

UCN INC
Form 424B3
May 16, 2006
Table of Contents

Rule 424(b)(3)

SEC file No. 333-130748

Prospectus Supplement No. 1 dated May 15, 2006

To Prospectus dated April 10, 2006

UCN, INC.

COMMON STOCK

This 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. The shares were registered under a registration statement on Form S-1 filed with the Securities and Exchange Commission in December 2005. This prospectus supersedes and replaces the prospectus dated January 12, 2006.

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 May 10, 2006, the closing bid price for our common stock was \$2.55 per share.

A copy of our quarterly report on Form 10-Q (without exhibits) for the interim period ended March 31, 2006, filed with the Securities and Exchange Commission on May 15, 2006 is being delivered to you with this supplement. 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.

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.

Table of Contents

Notice About Information Presented In This Supplement

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 and the prospectus. 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.

Table of Contents

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 March 31, 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: 23,185,457 shares of common stock as of May 12, 2006.

Table of Contents

TABLE OF CONTENTS

ITEM NUMBER AND CAPTION	Page
PART I FINANCIAL INFORMATION	
Item 1. Financial Statements	
<u>Condensed Consolidated Balance Sheets as of March 31, 2006, and December 31, 2005 (unaudited)</u>	3
<u>Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 2006 and 2005 (unaudited)</u>	4
<u>Condensed Consolidated Statement of Stockholders' Equity for the Three Months Ended March 31, 2006 (unaudited)</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2006 and 2005 (unaudited)</u>	6
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	16
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	21
PART II OTHER INFORMATION	
<u>Item 1A. Risk Factors</u>	21
<u>Item 2. Unregistered sales of equity securities and use of proceeds</u>	22
<u>Item 5. Other Information</u>	22
<u>Item 6. Exhibits</u>	22
<u>Signatures</u>	

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

	March 31, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,930	\$ 5,471
Restricted cash	814	651
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,355 and \$1,364, respectively	11,924	11,368
Other current assets	528	561
Total current assets	16,196	18,051
Property and equipment, net	5,043	5,225
Intangible assets, net	10,211	11,545
Other assets	800	822
Total assets	\$ 32,250	\$ 35,643
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Line of credit	\$ 3,502	\$ 3,328
Current portion of long-term debt, notes payable and capital lease obligations	3,416	2,966
Trade accounts payable	10,442	11,380
Accrued liabilities	2,413	2,268
Accrued commissions	1,327	1,355
Total current liabilities	21,100	21,297
Long-term debt, notes payable and capital lease obligations	4,359	5,511
Other long-term liabilities	190	247
Total liabilities	25,649	27,055
Commitments and contingencies (Notes 4, 5, 6, 11 and 13)		
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 2005 and 2004, (liquidation values of \$0 and \$0)		
Series B 8% cumulative convertible preferred stock; 0 shares issued and outstanding for 2005 and 2004, respectively (liquidation values of \$0 and \$0)		
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 23,119,669 and 23,114,669 shares issued and outstanding for 2005 and 2004, respectively		
	2	2
Additional paid-in capital	44,726	44,570
Warrants and options outstanding	735	735
Accumulated deficit	(38,862)	(36,719)
Total stockholders' equity	6,601	8,588
Total liabilities and stockholders' equity	\$ 32,250	\$ 35,643

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 March 31,	
	2006	2005
Revenue	\$ 22,622	\$ 15,974
Operating expenses:		
Costs of revenue	15,483	10,371
Selling and promotion	3,618	3,118
General and administrative	3,567	2,796
Depreciation and amortization	1,879	1,505
Total operating expenses	24,547	17,790
Loss from operations	(1,925)	(1,816)
Other income (expense):		
Interest income	40	20
Interest expense	(258)	(183)
Total other expense	(218)	(163)
Net loss	(2,143)	(1,979)
Preferred dividends		(38)
Net loss applicable to common stockholders	\$ (2,143)	\$ (2,017)
Net loss per common share:		
Basic and diluted	\$ (0.09)	\$ (0.10)
Weighted average common shares outstanding:		
Basic and diluted	23,117	19,502

See notes to condensed consolidated financial statements

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Warrants/ Options Outstanding	Accumulated Deficit	Total
Balance at January 1, 2006	23,115	\$ 2	\$ 44,570	\$ 735	\$ (36,719)	\$ 8,588
Private placement offering costs			(7)			(7)
Exercise of employee options to purchase common shares	5		10			10
Stock-based compensation			153			153
Net loss					(2,143)	(2,143)
Balance at March 31, 2006	23,120	\$ 2	\$ 44,726	\$ 735	\$ (38,862)	\$ 6,601

