

UCN INC  
Form 10-Q  
November 13, 2007  
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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, 2007

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. 1-33762

\_\_\_\_\_  
**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**

**87-0528557**  
(IRS Employer  
Identification No.)

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(Registrant's telephone number, including area code)

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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: 30,968,924 shares of common stock as of November 12, 2007.

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

	<i>(unaudited)</i> September 30, 2007	December 31, 2006
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 6,681	\$ 4,559
Restricted cash		10
Accounts and other receivables, net of allowance for uncollectible accounts of \$1,799 and \$1,746, respectively	9,256	8,996
Other current assets	845	594
Total current assets	16,782	14,159
Property and equipment, net	6,000	4,810
Intangible assets, net	7,791	6,373
Goodwill	1,849	
Other assets	299	617
Total assets	\$ 32,721	\$ 25,959
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 725	\$ 720
Trade accounts payable	7,692	8,350
Accrued liabilities	2,706	2,024
Accrued commissions	1,285	1,448
Deferred revenue	99	
Total current liabilities	12,507	12,542
Long-term debt and revolving credit note	512	6,523
Other long-term liabilities and deferred revenue	47	46
Total liabilities	13,066	19,111
Commitments and contingencies (Notes 3, 7, 9 and 10)		
Stockholders' equity:		
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 30,918,927 and 25,385,031 shares issued and outstanding as of September 30, 2007 and December 31, 2006, respectively	3	3
Additional paid-in capital	68,054	50,071
Warrants and options outstanding	1,346	1,268
Accumulated deficit	(49,748)	(44,494)
Total stockholders' equity	19,655	6,848
Total liabilities and stockholders' equity	\$ 32,721	\$ 25,959

See notes to condensed consolidated financial statements



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

	<b>Three months ended September 30,</b>		<b>Nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Revenue	\$ 19,628	\$ 20,204	\$ 59,422	\$ 63,794
Operating expenses:				
Costs of revenue (excluding depreciation and amortization shown separately below)	10,931	12,708	33,595	41,771
Selling and promotion	3,883	3,498	11,835	10,548
General and administrative	4,574	3,303	12,436	9,785
Depreciation and amortization	1,453	1,879	4,740	5,622
Research and development	674	260	1,549	921
Total operating expenses	21,515	21,648	64,155	68,647
Loss from operations	(1,887)	(1,444)	(4,733)	(4,853)
Other income (expense):				
Interest income	3	42	22	124
Interest expense	(126)	(244)	(529)	(828)
Loss on early extinguishment of debt				(364)
Total other expense	(123)	(202)	(507)	(1,068)
Loss before income taxes	(2,010)	(1,646)	(5,240)	(5,921)
Income tax expense	9	3	14	11
Net loss	\$ (2,019)	\$ (1,649)	\$ (5,254)	\$ (5,932)
Net loss per common share:				
Basic and diluted	\$ (0.07)	\$ (0.07)	\$ (0.19)	\$ (0.25)
Weighted average common shares outstanding:				
Basic and diluted	28,908	24,142	27,804	24,111

See notes to condensed consolidated financial statements

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

	Common Stock		Additional Paid-in Capital	Warrants/ Options Outstanding	Accumulated Deficit	Total
	Shares	Amount				
Balance at January 1, 2007	25,385	\$ 3	\$ 50,071	\$ 1,268	\$ (44,494)	\$ 6,848
Exercise of stock options to purchase common shares (Note 8)	295		728			728
Stock-based compensation			986			986
Warrant issued in conjunction with consulting agreement				68		68
Warrants issued to lender for approval of BenchmarkPortal acquisition (Notes 3 & 8)				83		83
Shares issued due to cashless warrant exercise (Note 8)	37		189	(189)		
Issuance of common shares in conjunction with BenchmarkPortal acquisition (Notes 3 & 8)	1,536		4,500			4,500
Issuance of common shares in conjunction with ScheduleQ acquisition (Notes 3 & 8)	109		330			330
Conversion of ComVest convertible term note (Note 8)	1,127		3,380			3,380
Warrants issued in conjunction with investor relations agreement				116		116
Proceeds from shelf registration, net of issuance costs of \$635 (Note 8)	2,430		7,870			7,870
Net loss					(5,254)	(5,254)
Balance at September 30, 2007	30,919	\$ 3	\$ 68,054	\$ 1,346	\$ (49,748)	\$ 19,655

See notes to condensed consolidated financial statements

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

	<b>Nine months ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (5,254)	\$ (5,932)
<b>Adjustments to reconcile net loss to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization	4,740	5,622
Amortization of note financing costs	142	112
Stock-based compensation	986	426
Warrants issued for consulting services	184	
Loss on early extinguishment of debt		364
<b>Changes in operating assets and liabilities (net effects of acquisitions):</b>		
Accounts and other receivables, net	327	517
Other current assets	(215)	31
Other non-current assets	210	42
Trade accounts payable	(977)	(2,856)
Accrued liabilities	683	(95)
Accrued commissions	(163)	(71)
Deferred revenue	(264)	
<b>Net cash provided by (used in) operating activities</b>	<b>399</b>	<b>(1,840)</b>
<b>Cash flows from investing activities:</b>		
Decrease in restricted cash	10	641
Acquisition of BenchmarkPortal, Inc.	(500)	
Contingent purchase price payments	(352)	
Direct acquisition costs	(281)	
Purchases of property and equipment	(1,726)	(1,245)
<b>Net cash used in investing activities</b>	<b>(2,849)</b>	<b>(604)</b>
<b>Cash flows from financing activities:</b>		
Net borrowings and payments under line of credit	(3,333)	1,478
Principal payments on long-term debt	(437)	(3,729)
Principal payments on long-term debt assumed in conjunction with the acquisition of S		