UCN INC
Form 10-K
April 01, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

x **Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 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	**87-0528557**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

7730 So Union Park Avenue, Suite 500, Midvale, UT 84047

(Address of principal executive offices and Zip Code)

(801) 320-3200

(Registrant s telephone number, including area code)

Securities registered under Section 12(b) of the Act: Common Stock, Par Value $0.0001

Securities registered under Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large Accelerated Filer ¨ Accelerated Filer x Non-Accelerated Filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant s most recently completed second fiscal quarter: $88,107,916

The number of shares outstanding of the registrant s class of $0.0001 par value common stock as of March 28, 2008 was 31,027,593.

DOCUMENTS INCORPORATED BY REFERENCE: Certain information required for Part III of this report is incorporated herein by reference to the proxy statement for the 2008 annual meeting of UCN s shareholders.

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FORWARD-LOOKING STATEMENTS

Forward-looking statements include all statements that do not relate solely to historical or current facts, and can generally be identified by the use of words such as may, believe, will, expect, project, estimate, intend, anticipate, plan, continue or similar expressions. In information appearing under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business includes forward-looking statements. Forward-looking statements inherently involve many risks and uncertainties that could cause actual results to differ materially from those projected in these statements. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is based on the current plans and expectations of our management and expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some, but not all, of the factors that could cause actual results or events to differ materially from those anticipated:

- the highly competitive and evolving nature of the industry in which we compete;
- rapid technological changes;
- failure by us to implement our strategies;
- our ability to keep pace with changing user needs;
- financial difficulties experienced by any of our top users;
- our debt and debt service requirements that restrict our operating and financial flexibility, and impose interest and financing costs;
- our ability to attract and retain key personnel;
- general economic conditions; and
- possible terrorists attacks and ongoing military action throughout the world.

There may be other factors that may cause our actual results to differ materially from the forward-looking statements. Our actual results, performance or achievements could differ materially from those expressed in, or implied by, the forward-looking statements. We can give no assurances that any of the events anticipated by the forward-looking statements will occur or, if any of them does, what impact they will have on our results of operations and financial condition. You should carefully read the factors described in the Risk Factors section of this Form 10-K for a description of certain risks that could, among other things, cause our actual results to differ from these forward-looking statements.

All forward-looking statements speak only as of the date of this Form 10-K and are expressly qualified in their entirety by the cautionary statements included in this Form 10-K. We undertake no obligation to update or revise forward-looking statements that may be made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events, other than as required by law.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934. Accordingly, we file periodic reports and other information with the Securities and Exchange Commission. We make our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports available through our Internet site, www.ucn.net as soon as reasonably practicable after electronically filing such materials with the Securities and Exchange Commission (SEC). They may also be obtained by writing to UCN, Inc., 7730 So Union Park Avenue, Suite 500, Midvale, UT 84047. In addition, copies of these reports may be obtained through the Securities and Exchange Commission website at www.sec.gov or by visiting the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 800-SEC-0330.

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PART I

ITEM 1. BUSINESS
General

UCN, Inc. (we , us , our , UCN or the Company) offers a wide range of hosted contact handling and performance management software servic in addition to a variety of connectivity options for carrying an inbound call into its inContact suite of services or linking agents to inContact, including dedicated T1s, IP connectivity, toll free and local inbound numbers. We sell telecom services unbundled from our inContact service offering including: dedicated, switched, toll free, and data lines at competitive prices with superior service levels.

We are in the process of transitioning our business from being a telecom services provider to being a Software as a Service (SaaS) provider. Our SaaS offering to users consist primarily of on-demand, hosted, contact handling software we market as our inContact suite and business telecommunication services, which are delivered over our national Voice over Internet Protocol (VoIP) network or other connectivity options. The inContact application suite includes an integrated package of advanced contact handling, reporting and administration applications as well as performance monitoring and management tools.

We offer our users a set of traditional connectivity products, which include the dedicated voice T1 product, the Intelligent-T , VoIP connectivity services and our switched 1+ services. In addition to long distance, toll-free, and other traditional telephone service, these connectivity options enable our users to connect to our VoIP Network and the complete set of inContact services we have available. Our users publish toll free and local inbound numbers to their customers enabling inbound callers to be handled directly or through the inContact applications embedded in the VoIP Network. Our distribution channels pursue multiple marketing avenues, including using independent agents, value-added resellers and direct and inside sales forces.

UCN is a Delaware corporation that previously operated under the name Buyers United, Inc. until July 2004, when its name was changed to UCN, Inc. During 2003, the Company established a wholly-owned subsidiary in Virginia for the purpose of conducting business in that state. Another wholly-owned subsidiary, MyACD, Inc., was acquired in January 2005. Per Note 2, during 2007, UCN acquired BenchmarkPortal, Inc. and ScheduleQ, LLC, both of which were subsequently merged into UCN during 2007.

UCN s Strategy

Historically, UCN has been a pure telecommunications long distance reseller and aggregator, and the majority of our revenues in 2007 and 2006 were generated by this business activity. In 2005 UCN began to evolve its business beyond traditional long distance services to include value-added hosted Software as a Service. We intend to focus on the continued development of the SaaS business. We now offer to users a complete suite of innovative service offerings that combine our national VoIP network with hosted, on-demand, proprietary software for contact handling/contact management applications. According to International Data Corp. (IDC), the business market is where the VoIP market will experience the most significant growth through 2008. IDC projects a compound growth rate of 282 percent, from $60 million in 2004 to $7.6 billion in 2008 for hosted Internet Protocol (IP) voice services among U.S. businesses. As that pertains to call center management, we believe we are on the cutting edge of the evolution in the telecommunications industry as it evolves from providing traditional call center management and long distance services to providing Internet platform-based, integrated, and enhanced contact management service.

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Many businesses need to manage large volume of telephone traffic with customers and business contacts. With the traditional hardware/software solution, the business owner: 1) purchases a system from an equipment provider, 2) installs the system on site, 3) purchases long distance service from a provider and 4) attaches one to the other. This separation between call management and call delivery has resulted in a fragmented market served by multiple vendors that offer either:

- High-end, onsite, hardware/software solutions, designed to substantially improve worker productivity. These solutions serve about ten percent of the contact center operations (those with 200 or more agents) that are big enough to afford the large investment needed to purchase the costly equipment, software and technical expertise; or

- Less expensive hardware/software solutions, affordable by the remaining ninety percent of the market, which have few features, little flexibility and limit the business s ability to improve worker productivity.

Our strategy is to develop and deploy an all-in-one, call management solution that is affordable, scalable to the business s call traffic, enables a distributed workforce and offers features that can substantially improve worker productivity in contact centers of all sizes. Our objective is to provide the best, all-in-one, feature-set currently available from other traditional on-premises systems that will be provided over our less expensive, hosted, on-demand SaaS platform.

Using this strategy, we have evolved from being a pure long distance reseller and aggregator to a full service, all-in-one, contact center SaaS provider, which, we believe, will be the next generation of service providers in the telecommunication industry.

