

UCN INC
Form 424B3
September 07, 2004

Rule 424(b)(3) and Rule 424(c)
SEC File No. 333-114302

**Prospectus Supplement No. 2 dated September 3, 2004
To Prospectus dated April 22, 2004**

**UCN, INC
(formerly Buyers United, Inc.)**

COMMON STOCK

This prospectus covers 5,504,671 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 10 of the prospectus to which this supplement is attached. The 5,504,671 shares consist of 4,532,000 shares issued in a private placement that closed in March 2004, 808,546 shares issued as dividends and on conversion in March 2004 of previously outstanding preferred stock, and 164,125 shares issuable on exercise of a warrant at an exercise price of \$2.76 per share.

UCN will receive the proceeds from exercise of the warrant, but will not receive any proceeds or benefit from the 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 August 31, 2004, the closing bid price for our common stock was \$2.30 per share.

A copy of our quarterly report on Form 10-Q for the six months ended June 30, 2004 and current report on Form 8-K filed with the Securities and Exchange Commission on July 23, 2004 accompany this supplement. Our annual report on Form 10-KSB for the year ended December 31, 2003 accompanies the prospectus, and our report on Form 10-Q for the three months ended March 31, 2004 accompanies the supplement dated May 21, 2004. The mailing address and telephone number of our executive office are:

UCN, Inc.
14870 Pony Express Road, Bluffdale, Utah 84065
Telephone (801) 320-3300

See Risk Factors beginning on page 5 of the prospectus 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.

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, including the supplement thereto dated May 21, 2004.
- This supplement provides information that supersedes, or is in addition to, information presented in the prospectus and prior supplements. If there is any difference between the information presented in this supplement and the information contained in the prospectus or prior supplements, you should rely on the information in this supplement.

- You should rely only on the information provided in this supplement, the prospectus and the supplement dated May 21, 2004. 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.

SUPPLEMENTAL INFORMATION

Incorporation By Reference

The Securities and Exchange Commission (SEC) allows us to incorporate by reference certain of our publicly filed documents into this prospectus, which means that information included in those documents is considered part of this prospectus. By this supplement we incorporate by reference into the prospectus our:

1. Quarterly report on Form 10-Q for the quarter ended June 30, 2004, as filed with the SEC on August 16, 2004;
2. Current report on Form 8-K as filed with the SEC on July 23, 2004
3. Quarterly report on Form 10-Q for the quarter ended March 31, 2004, as filed with the SEC on May 17, 2004;
4. Current Report on Form 8-K as filed with the SEC on May 14, 2004;
5. Annual Report on Form 10-KSB as filed with the SEC on March 30, 2004; and
6. Current Report on Form 8-K as filed with the SEC on March 17, 2004.

Upon a written or oral request, we will provide to you free of charge a copy of any or all of such documents incorporated by reference, other than exhibits to such documents unless the exhibits are specifically incorporated by reference in those documents. You should direct any requests for documents to:

Kimm Partridge, Secretary
UCN, Inc.
14870 Pony Express Road
Bluffdale, Utah 84065
Telephone (801) 320-3300

Selling Security Holders

UCN is advised that Acceris Communications Inc. sold 808,546 shares of UCN common stock under the prospectus, and that The Pinnacle Fund, L.P. sold 422,000 shares under the prospectus. According to the Schedule 13D filed by Acceris Communications in July 2004, it did not hold any common stock of UCN at that time and UCN is not aware of any subsequent purchases of common stock by Acceris Communications. We are not aware of any stock ownership in UCN by The Pinnacle Fund.

We are advised that certain other selling security holders have increased their stock ownership. The new stock positions for these holders are as follows:

Selling Security Holder	Number Of Shares Owned (1)	Number Of Shares Offered	Percentage Owned After
033 Growth Partners I, L.P. (2)	651,941	585,231	Less than 1%
033 Growth Partners II, LP (2)	201,079	183,123	Less than 1%
Oyster Pond Partners, LP (2)	145,457	134,953	Less than 1%
033 Growth International Fund Ltd. (2)	321,523	291,693	Less than 1%

- (1) The number and percentage of shares beneficially owned is determined in accordance with Rule 13d-3 of the Securities Exchange Act of 1934, and the information is not necessarily indicative of beneficial ownership for any other purpose. Under such rule, beneficial ownership includes any shares as to which the individual has sole or shared voting power or investment power and also any shares that the individual has the right to acquire within 60 days of the date of this prospectus through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting and investment power (or shares such powers with his or her spouse) with respect to the shares shown as beneficially owned. Percentage of beneficial ownership is based on 13,742,579 shares of common stock outstanding as of July 31, 2004.
- (2) As reported in a Schedule 13G filed with the Securities and Exchange Commission, 033 Asset Management, LLC, may be deemed to hold an indirect beneficial interest in the shares held by these funds because of its status as investment manager for the funds, but 033 Asset Management, LLC, also reported that it disclaims any economic interest or beneficial ownership of the shares.

