Nine months ended September 30,	
	2006	2005
Revenue	\$ 63,794	\$ 59,614
Operating expenses:		
Costs of revenue	41,771	38,984
Selling and promotion	10,548	9,587
General and administrative	9,785	9,677
Depreciation and amortization	5,622	5,112
Research and development	921	967
Total operating expenses	68,647	64,327
Loss from operations	(4,853)	(4,713)
Other income (expense):		
Interest income	124	70
Interest expense	(828)	(698)
Loss on early extinguishment of debt	(364)	
Total other expense	(1,068)	(628)
Net loss before income taxes	(5,921)	(5,341)
Income tax expense	11	
Net loss	(5,932)	(5,341)
Preferred dividends		(38)
Net loss applicable to common stockholders	\$ (5,932)	\$ (5,379)
Net loss per common share:		
Basic and diluted	\$ (0.25)	\$ (0.26)
Weighted average common shares outstanding:		
Basic and diluted	24,111	20,361

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/	Accumulated	Total
	Shares	Amount	Paid-in	Options		
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			426			426
Proceeds from private offering, net of issuance costs of \$315	1,956	1	4,185			4,186
Warrant issued in conjunction with debt financing				542		542
Net loss					(5,932)	(5,932)
Balance at September 30, 2006	25,142	\$ 3	\$ 49,322	\$ 1,277	\$ (42,651)	\$ 7,951

See notes to condensed consolidated financial statements

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

	Nine months ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (5,932)	\$ (5,341)
Adjustments to reconcile net loss to net cash used in operating activities (net of acquisitions):		
Depreciation and amortization	5,622	5,112
Amortization of note financing costs	112	69
Stock-based compensation	426	
Loss on early extinguishment of debt	364	
Changes in operating assets and liabilities:		