Services and Products

inContact suite of services

Over the past several years, we have dramatically evolved UCN from a pure telecommunications long distance reseller and aggregator into a value-added, hosted, SaaS company focused primarily on the enterprise contact center market. We have made a number of strategic acquisitions that have positioned UCN at the forefront of the rapidly emerging hosted, contact center, software market. We began building our all-in-one, contact center solution with our 2005 acquisition of our automated call distribution solution, which is now the back bone of our inContact suite of services. In 2007, we added two components to our inContact suite consisting of our work force management product and our agent effectiveness survey monitoring Echo solution.

The inContact services offered through our Intelligent Network consist of a flexible set of advanced contact handling/management applications that allow users to put their inbound customers in touch with the right agent, who has the proper training, at the right time, while continuously evaluating the user s satisfaction with these agent interactions. All of this drives agent effectiveness and improves each user s experience with the user s contact center operation. Our all-in-one, contact center, inContact solution includes features such as:

- Skills-based routing,

- Automated call distribution,

- Self-service menus,

- Speech recognition based automated interactive voice response,

- Database integration with the contact handling technology, Multimedia contact management (voice, fax, email, chat),

Management reporting features,

Workforce management features,

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Performance optimization benchmarking,

Custom call routing and call flow design, and

New hire screening and on-line training tools.

These capabilities have been available previously only by purchasing and integrating expensive, premise-based equipment that is difficult to manage and maintain and that requires a very substantial installation investment. These systems are also very difficult to scale and manage for multi-site contact centers or contact centers with home-based agents. In the past, the original high investment required has proved very difficult to overcome for small and less sophisticated contact centers. The advanced contact and call handling capabilities have also been prohibitively expensive for small and medium sized businesses. Our inContact SaaS suite provides a solution to the problems faced by contact centers of all sizes and meets the needs of even the most complicated and advanced contact centers.

Our inContact SaaS suite includes the following components:

inControl: inControls is rapid application, development tool with a visual drag-and-drop programming interface for creating or modifying contact handling processes. Using this tool, relatively non-technical employees can easily set-up and change interactive voice response menus and skills-based routing applications from any computer connected to the internet. Entire contact handling processes that can be built in hours or days rather than months are able to identify who is calling and what they are calling about before routing the customer to a properly trained agent at any location. Our inControl product is the starting point for creating a complete user loyalty and agent performance optimization system that is fully integrated with the UCN telecommunications network.

Web Manager: Web Manager is an internet browser-based interface for managing all aspects of contact center performance from any internet connected PC. This interface includes a flexible monitoring and performance reporting platform as well as administrative tools for setting up user accounts, defining skill groups and assigning skill levels to specific agents so they only receive contacts they can handle. The tool is also used to assign phone numbers to agent computers so that screen pops containing information on the inbound customer will be delivered to the right workstation as the agent answers the phone.

myAgent: myAgent is a desktop application that informs the inContact platform when the contact center agent is available or unavailable to handle customers. Through this application and the related myPhone interface, the user executes various tasks such as dialing a phone number from the workstation or answering phone calls, emails, faxes or web chats. myAgent also enables complete monitoring, call recording, and provides continuous contact information to the reporting platform so supervisors have performance information on their teams regardless of where they are located.

inTouch: inTouch is a reporting, monitoring and recording tool for viewing real-time and historical operations statistics, such as how many calls were handled within a user-defined acceptable timeframe and who is logged in and available to receive calls.

inContact Workforce Management (WFM): WFM is a browser-based application for scheduling, forecasting and monitoring schedule adherence for agents and supervisors. Our WFM product helps users manage workforce scheduling, forecast demand, report real-time adherence, and simulate, analyze, and optimize staffing in their contact center.

Operations benchmarking service: Through a strategic relationship with BenchmarkPortal, LLC, (which we acquired in February 2007), we have integrated our two products so that inContact s automatic call distribution service feeds call distribution metrics over to BenchmarkPortal s benchmarking system. BenchmarkPortal s benchmarking analytic engine compares our inContact user s automatic call distribution metrics with those of peer operations and produces a report indicating how our user is performing compared to peers to show where improvements could be made.

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Echo ***:*** Echo allows inContact to identify a post-call survey event which sends information to the Echo survey engine that contacts the caller and conducts an automated survey, capture a voice recording about their contact experience and delivers the entire package to the agent that handled the call and that agent s supervisor to improve agent effectiveness.

inContact Hiring and Retention: This service screens new contact center applicants by exposing them to simulations of the job they will be doing and measuring their proficiency with many aspects of the job. The inContact Hiring product can reduce attrition rates, which is one of the most costly aspects of running a contact center.

inContact eL***earning:*** eLearning delivers just-in-time training to agents at their desktop during call flow downtimes as the system continuously monitors call volumes throughout the day. When call volumes build, the amount of training pushed to the agents slows down or stops and conversely when call volumes dip, agent training is increased in order to keep agent productivity and training levels at a maximum.

Professional Services: Professional services provides contact center experts who can help users establish, set-up and optimize their contact centers for customer satisfaction and revenue optimization. Our contact center experts assist users in detailed call routing and call distribution mapping to ensure calls are routed in the most effective and efficient manner possible using the inContact services to their maximum potential needed by each unique contact center.

Typically, contact center operations find they have to deal with multiple vendors and engage expensive systems integration expertise when trying to work multiple remote locations or when adding multimedia contact features such as email, fax or chat to their standard voice handling equipment or when making changes to their contact flow process. By implementing our inContact suite of products, that process is dramatically simplified and does not have to be repeated each time a new generation of hardware or software is released, which is required with premises-based options.

Reporting features provided in these premise-based systems are yet another set of expensive add-on products with severe limitations for users seeking to reduce costs by employing at-home workers. Typically, monitoring, reporting and recording applications cannot be applied to remote and at-home workers nor can a manager get a rolled-up view of all workers when the operation has two or more call center locations. Without effective management tools, operations often suffer from poor customer service and poor agent efficiency and effectiveness. The reporting and monitoring features included in our inContact SaaS suite provide a real-time, all-in-one hosted, solution to the problems faced by call center managers.

Long distance products

Historically traditional telecommunications long distance business was what we offered and what we focused on selling. Long distance and related services remain the majority of our revenue. If we are successful in our SaaS marketing and development strategy, long distance services will diminish in importance; long distance, however, will be a service included in a SaaS sale because the long distance facilitates delivery of inContact functions. Our telecommunications network is the back bone of our inContact suite of services as our users long distance services are managed through our inContact product and calls are routed across our network. Accordingly, we are marketing SaaS, not long distance, but long distance will follow with inContact sales.

As a long distance reseller and aggregator, we contract with a number of third party providers for the right to resell telecommunication services and products to our users. The variety of traditional telecom services and products we offer enables our users to: 1) buy most of those telecommunications services they need from one source, 2) combine those services into a customized package including inContact s all-in-one, contact center solution, 3) receive one bill for those services, 4) make one call to UCN if a service problem or billing issues arise, and 5) depend on our professional team to manage their network and contact center solution, end-to-end, so our users can focus on their business operations.