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 the prospectus and elsewhere in this supplement 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.

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2004**

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
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)

87-0528557
(IRS Employer Identification No.)

14870 Pony Express Road, Bluffdale, Utah 84065

(Address of Principal Executive Offices)

(801) 320-3300
Registrant's Telephone Number, Including Area Code)

Buyers United, Inc.

(Former Name, Address and Fiscal Year, if Changed Since Last Report)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 13,742,579 shares of common stock as of July 31, 2004.

FORM 10-Q
UCN, INC.

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UCN, INC.**CONDENSED CONSOLIDATED BALANCE SHEET (Unaudited)**

	June 30, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,128,606	\$ 3,055,384
Restricted cash	1,698,339	1,569,336
Accounts and other receivables, net	8,577,271	8,162,483
Other current assets	283,608	243,844
Total current assets	12,687,824	13,031,047
Property and equipment, net	3,116,892	2,424,642
Intangible assets, net	7,346,085	8,018,682
Other assets	479,830	496,787
Total assets	\$ 23,630,631	\$ 23,971,158
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Current liabilities:		
Line of credit	\$ 754,559	\$ 4,093,782
Current portion of long-term debt and capital lease obligations	2,586,201	7,781,484
Trade accounts payable	9,137,253	11,248,152
Accrued liabilities	2,311,895	1,828,864
Total current liabilities	14,789,908	24,952,282
Long-term debt and capital lease obligations	38,394	646,126
Total liabilities	14,828,302	25,598,408
Stockholders' equity (deficit):		
Preferred stock, \$0.0001 par value, 15,000,000 shares authorized; Series A 8% cumulative convertible preferred stock; 1,827,500 and 1,865,000 shares issued and outstanding (liquidation values of \$3,655,000 and \$3,730,000)	183	187
Series B 8% cumulative convertible preferred stock; 417,800 and 721,729 shares issued and outstanding (liquidation values of \$4,178,000 and \$7,217,290)	42	72
Common stock, \$0.0001 par value; 100,000,000 shares authorized; 13,732,579 and 7,604,584 shares issued and outstanding	1,373	760
Additional paid-in capital	31,123,541	20,193,148
Warrants and options outstanding	3,392,046	3,928,110
Accumulated deficit	(25,714,856)	(25,749,527)
Total stockholders' equity (deficit)	8,802,329	(1,627,250)
Total liabilities and stockholders' equity (deficit)	\$ 23,630,631	\$ 23,971,158

See accompanying notes

UCN, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

	Three Months Ended June 30,	
	2004	2003
Revenues from telecommunications services	\$ 16,727,909	\$ 16,291,636
Operating expenses:		
Costs of revenues	8,975,366	8,591,879
General and administrative	3,763,203	4,104,409
Selling and promotion	3,623,583	2,691,314
Total operating expenses	16,362,152	15,387,602
Income from operations	365,757	904,034
Interest income	7,456	2,800
Interest expense	(191,692)	(506,166)
Total other expense, net	(184,236)	(503,366)
Net income	181,521	400,668
8% Preferred dividends on Series A and B preferred stock	(156,351)	(215,193)
Net income applicable to common stockholders	\$ 25,170	\$ 185,475
Net income per common share:		
Basic	\$ 0.00	\$ 0.03
Diluted	0.00	0.03
Weighted average common shares outstanding:		
Basic	13,534,770	6,330,142
Diluted	14,649,308	6,354,982
	See accompanying notes	