See notes to condensed consolidated financial statements

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

	Three months ended March 31,	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (2,143)	\$ (1,979)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	1,846	1,505
Amortization of note financing costs	33	19
Stock-based compensation	153	
Changes in operating assets and liabilities:		
Accounts and other receivables, net	(556)	516
Other current assets	33	(54)
Other non-current assets	22	(16)
Trade accounts payable	(938)	1,221
Accrued liabilities	60	394
Net cash provided by (used in) operating activities	(1,490)	1,606
Cash flows from investing activities:		
Purchases of property and equipment	(163)	(342)
Increase in restricted cash	(167)	(601)
Acquisition of MyACD, Inc. stock		(427)
Net cash used in investing activities	(330)	(1,370)
Cash flows from financing activities:		
Net borrowings (payments) under line of credit	174	(191)
Proceeds from exercise of options and warrants	10	164
Private placement offering costs	(7)	
Principal payments on long-term debt and capital leases	(898)	(292)
Net cash used in financing activities	(721)	(319)
Net decrease in cash and cash equivalents	(2,541)	(83)
Cash and cash equivalents at the beginning of the period	5,471	4,010
Cash and cash equivalents at the end of the period	\$ 2,930	\$ 3,927

(continued) (continued)

See notes to condensed consolidated financial statements

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

	Three months ended March 31,	
	2006	2005
Supplemental cash flow information:		
Cash paid for interest	\$ 284	\$ 269
Supplemental schedule of non-cash investing and financing activities:		
Property and equipment financed with capital lease obligations	\$ 196	\$ 332
Issuance of long-term debt related to acquisition of MyACD, Inc.		4,272
Issuance of common stock related to acquisition of MyACD, Inc.		1,284
Accrual of dividend payable on preferred stock		38
Issuance of common shares in payment of preferred stock dividend		348
	(concluded)	(concluded)

See notes to condensed consolidated financial statements

Table of Contents

UCN, INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

These unaudited interim financial statements of UCN, Inc. and its subsidiaries (collectively, "UCN" or "the Company") have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (the "Commission"). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States, so long as the statements are not misleading. In the opinion of Company management, these financial statements and accompanying notes contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods shown. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in our Annual Report on Form 10-K for the year ended December 31, 2005, as filed with the Commission on March 29, 2006. The results of operations for the three month period ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year.

As of March 31, 2006, UCN had a working capital deficit of approximately \$4.9 million, including the current portion of long-term debt, notes payable and capital lease obligations of approximately \$3.4 million. The Company also experienced net losses during the three months ended March 31, 2006 and 2005 of approximately \$2.1 million and \$2.0 million, respectively, and the cost of revenue for three months ended March 31, 2006 was 69% as compared to 65% during same period during 2005. Additionally, the Company had a fourth consecutive quarter of negative cash flows from operating activities. The primary factors affecting operating results were: 1) continued investments in the promotion and development of inContact to bring these services to market, 2) timing of payments and receipt of receivables, 3) \$330,000 payment of a billing dispute, and 3) significant increases in prices from two of the Company's largest wholesale telecommunication service vendors that the Company had to absorb.

The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon: 1) the Company's ability to generate sufficient cash flow to meet the Company's obligations on a timely basis, 2) to obtain additional financing and 3) ultimately to achieve successful operations.

The Company has taken the following actions to improve its financial situation:

The Company is concentrating its marketing efforts on promoting the sale of inContact technology services to existing and new customers. This focus is driven by higher gross margins for customers utilizing inContact services integrated with traditional long distance services. The inContact segment revenue, (which includes long distance services to customers who utilize inContact technology), during the first quarter was \$2.96 million for the first three months of 2006 compared to \$846,000 during the same period in the previous year and \$2.0 million in the fourth quarter of 2005. Additional information on the Company's segments can be found in Notes 2 and 12.

In May 2006, UCN reached an agreement with ComVest Capital to refinance the majority of its existing short and long term debt (Note 13). The terms of this agreement will improve the company's current ratio by reclassifying approximately \$6.5 million from current to long term liabilities. This agreement will also decrease debt commitments over the next two years by approximately \$4 million.

The Company generated approximately \$290,000 of additional revenue by charging certain wholesale carrier cost recovery fees to its customers during the first quarter of 2006.

The Company saved approximately \$283,000 during the first quarter by using a lower cost long distance carrier. The Company anticipates saving approximately \$1.2 million during 2006 by continuing to use this new carrier and from the shut down of parts of the Transtel network.

The Company renegotiated lower minimum purchase commitments with two of its wholesale telecommunication service vendors over a longer period