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Marketing Strategy

We employ two distinct brands for our telecommunications-based product and services: inContact for the suite of contact handling and management applications that are combined with our related traditional connectivity services and UCN for aggregating and reselling our traditional long distance related telecommunication services to commercial and business users.

UCN markets its services through several channels including: strategic marketing partnerships direct sales, insides sales and other independent sales partners. We engage independent telecommunications agents around the country who sell primarily to commercial and business customers. Independent agents are responsible for a substantial amount of annual U.S. telecommunication sales to commercial and business users. This channel also helps to identify opportunities to sell inContact services as well, but UCN sales representatives handle the details of selling inContact.

Provisioning

Our national VoIP network enables our users to use existing telephone, fax machine, pager, or modem equipment to achieve high-quality communications through Internet Protocol technology. Our VoIP network consists of a fully integrated dedicated network of equipment and leased telecommunications lines augmented by our softswitch software. Our software provides the necessary operational platform for the enhanced services we offer through our inContact family of products. The VoIP Network is a data packet-based network that ties together local loop dial-up and broadband connections via gateways located in Dallas and Los Angeles. Each of these gateways consists of off-the-shelf hardware elements and the softswitch software. The softswitch software can distinguish among and handle voice, fax, and modem communications as programmed for the user s suite of service selections.

UCN is also a reseller of domestic and international long distance and other services provided by national and regional wholesale providers. Our primary providers are Qwest, Verizon, Global Crossing and Level 3.

The contracts with our providers are standard and customary in the industry, requiring payment net 30 days for minutes used in a month and designate UCN as the point of contact for all user service calls. These agreements are for one to three years and are generally renewable at the end of each contract term, when rates are often renegotiated on the basis of prevailing rates in the industry. Qwest, Verizon and Global Crossing accounted for approximately 63 percent of our cost of revenues in 2007, 65 percent in 2006, and 62 percent in 2005.

UCN also acquires, from its service providers, dedicated long distance service, toll-free 800/888/877/866 services, dedicated data transmission service and calling cards. These services and fees are billed to us as stated in our contracts with our providers and are payable on the same terms as switched long distance service.

We maintain a call center in Midvale, Utah for receiving user service and billing inquiries. Our user service personnel are available during extended business hours and also provide emergency service 24-hours a day, seven days a week. We place a high priority on user service since we believe that when our rates are similar to rates offered by our competitors, service is a primary factor in acquiring and retaining users.

Technology and Our Business

UCN has always leveraged information technology to create consistent streamlined business processes. UCN relies on the following systems, which represent its current technology initiatives:

UCN s inContact suite of services provide a unified solution for managing user communications that integrates telephone, email, fax, web text chat, and co-browsing into a unified interface. The distribution system enables UCN to enhance user relationships, reduce costs, and improve the management of all types of business communications.

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UCN s CostGuard® system is a fully convergent, open and flexible billing system designed to facilitate collaboration among user service representatives, business affiliates and users. Users can access the system through a standard smart-client to initiate and fulfill billing and service tasks. UCN believes the CostGuard system provides a consistent and flexible billing solution that supports our current needs and is expandable for future growth.

UCN s VoIP Network employs an architecture emphasizing security, reliability and carrier diversity. A Security in Layers approach has been adopted utilizing security enforcement points comprised of inspection firewalls, packet filters and prevention systems. Measures have been implemented to audit data integrity and access. Significant subsystems are geographically dispersed and data replicated between sites to protect against fiber optic disruption or other environmental events.

Full backups of all our core data are performed weekly and differential backups are performed nightly. Transaction log backups take place every 30 minutes. We use SSL encryption to protect sensitive areas of our user information and service-oriented websites. Remote access to our systems is made possible through a 168 bit encrypted Virtual Private Network. System passwords are changed on a periodic basis and stored in a secure folder with restricted access. All local desktops are scanned for viruses on a real-time basis and report to a central server. We believe our backup, maintenance and security systems are adequate for preserving the delivery of service to our users and operation of our business without significant outages or interruptions. However, an extraordinary unforeseen and catastrophic event is always possible and could have a significant impact on our business.

Government Regulation

Telecommunications services are subject to government regulation at both the federal and state levels in the United States. A specific form of Internet-based telephony called interconnected Voice over Internet Protocol (interconnected VoIP) is also subject to certain analogous regulations at the federal and, increasingly, state level.

The Telecommunications Act of 1996, or Telecom Act, enacted major revisions to the Communications Act of 1934, one of which established the framework for competition for local exchange and other communications services. Among other things, the Telecom Act preempts state and local governments from prohibiting any entity from providing telecommunications service (terms defined in the Telecom Act). At the same time, the Telecom Act preserved state and local jurisdiction over many aspects of these services. As a result, our communications services are subject to both federal and state regulation. Violation of such laws and regulations are subject to enforcement actions that may include monetary penalties.

The Federal Communications Commission (FCC) has jurisdiction over all telecommunications service and interconnected VoIP providers (as defined in the Telecom Act and FCC regulations) that provide interstate or international communications services and certain local exchange services used to originate and terminate such services. All but a few state regulatory commissions exercise jurisdiction over intrastate interexchange telecommunications services, and all state regulatory commissions exercise jurisdiction over local exchange services; at present, a small handful of states exercise jurisdiction over certain elements of interconnected VoIP services. Significant changes to the applicable laws or regulations imposed by any of these regulators could have a material adverse effect on our business, operating results and financial condition. Our Internet protocol or IP-enabled communications services are currently subject to a lesser degree of regulatory oversight. However, as set forth below, application of additional regulations to IP-enabled services or specific forms thereof, is increasingly possible as these services continue to gain acceptance in the marketplace.

The following summarizes important, but not all, present and proposed federal and state regulations and laws that are considered material to our operations. Federal and state regulations are subject to judicial proceedings and to legislative and administrative proposals that could affect how we and others in this industry operate. The outcome of such proceedings or proposals and their impact on us or others in the industry cannot be predicted at this time but changes resulting from future legislative, regulatory or judicial decisions may have a material adverse impact on our business.

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Regulation by the Federal Communications Commission

The FCC has jurisdiction over all telecommunications and interconnected VoIP service providers that provide interstate, international and certain aspects of local exchange telecommunications services, including those used to originate or terminate interstate and international services and certain issues relating to interconnection between providers of local exchange service. The continuing evolution of FCC policies affecting the local exchange, long distance and IP-enabled services markets, as well as current FCC policies could have a material adverse effect on this sector of our business, and its operating results. However, our operations in this area are not considered material to our financial condition now or in the future.

Universal Service

In 1997, the FCC issued the Universal Service Order to implement provisions of the Telecom Act relating to the preservation and advancement of universal telephone service. The Universal Service Order requires telecommunications service providers providing interstate services to periodically contribute to the universal service support program referred to as the Universal Service Fund or USF. The monthly contributions to the USF are calculated based on the determination made by the FCC s designated private agent, the Universal Service Administration Corporation or USAC, of the total amount of the subsidy required to fund universal service needs for any given year. Each telecommunications service provider s contribution is assessed by USAC based on its total of defined interstate and international end user telecommunications revenues, including interconnected VoIP revenue, reported to the FCC on its Form 499s (Form 499-Q filed quarterly and Form 499-A, annually). Our Form 499 filings with the FCC are accurate, complete and timely filed in accordance with the FCC s rules. The USF assessment on our revenues is passed through to consumers on an equitable and nondiscriminatory basis, either as a component part of the rate charged for telecommunications services or as a separately invoiced line item. Several state regulatory agencies have their own universal service support systems. State universal service support contribution requirements vary from state to state.