UCN, INC.**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)**

	Six Months Ended June 30,	
	2004	2003
Revenues from telecommunications services	\$ 33,471,616	\$ 31,772,756
Operating expenses:		
Costs of revenues	18,151,558	17,256,646
General and administrative	7,780,487	7,731,109
Selling and promotion	6,727,575	5,022,383
Total operating expenses	32,659,620	30,010,138
Income from operations	811,996	1,762,618
Interest income	21,306	5,401
Interest expense	(549,117)	(992,095)
Gain on early extinguishment of debt	109,150	--
Total other expense, net	(418,661)	(986,694)
Net income	393,335	775,924
8% Preferred dividends on Series A and B preferred stock	(358,664)	(397,088)
Net income applicable to common stockholders	\$ 34,671	\$ 378,836
Net income per common share:		
Basic	\$ 0.00	\$ 0.06
Diluted	0.00	0.06
Weighted average common shares outstanding:		
Basic	11,160,476	6,287,453
Diluted	12,490,536	6,322,395

See accompanying notes

UCN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2004	2003
Cash flows from operating activities:		
Net income	\$ 393,335	\$ 775,924
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	2,014,915	1,784,215
Amortization included in interest expense resulting from issuing stock with notes	--	5,312
Amortization of discount on long-term debt	104,106	231,010
Amortization of note financing costs	50,000	81,424
Amortization of deferred consulting fees	--	10,417
Changes in operating assets and liabilities:		
Accounts and other receivables	(414,788)	(2,977,483)
Other assets	(17,299)	(660,476)
Trade accounts payable	(2,115,965)	3,314,524
Accrued liabilities	694,314	755,182
Net cash provided by operating activities	708,618	3,320,049
Cash flows from investing activities:		
Decrease in other assets	(22,124)	(52,126)
Acquisition of customer base	(757,856)	--
Purchases of property and equipment	(1,237,631)	(524,402)
Net cash used in investing activities	(2,017,611)	(576,528)
Cash flows from financing activities:		
Increase in restricted cash	(129,003)	(463,055)
Net borrowings and payments under line of credit	(3,339,223)	(382,665)
Borrowings on long-term debt, net of debt issuance costs	--	2,299,955
Proceeds from exercise of options and warrants	1,849,500	--
Private placement of common stock, net of offering costs	8,108,062	--
Repurchase of common stock	(500,000)	(2,684)
Principal payments on long-term debt	(5,607,121)	(4,678,422)
Net cash provided by (used in) financing activities	382,215	(3,226,871)
Net decrease in cash and cash equivalents	(926,778)	(483,350)
Cash and cash equivalents at the beginning of the period	3,055,384	994,360
Cash and cash equivalents at the end of the period	\$ 2,128,606	\$ 511,010

See accompanying notes

UCN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

	Six Months Ended June 30,	
	2004	2003
Supplemental cash flow information:		
Cash paid for interest	\$ 544,202	\$ 548,914
Supplemental schedule of noncash investing and financing activities:		
Issuance of common shares in payment of preferred stock dividend	\$ 473,533	\$ 377,688
Accrual of dividend payable on preferred stock	358,664	397,088
Issuance of common shares for officer's personal guaranty	--	36,300
Issuance of warrants with private placement of common stock	189,336	--
Issuance of warrants with consulting contract	72,465	--
Retirement and replacement of note payable	--	800,000
Conversion of note payable into common stock	300,000	--
Increase in Touch America obligation with amended agreement	--	3,098,000
Issuance of preferred stock to acquire VoIP assets	91,348	1,400,738
	See accompanying notes	

UCN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Unaudited)

	Preferred Stock		Common Stock		Additional Paid-in Capital
	Shares	Amount	Shares	Amount	
Balance at January 1, 2004	2,586,729	\$ 259	7,604,584	\$ 760	\$20,193,148
Issuance of preferred stock in connection with the acquisition of VoIP assets	16,071	2	--	--	91,346
Conversion of preferred shares to common	(357,500)	(36)	1,637,500	164	(128)
Exercise warrants to purchase common stock	--	--	647,000	65	2,039,747
Exercise employee options to purchase common stock	--	--	255,000	26	554,974
Conversion of promissory note to common stock	--	--	150,000	15	299,985
Expiration of warrants to purchase common stock	--	--	--	--	52,553
Private placement of common stock, net of offering costs	--	--	3,782,000	378	7,918,348
Issuance of warrants for services	--	--	--	--	--
Preferred stock dividends	--	--	--	--	--
Issuance of common shares as payment of preferred stock dividends	--	--	171,055	17	473,516
Repurchase shares from stockholder	--	--	(514,560)	(52)	(499,948)
Net income	--	--	--	--	--
Balance at June 30, 2004	2,245,300	\$ 225	13,732,579	\$ 1,373	\$31,123,541