Incorrectly calculated and/or remitted USF contributions, state or federal, are subject to assessment and collection of past due remittances, plus interest and penalties. In an August 2007 Order, the FCC substantially increased the late payment fees and penalties applicable to a provider s failure to file and pay USF contributions. Under the new rules, all late fees and penalties currently charged by USAC and all remedial sanctions for late payment of USF contributions will be based upon an annual rate equal to the U.S. Prime Rate on the date of delinquency, plus an extra three and a half (3.5%) percent.

There are pending rulemakings proceeding at the FCC aimed at controlling the growth of the USF and eliminating waste, fraud and abuse from the program. One of these rulemaking proceedings involves proposals to comprehensively overhaul the USF contribution methodology. Depending on which methodology is chosen, contribution obligations could increase, decrease or remain constant. Because both FCC and state USF contributions may be and are passed through to our customers, they are not expected to have a material effect on our financial condition.

Local Exchange Competition

The Telecom Act requires Incumbent Local Exchange Carriers or ILECs to allow competitors to interconnect with their networks in a nondiscriminatory manner at any technically feasible point at prices more favorable than pricing based on the historic regulated costs of the ILECs. Since 1996, Competitive Local Exchange Carriers (CLEC) have leased unbundled network elements at rates determined by state public utility commissions based on the ILEC s total element long run incremental costs, or TELRIC, a forward looking, cost-based pricing model.

Our expansion into the local exchange market faces regulatory uncertainties due to FCC and judicial proceedings that could result in significant changes to ILEC obligations to CLECs. We cannot predict the outcome of present or future administrative or judicial proceedings or their potential impact upon the company. The following examples illustrate the types of potential changes that could affect this sector of our business:

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Triennial Review Remand Order: In February 2005, the FCC issued an order, commonly known as the Triennial Review Remand Order, substantially narrowing the unbundled network elements and combinations of those elements that ILECs must make available to CLECs. On June 16, 2006, the United States Court of Appeals for the District of Columbia upheld the FCC s Triennial Review Remand Order. The decision means that the reduction in the availability of unbundled network elements will remain a constant in this market and that ILECs will continue to charge commercial rates for certain network elements. Presently, we do not rely on direct access to ILEC network elements. However, to the extent our CLEC suppliers are negatively impacted through increased network costs we may face increased wholesale prices.

Petition to Forbear VoIP Providers from Claiming Access Charge Exemption: On January 11, 2008, the Embarq Local Operating Companies (Embarq) filed a Petition for Forbearance asking the FCC to forbear from allowing certain IP-based providers from seeking shelter from access charges through the ESP or Enhanced Service Provider Exemption. Embarq claims it and other LECs face a growing number of disputes about the appropriate compensation for terminating non-local calls routed to the public switched telephone network (PSTN) that are originated using the Internet Protocol. The issue is whether IP-to-PSTN voice calls are exempt from access charges as are enhanced service providers (ESPs) who were excused from such charges in FCC rulings dating to the 1980s. The FCC s resolution of Embarq s Petition could have significant effects on all service providers, like us, that use lower cost IP-transport.

Other Access Charge Proceedings: As a long distance provider, we remit access fees directly to local exchange carriers or indirectly to our underlying long distance carriers for the origination and termination of our long distance telecommunications traffic. Generally, intrastate access charges are higher than interstate access charges. Therefore, to the degree access charges increase or a greater percentage of our long distance traffic is intrastate, our costs of providing long distance services could increase.

In 2001, the FCC initiated a proceeding to comprehensively reform intercarrier compensation. In its notice of proposed rulemaking, the FCC sought comment on some possible advantages of moving from the current rules to a bill and keep structure for all traffic types in which carriers would recover costs primarily from their own customers, not from other carriers. A 2006 filing at the FCC, known commonly as the Missoula Plan, is widely anticipated to be the blueprint for nationwide intercarrier compensation reform. The Missoula Plan provides a comprehensive proposal to reduce and unify interstate and intrastate, originating and terminating usage-sensitive intercarrier compensation rates for all traffic.

The FCC is considering the Missoula Plan and proposed addendums addressing phantom traffic issues. We cannot predict the effect that the implementation of the Missoula Plan and any amendments or addendums thereto may have on our business or results of operations, although significant changes to the current rules governing intercarrier compensation, including implementation of the Missoula Plan, could affect our collection and payment of reciprocal compensation and access fees.

Detariffing

In accordance with the FCC s Detariffing Orders, our rates, terms and conditions for international and domestic interstate services are no longer set forth in tariffs filed with the FCC, but are instead determined by contracts between us and our users. Nonetheless, we remain subject to the FCC s general requirements that rates must be just and reasonable, and not unreasonably discriminatory, and are also subject to the FCC s jurisdiction over complaints regarding our services. We post UCN s tariffs setting forth the terms, conditions and rates governing our interstate interexchange telecommunications service on our website at *www.ucn.net.*

CPNI Regulations

On April 2, 2007, the FCC issued an Order strengthening its rules governing a carrier s duty to protect the privacy of its customer s proprietary network information (CPNI). The Order responds to the growing practice of pretexting , whereby third parties, most notably data brokers, illegally obtain CPNI information from carriers through unauthorized access or misrepresentation.

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The new CPNI regulations are intended to tighten carrier security measures through mandated pre-disclosure requirements, including mandated use of password protection systems. Carriers must also alert customers about any changes to CPNI and disclose instances of unauthorized access to law enforcement agencies. The FCC also mandated that carriers might disclose CPNI information to third-party marketing agents only if the customer opts-in to such disclosures.

All carriers, including interconnected VoIP service providers, are required to follow these new regulations by undertaking reasonable precautions to protect against unauthorized access to CPNI. Importantly, unlike the prior CPNI Rules, which merely required carriers to maintain a copy of their annual CPNI Officer Certification in their files, all carriers are now required to annually file their CPNI Officer Certifications with the FCC.

We have implemented internal processes in order to be compliant with all the CPNI rules and have engaged all the impacted business units to remain fully compliant in the future.

International Telecommunications Services Section 214

We have obtained and maintained in good standing our Certificate of Public Convenience and Necessity under Section 214 of the Communications Act of 1934 pursuant to which we are authorized to provide international telecommunications services.

Communications Assistance for Law Enforcement Act (CALEA) Requirements

The FCC s CALEA rules provide for policies and procedures for employee supervision and control, as well as maintaining secure and accurate records, when responding to an appropriate legal authorization for electronic surveillance. We are required to file with the FCC the current policies and procedures we use to comply with this requirement, our SSI plans. Our SSI plans are in compliance.

Taxes and Regulatory Fees

We are subject to numerous local, state and federal taxes and regulatory fees, including, but not limited to, universal service fund contributions and regulatory fees, and numerous public utility commission regulatory fees. We have procedures in place to ensure that we properly collect taxes and fees from our customers and remit such taxes and fees to the appropriate entity pursuant to applicable law and/or regulation.

State Regulation

Our intrastate long distance and local exchange operations are subject to various state laws and regulations, including, in most jurisdictions, certification and tariff filing requirements. The ILECs have been seeking reduction of state regulatory requirements, including greater pricing flexibility, which, if granted, could subject us to increased competition.

Federal Regulation of Internet Telephony and other IP-Enabled Services

The use of the Internet to provide telephone service is quickly maturing past its infancy and incubation stage. Therefore, as state and federal regulators continue to extend public interest regulations to forms of VoIP telephony, the lines between traditional and enhanced communications will continue to blur. To the extent VoIP telephony and other forms of IP-enabled communications become subject to regulation certain cost benefits of IP-based services, which we currently take advantage of in our network, may erode.

In the United States, the types of Internet-related communications services that we provide constitute information services or enhanced services as opposed to regulated telecommunications services, and, as such, are not currently actively regulated by the FCC or any state agencies. At this time, with the exception of the service described in the following paragraph, it cannot be predicted whether other types of Internet-related or IP-enabled communications services will be actively regulated in the future.

The increase in Voice over Internet Protocol (VoIP) services provided by pure play VoIP providers, such as Vonage, cable television and other companies, and the increased number of traditional telephone companies entering the retail VoIP space has prompted a need to determine whether VoIP should be subject to the same regulatory and financial constraints as wire line telephone service.

The FCC has not as yet decided whether to classify all IP-enabled or VoIP communications services as unregulated information services or a regulated telecommunications services. Instead, the FCC has engaged in a piecemeal approach over the past several years, imposing regulations on interconnected VoIP services, a specific flavor of VoIP service that makes use of the Public Switched Telephone Network (PSTN).

The FCC has determined that interconnected VoIP services which enable users to place calls to *and* receive calls from the PSTN-should be subject to many of the requirements applicable to traditional telephone services, while other forms of IP-enabled services (such as peer-to-peer services that do not make use of traditional telephone numbers) have been left largely unregulated.

The FCC has subjected interconnected VoIP services to regulations concerning emergency communications (E911), telecommunications relay services for hearing-impaired individuals (TRS), customer privacy (CPNI) and the facilitation of wiretaps and government surveillance (CALEA). In addition, the FCC ruled that providers of interconnected VoIP services must contribute to the Universal Service Fund.

The FCC has ruled prepaid calling card services using IP-in-the-middle are telecommunications, not enhanced, services subject to intrastate access charges and USF contributions. In 2006, the FCC declared all prepaid calling card services to be telecommunications and ordered all providers of these services to register as Interstate Telecommunications Service Providers by October 31, 2006 and begin making USF contributions.

Based on the nature of the IP-enabled services we currently provide, we do not believe the FCC decisions to date will materially adversely affect our business, operating results, financial condition or future prospects. Notwithstanding this, it is acknowledged the growth in VoIP communication services may cause Federal and State regulatory agencies to re-examine their treatment of IP-based communications services.

State Regulation of Internet Telephone Services

State regulatory authorities also retain jurisdiction to regulate certain aspects of the provision of intrastate Internet telephony services. However, to date, state regulation has remained minimal in the face of the FCC s reluctance to clarify the scope of state jurisdiction. However, some state regulators, faced with shrinking Universal Service revenues, support for emergency services, and consumer protection concerns have imposed some regulation of instate, interconnected VoIP services. The result has been a complicated and often times conflicting approach to the regulation of VoIP telephony service.

The willingness of both state and federal authorities to expand certain, traditional public interest regulations to VoIP telephony may signal an end to the incubation period during which most all IP-enabled services were free from government regulation. The implications of an expansive, patchwork of state and federal regulations may carry significant consequences for new and existing VoIP service providers, further eroding the lines between traditional and enhanced communications.

Other General Regulations

The regulatory scheme for competitive telecommunications market will continue to evolve and can be expected to change the competitive environment for communications in general. It is not possible to predict how such evolution and changes will affect, if at all, our business or the industry in general.

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Competition

As a provider of hosted contact handling applications, the majority of market share in the hosted contact handling applications market is still held by traditional user premises equipment manufacturers and distributors, such as Avaya, Nortel, Cisco and Interactive Intelligence. This method of providing services, via onsite equipment and software, is now being challenged by a group of younger companies. These companies provide hosted, on-demand application services to users. Market share among this group of hosted services providers is still fragmented with no clear market leader having emerged as yet.

Building recognition for our inContact brand is beneficial to attracting additional users and new strategic alliances with other industry leaders. Our failure to promote and maintain our brand successfully may result in slower growth, loss of users, and loss of market share and strategic alliances. Accordingly, we intend to continue pursuing an aggressive brand-enhancement strategy, which includes promotional programs and public relations activities.

In regards to our telecommunications business, the U.S. long distance telecommunications industry is highly competitive and significantly influenced by the marketing and pricing practices of the major industry participants such as Global Crossing, Qwest and Verizon. UCN also competes with other national and regional long distance carriers that employ various means to attract new subscribers, including television and other advertising campaigns, telemarketing programs, network marketing, cash payments and other incentives. The ability of UCN to compete effectively will depend on its ability to provide quality services at competitive prices.

UCN competes on the basis of variety of services offered, user billing and service and price. We offer a selection of telecommunications products to our users directly and through agents. We believe users are attracted by the fact that UCN consolidates all services on one bill. Our agents can complete a sale at the user site and are paid commissions on those sales. Because our user contracts are based on user requirements rather than bundled services, UCN delivers only the requested services at an appropriate capacity and competitive price.

Employees

As of December 31, 2007, UCN employed a total of 261 full time and 5 part time persons. Our employees are not represented by a labor union. We have not experienced any work stoppages and believe relations with our employees are good.

Executive Officers of UCN

The executive officers of UCN are elected each year at the organizational meeting of the Board of Directors, which follows the annual meeting of the shareholders, and at other Board of Directors meetings, as appropriate. Each of the executive officers has been employed by UCN in the position or positions indicated in the list and pertinent notes below. Each of the executive officers has been employed by UCN for more than five years, except as noted below.

At March 28, 2008, the executive officers of UCN were as follows:

Name	Age	Position	Since
Paul Jarman (1)	38	Director and Chief Executive Officer	1997
Brian Moroney (2)	51	Executive Vice President and Chief Financial Officer	2005
Scott Welch (3)	43	Executive Vice President and Chief Operating Officer	2004
Rudy Vidal (4)	46	Executive Vice President and Chief Customer Officer	2007

(1) Paul Jarman has served as an officer of UCN during the past six years. He has served as President since December 2002 and as Chief Executive Officer since January 2005. Prior to December 2002 he served as an Executive Vice President. Mr. Jarman is one of the original founders of Buyers United, now UCN.

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(2) Brian Moroney has served as an Executive Vice President and Chief Financial Officer of UCN since October 2005. During the three-year period prior to October 2005, Mr. Moroney was a self-employed financial and management consultant for clients requiring financial, marketing and operational assistance.