See accompanying notes

UCN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY (DEFICIT) (Unaudited)

	Warrants/ Options Outstanding	Accumulated Deficit	Total
Balance at January 1, 2004	\$ 3,928,110	\$ (25,749,527)	\$ (1,627,250)
Issuance of preferred stock in connection with the acquisition of VoIP assets		--	91,348
Conversion of preferred shares to common	--	--	--
Exercise warrants to purchase common stock	(745,312)	--	1,294,500
Exercise employee options to purchase common stock	--	--	555,000
Conversion of promissory note to common stock	--	--	300,000
Expiration of warrants to purchase common stock	(52,553)	--	--
Private placement of common stock, net of offering costs	189,336	--	8,108,062
Issuance of warrants for services	72,465	--	72,465
Preferred stock dividends	--	(358,664)	(358,664)
Issuance of common shares as payment of preferred stock dividends	--	--	473,533
Repurchase shares from stockholder	--	--	(500,000)
Net income	--	393,335	393,335
Balance at June 30, 2004	\$ 3,392,046	\$ (25,714,856)	\$ 8,802,329

See accompanying notes

UCN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

June 30, 2004

1. Basis of presentation

These unaudited interim financial statements of UCN, Inc. and its subsidiary (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 only 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-KSB for the year ended December 31, 2003, as filed with the Commission on March 30, 2004.

The results of operations for the three and six month periods ended June 30, 2004 are not necessarily indicative of the results to be expected for the full year

2. Summary of significant accounting policies

Net Income Per Common Share: Basic net income per common share (Basic EPS) excludes dilution and is computed by dividing net income applicable to common shareholders by the weighted average number of common shares outstanding during the quarterly and year-to-date periods. Diluted net income per common share (Diluted EPS) reflects the potential dilution that could occur if stock options or other common stock equivalents were exercised or converted into common stock. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an antidilutive effect on net income per common share.

Following is the reconciliation of Basic and Diluted EPS:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
Net income applicable to common stockholders, as reported	\$ 25,170	\$ 185,475	\$ 34,671	\$ 378,836
<u>Basic EPS:</u>				
Weighted average number of common shares outstanding	13,534,770	6,330,142	11,160,476	6,287,453
Basic net income per share	\$ 0.00	\$ 0.03	\$ 0.00	\$ 0.06
<u>Diluted EPS:</u>				
Common and common equivalent shares outstanding:				
Weighted average number of common shares outstanding	13,534,770	6,330,142	11,160,476	6,287,453
Common stock equivalents from options and warrants computed on the Treasury Stock method, using the average fair market value of common stock outstanding during the period	1,114,538	24,840	1,330,060	34,942
Shares used in the computation	14,649,308	6,354,982	12,490,536	6,322,395

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	Three months ended June 30,		Six months ended June 30,					
Diluted net income per share	\$	0.00	\$	0.03	\$	0.00	\$	0.06

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Stock-Based Compensation: Employee compensation expense is measured using the intrinsic method. No stock-based compensation cost is reflected in net income applicable to common stockholders, since all options had an exercise price equal to or greater than the market price of the underlying common stock at the date of grant. The following table illustrates the effects on net income (loss) applicable to common stockholders and earnings (loss) per share if expense was measured using the fair value recognition provision of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*:

	Three months ended June 30,		Six months ended June 30,	
	2004	2003	2004	2003
<u>Net income (loss) applicable to common stockholders:</u>				
As reported	\$ 25,170	\$ 185,475	\$ 34,671	\$ 378,836
Pro forma stock-option based compensation	(163,808)	(88,677)	(276,900)	(157,809)
Pro forma net income (loss) applicable to common stockholders	\$ (34,841)	\$ 96,798	\$ (138,433)	\$ 221,027
<u>Basic and diluted net income (loss) per common share:</u>				
As reported	\$ 0.00	\$ 0.03	\$ 0.00	\$ 0.06
Pro forma basic and diluted net income (loss) per common share	\$ 0.00	\$ 0.02	\$ (0.01)	\$ 0.04

We estimated the fair value of options granted under our employee stock-based compensation arrangements at the date of grant using the Black-Scholes model with the following weighted-average assumptions:

	Six Months Ended June 30,	
	2004	2003
Dividend yield	None	None
Expected volatility	95%	75%
Risk-free interest rate	4.39%	2.89%
Expected life (years)	4.5	