(3) Scott Welch was elected Executive Vice President and Chief Operating Officer of UCN in September 2004, and began his association with UCN in September 2003 as Chief Information Officer. Before joining UCN Mr. Welch served as Vice President of Information Technology at Access Long Distance.

(4) Rudy Vidal was elected Executive Vice President and Chief Customer Officer of UCN in November 2007. Before joining UCN Mr. Vidal served as Director of Extreme Customer Service at Panasonic Corporation of North America.

Business Segments

We manage our business based on two user segments: Telecom and inContact. The Telecom segment includes all voice and data long distance services provided to users not utilizing at least $100 of inContact services. The inContact segment includes revenues from users using at least $100 of inContact services per month as well as their long distance voice and data services. The inContact services include automatic call distribution, interactive voice response, data storage, email, chat, computer telephony integration, call recording, conferencing and reporting. In February 2007, we closed two acquisitions and the technologies acquired have been added to the inContact segment. The BenchmarkPortal, Inc. acquisition allows us to provide users a hosted process for measuring the effectiveness of agent interactions with clients. The ScheduleQ, LLC acquisition allows us to provide our users a hosted solution for automating the scheduling, forecasting and alert notification functions common to most contact center/customer service type operations. Certain financial information pertaining to our business segments for the fiscal years ended December 31, 2007, 2006, and 2005, is presented in Note 17 to our Consolidated Financial Statements presented elsewhere in this report.

ITEM 1A. RISK FACTORS

The following is a discussion of risks we believe to be significant with respect to our business, operations, financial condition, and other matters pertaining to an investment in our common stock. Before deciding to purchase, hold or sell our common stock, you should carefully consider the risks described below, in addition to the other cautionary statements and risks described elsewhere as well as the other information contained in this report and in our other filings with the SEC, including our reports on Forms 10-Q and 8-K. The risks and uncertainties described below are not the only ones we face. If any of these known or unknown risks or uncertainties actually occurs with material adverse effects, our business, financial condition and results of operations could be seriously harmed. In that event, the market price for our common stock could decline and you may lose all or part of your investment.

Our results of operations have shown significant losses over the past several years, which could impact the resources we have to pursue our business and adversely affect an investment in UCN.

Our net loss applicable to common stockholders was $7.5 million for the year ended December 31, 2007 compared to $7.8 million for the same period in 2006. Continued losses will diminish the working capital we have available to pursue development of our business. Much of the loss in 2007 is attributable to our decision to spend substantial amounts in developing and marketing our inContact suite of services as well as noncash costs, such as depreciation and amortization of $6.2 million and warrant and stock-based compensation totaling $1.4 million. Sales within the inContact segment continue to improve, but we have not achieved positive operating results in the inContact segment and whether UCN will ultimately achieve positive results and cash flow from this segment should be considered a substantial risk with respect to our business.

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We Have a Lengthy Product Sales Cycle Which Has Contributed and May Continue to Contribute to the Variability of Quarterly Operating Results

We have experienced a lengthy initial sales and eventual turn-up cycle for services in our inContact segment, averaging approximately six to nine months. The lengthy sales cycle is one of the factors that has caused and may continue to cause our revenues and operating results to vary significantly from quarter to quarter. As our inContact products and services are relatively new in the marketplace, we must provide a significant amount of education to prospective users about the use and benefits of our products which can cause potential users to take many months to make these decisions. The length of the sales cycle can also be affected by other factors over which we have little or no control, including user s budgetary constraints, timing of user s budget cycles, and concerns by the user about the introduction of new products by us or by our competitors. As a result, sales cycles for user orders vary substantially from user to user. Excessive delay in sales could be material and adversely affect our business, financial condition or results of operations.

Our quarterly results of operations may fluctuate in the future.

Our quarterly revenue and results of operations may fluctuate as a result of a variety of factors, many of which are outside of our control. If our quarterly revenue or results of operations fall below the expectations of investors or securities analysts, the price of our common stock could decline substantially. Fluctuations in our results of operations may be due to a number of factors, including, but not limited to, those listed below and identified throughout this Risk Factors section:

- our ability to retain and increase sales to existing users, attract new users and satisfy our users requirements;
- changes in the mix of revenue between our segments because the overall operating margin is significantly higher for the inContact Segment than for the Telecom Segment;
- the timing and success of new product introductions or product initiation by us or our competitors;
- changes in our pricing policies or those of our competitors;
- the amount and timing of expenditures related to expanding our operations;
- the purchasing and budgeting cycles of our users; and
- general economic, industry and market conditions.

Because the sales cycle for the evaluation and implementation of our solutions is variable based on the specific user needs, we may experience a delay between increasing operating expenses and the generation of corresponding revenue, if any. As a result, if revenue for a particular quarter is below our budgeted expectations, we may not be able to proportionally reduce operating expenses for that quarter, causing a disproportionate effect on our expected results of operations for that quarter.

Due to the foregoing factors, and the other risks discussed in this report, you should not rely on quarter-to-quarter comparisons of our results of operations as an indication of our future performance.

Our operating results may be negatively impacted by the pricing decisions of our competitors and our providers. We may not be able to mitigate this impact with our other services.

Our costs of revenues from period to period are affected by the pricing for long distance service we can obtain from the wholesale providers of these services. We must price our services at levels that are competitive, so costs of revenues affect the rates we offer to users and our resulting revenues. This industry has a history of downward pressure on long distance service rates as a result of competition among providers. To acquire and retain users, we offer these services at prices that are competitive in conjunction with the other benefits we provide. Consequently, falling prices will likely result in lowering our rates to users, which will reduce revenues.

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On the other hand, higher prices charged by our providers will increase our costs of revenues and cut into operating results, unless we raise prices to our users, which may be difficult for us to do if our competitors are not subject to the same upward pricing pressures or choose not to increase prices notwithstanding such pressure. To make up for potential reductions in either revenues or overall operating results, we have moved to being a SaaS provider of enhanced connectivity and call management services, which are not subject to these rate changes and have much higher and stable margins. SaaS still makes up a relatively small portion of our revenues. We may not be successful in making these new services a major component of our revenue mix and improve our overall operating margins.

Disruptions in the operation of our technology could adversely affect our operations.

We are dependent on our computer databases, billing and accounting computer programs, network and computer hardware that houses these systems to effectively operate our business and market our services. Our users and providers may become dissatisfied by any system failures that interrupt our ability to provide our service to them. Substantial or repeated system failures would significantly reduce the attractiveness of our services. Significant disruption in the operation of these systems would adversely affect our business and results of operations.

Our enhanced services are dependent on leased telecommunications lines, and a significant disruption or change in these services could adversely affect our business.

SaaS is provided to users through a dedicated network of equipment we own connected through leased telecommunications lines with capacity dedicated to us that is based on Internet protocol. Communication initiated by the user is converted to data packs that are transmitted through the dedicated network and managed by our software that resides on our equipment attached to the network. We also move a portion of our voice long distance service over this dedicated network because it lowers our cost of providing the service from using traditional transmission methods.

We lease telecommunication lines and space at co-location facilities for our equipment, which represents the backbone of our dedicated network, from third party suppliers. If any of these suppliers is unable or unwilling to provide or expand their current levels of service to us, the services we offer to users would be adversely affected. We may not be able to obtain substitute services from other providers at reasonable or comparable prices or in a timely fashion. Any resulting disruptions in the services we offer that are provided over our dedicated network would likely result in user dissatisfaction and adversely affect our operations. Furthermore, pricing increases by any of the suppliers we rely on for the dedicated network could adversely affect our results of operations if we are unable to pass pricing increases through to our users.

Our business could be materially harmed if our computer systems were damaged.

Substantially all of our dedicated network systems are located at two locations in Los Angeles, California and Dallas, Texas. Our user service, billing, and service management systems are located at a third-party hosting co-location facility located in Utah. Fires, floods, earthquakes, power losses, telecommunications failures, break-ins and similar events could damage these systems. Computer viruses, electronic break-ins, human error, or other similar disruptive problems could also adversely affect our systems. Accordingly, any significant systems disruption could have a material adverse effect on our business, financial condition, and results of operations.

If there are interruptions or delays in our hosting services through third-party error, our own error or the occurrence of unforeseeable events, delivery of our solutions could become impaired, which could harm our relationships with users and subject us to liability.

We provide our hosting services through computer hardware that we own and that is currently located in third-party web hosting co-location facilities maintained and operated in California and Texas. We do not maintain long-term supply contracts with any of our hosting providers, and providers do not guarantee that our users access to hosted solutions will be uninterrupted, error-free or secure. Our operations depend on our providers ability to protect their and our systems in their facilities against damage or interruption from natural disasters, power or telecommunications failures, criminal acts and similar events. Our back-up computer hardware and systems have not been tested under actual disaster conditions and may not have sufficient capacity to recover all data and services in the event of an outage occurring simultaneously at all facilities. In the event that our hosting facility arrangements were terminated, or there was a lapse of service or accidental or willful damage to such facilities, we could experience lengthy interruptions in our hosting service as well as delays and/or additional expense in arranging new facilities and services. Any or all of these events could cause our users to lose access to their important data. In addition, the failure by our third-party hosting facilities to meet our capacity requirements could result in interruptions in our service or impede our ability to scale our operations.

Design and mechanical errors, spikes in usage volume and failure to follow system protocols and procedures could cause our systems to fail, resulting in interruptions in our users service to their customers. Any interruptions or delays in our hosting services, whether as a result of third-party error, our own error, natural disasters or security breaches, whether accidental or willful, could harm our relationships with users and our reputation. This in turn could reduce our revenue, subject us to liability and cause us to issue credits or pay penalties or cause users to fail to continue service, any of which could adversely affect our business, financial condition and results of operations. In the event of damage or interruption, our insurance policies may not adequately compensate us for any losses that we may incur.

If the security of our users confidential information contained in our systems or stored by use of our software is breached or otherwise subjected to unauthorized access, our hosting service or our software may be perceived as not being secure and users may curtail or stop using our hosting service and our solutions.

Our hosting systems and our software store and transmit proprietary information and critical data belonging to our users and their customers. Any accidental or willful security breaches or other unauthorized access could expose us to a risk of information loss, litigation and other possible liabilities. If security measures are breached because of third-party action, employee error, malfeasance or otherwise, or if design flaws in our software are exposed and exploited, and, as a result, a third party obtains unauthorized access to any of our clients data, our relationships with users and our reputation will be damaged, our business may suffer and we could incur significant liability. Because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until launched against a target, we and our third-party hosting co-location facilities may be unable to anticipate these techniques or to implement adequate preventative measures.

A fundamental requirement for online communications is the secure transmission of confidential information over public networks. Our failure to protect this confidential information could result in liability.

If outside unfriendly parties succeed in penetrating our network security or otherwise misappropriate our user information, we could be subject to liability. Our liability could include claims for unauthorized purchases with credit card or banking information, impersonation or other similar fraud claims, as well as for other misuses of personal information, including for unauthorized marketing purposes. These claims could result in litigation and adverse publicity, which could have a material adverse effect on our reputation, business, and results of operations.

Our growth and results of operations are unknown, which means an investment in us has greater risk.

UCN experienced significant growth beginning in 2003, primarily through the purchase of user accounts and internal growth. Continuing with the acquisitions of BenchmarkPortal, Inc. and ScheduleQ, LLC in 2007 and the Transtel Communications assets and MyACD, Inc. in 2005, we have substantially increased our operations and revenues. It is not possible to predict with any certainty the growth of our business over the next year, whether internally or through acquisitions. Our ability to continue our growth and improve upon results of operations will depend on a number of factors, including our ability to promote and gain market acceptance of

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SaaS, to maintain and expand our independent agent network, to fund purchases of users or acquisitions, to meet existing and emerging competition and to maintain sufficient operating margins despite pricing pressures. Furthermore, the growth and development of our business may be harmed if we are unable to adapt and expand our systems, procedures, and controls to support and manage our growth. All of these factors indicate there could be fluctuations in our results of operations and volatility in our stock price that could expose an investor to greater risk.

If we are unable to protect our intellectual property rights, our competitive position could be harmed or we could be required to incur significant expenses to enforce our rights.

Our success depends to a significant degree upon the protection of our software and other proprietary technology rights. We rely on trade secret, copyright and trademark laws and confidentiality agreements with employees and third parties, all of which offer only limited protection. The steps we have taken to protect our intellectual property may not prevent misappropriation of our proprietary rights or the reverse engineering of our solutions. We may not be able to obtain any further patents or trademarks, and our pending applications may not result in the issuance of patents or trademarks. Any of our issued patents may not be broad enough to protect our proprietary rights or could be successfully challenged by one or more third parties, which could result in our loss of the right to prevent others from exploiting the inventions claimed in those patents. Furthermore, legal standards relating to the validity, enforceability and scope of protection of intellectual property rights in other countries are uncertain and may afford little or no effective protection of our proprietary technology. Consequently, we may be unable to prevent our proprietary technology from being exploited abroad, which could diminish international sales or require costly efforts to protect our technology. Policing the unauthorized use of our products, trademarks and other proprietary rights is expensive, difficult and, in some cases, impossible. Litigation may be necessary in the future to enforce or defend our intellectual property rights, to protect our trade secrets or to determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management resources, either of which could harm our business. Accordingly, despite our efforts, we may not be able to prevent third parties from infringing upon or misappropriating our intellectual property.

Our development of enhanced services could subject us to claims of patent infringement that would adversely affect our results of operations.

We offer enhanced telecommunications and related software services through our dedicated network. Certain enhanced services similar to some of the services we offer have been the subject of claims by certain patent holders that providing the enhanced services violates existing patent rights covering the manner and method by which the services are performed. We may not be aware of claims that have arisen alleging enhanced services we offer infringe on intellectual property rights of others. Infringement of intellectual property rights would have an adverse impact on the net revenue generated from sales of the enhanced services.

If our solutions fail to perform properly or if they contain technical defects, our reputation will be harmed, our market share would decline and we could be subject to product liability claims.

Our software products may contain undetected errors or defects that may result in product failures, slow response times, or otherwise cause our products to fail to perform in accordance with user expectations. Because our users use our products for important aspects of their business, any errors or defects in, or other performance problems with, our products could hurt our reputation and may damage our users businesses. If that occurs, we could lose future sales, or our existing users could elect to not renew or to delay or withhold payment to us, which could result in an increase in our provision for doubtful accounts and an increase in collection cycles for accounts receivable. Clients also may make warranty claims against us, which could result in the expense and risk of litigation. Product performance problems could result in loss of market share, failure to achieve market acceptance and the diversion of development resources. If one or more of our products fails to perform or contains a technical defect, a user may assert a claim against us for substantial damages, whether or not we are responsible for the product failure or defect. We do not currently maintain any warranty reserves. UCN has had no significant warranty costs in their historical experience.

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Product liability claims could require us to spend significant time and money in litigation or to pay significant settlements or damages. Although we maintain general liability insurance, including coverage for errors and omissions, this coverage may not be sufficient to cover liabilities resulting from such product liability claims. Also, our insurer may disclaim coverage. Our liability insurance also may not continue to be available to us on reasonable terms, in sufficient amounts, or at all. Any product liability claims successfully brought against us would cause our business to suffer.

Failure to effectively develop and expand our sales and marketing capabilities could harm our ability to increase our user base and achieve broader market acceptance of our solutions.

Increasing our user base and achieving broader market acceptance of our solutions will depend to a significant extent on our ability to expand our sales and marketing operations. We plan to continue to expand our direct sales force and engage additional third-party channel partners. This expansion will require us to invest significant financial and other resources. Our business will be seriously harmed if our efforts do not generate a corresponding increase in revenue. We may not achieve anticipated revenue growth from expanding our direct sales force if we are unable to hire and develop talented direct sales personnel, if our new direct sales personnel are unable to achieve desired productivity levels in a reasonable period of time, or if we are unable to retain our existing direct sales personnel. We also may not achieve anticipated revenue growth from our third-party channel partners if we are unable to attract and retain additional motivated channel partners, if any existing or future channel partners fail to successfully market, resell, implement or support our solutions for their customers, or if they represent multiple providers and devote greater resources to market, resell, implement and support competing products and services.

Regulation of IP telephony services is unclear, so the imposition of significant regulation in the future could adversely affect our operations.

We deliver our enhanced services and move other long distance service through our VoIP Network. At both the Federal and state level, proceedings and investigations are pending with respect to whether IP-enabled voice communications are telecommunications services subject to Federal and state regulation. A determination that such services are subject to regulation would likely increase the cost of services we provide, which would adversely affect our results of operations. It is unknown whether Federal or state governments will not impose regulation on IP-enabled communications in the future that would add substantially to our costs of doing business.

The carrying value and liquidity of our short-term investments could be adversely affected by failed Dutch auction for auction rate investments.

As of December 31, 2007, we held $2.0 million in auction rate preferred investments with investment grades of AAA. Interest rates for these investments reset in Dutch auctions held daily, weekly or monthly which historically provided liquidity for these investments as determined by the purchaser. Despite the long-term contractual maturities of the auction rate preferred investments, they are classified as available for sale and fund the Company s current operations at December 31, 2007. During January and February 2008, we converted $1.0 million of the $2.0 million balance into cash equivalents. In February and March 2008, uncertainties in the credit markets caused all auctions of the remaining short term investments to be unsuccessful. An unsuccessful auction is an event when there are fewer securities bid for than are available for sale. To date, we have collected all interest payable on our auction rate preferred investments as the interest came due. If the auction rate preferred investments continue to experience unsuccessful auctions, or if the credit rating of the issuer of the auction rate preferred investments or the third party insurer of the instruments deteriorates, we may be required to reclassify the securities on our Consolidated Balance Sheet and/or adjust the carrying value of the auction rate preferred investments through an impairment charge, which would adversely affect liquidity and availability of funds derived from these investments for our working capital needs.

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We face risks relating to our ineffective internal controls that could adversely affect public confidence in UCN and the value of an investment in our shares.

As a result of management s review of issues identified during the recently completed independent Audit Committee investigation into certain accounting and financial reporting matters, as well as our internal review, we concluded that UCN had certain control deficiencies that constituted material weaknesses and, consequently, has concluded that our internal control over financial reporting was not effective at December 31, 2007. In addition, management has concluded, based primarily on the identification of the material weaknesses, that our disclosure controls and procedures were not effective at December 31, 2007. See Part II Item 9A Controls and Procedures. If we are unable to successfully remediate these control deficiencies in a timely manner, investors may lose confidence in our reported financial information, which could lead to a decline in our stock price, limit our ability to access the capital markets in the future, and require us to incur additional costs to improve our internal control systems and procedures.

Our investigation and potential governmental investigations or litigation arising out of or related to our recent accounting and financial reporting matters have and could result in substantial costs.

The independent Audit Committee investigation into certain accounting and financial reporting matters, as well as our internal review, have resulted in substantial costs to UCN. As a result of the matters management discovered through these investigations, UCN is exposed to the possibility of future governmental investigations or proceedings or litigation instigated by private litigants, any of which could cause UCN to incur substantial additional costs in the future to resolve or defend any such investigations or proceedings. See Part II Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Segment Reporting. The costs already incurred related to the accounting and financial reporting matters that were the subject of our investigations will adversely affect our results of operations in 2008, and any additional costs we may incur in the future will have the same effect.

We may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs.

We may require additional capital to respond to business challenges, including the need to develop new solutions or enhance our existing solutions, enhance our operating infrastructure, fund expansion, respond to competitive pressures and acquire complementary businesses, products and technologies. Absent sufficient cash flow from operations, we may need to engage in equity or debt financings to secure additional funds to meet our operating and capital needs. In addition, even though we may not need additional funds, we may still elect to sell additional equity or debt securities or obtain credit facilities for other reasons. We may not be able to secure additional debt or equity financing on favorable terms, or at all, at the time when we need such funding. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution in their percentage ownership of our company, and any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. Any debt financing secured by us in the future could involve restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, if we decide to raise funds through debt or convertible debt financings, we may be unable to meet our interest or principal payments.

Future sales or the potential for sale of a substantial number of shares of our common stock could cause the trading price of our common stock to decline and could impair our ability to raise capital through subsequent equity offerings.

As of December 31, 2007, we have 31,015,593 shares of common stock outstanding, of which 24,130,618 shares may be sold in the public market without restriction, and the balance of 6,884,975 shares may be sold subject to SEC rules and removal of such restriction.

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We have outstanding warrants and options to acquire a total of 5,631,504 additional shares of common stock. Assuming all these warrants and options are exercised, there would be 36,647,097 shares of common stock issued and outstanding. We have also reserved for future issuance 1,122,350 shares of common stock as follows:

- Up to 122,350 shares reserved for issuance under our Long-Term Stock Incentive Plan; and
- Up to 1,000,000 shares reserved for issuance under our Employee Stock Purchase Plan.

Sales of a substantial number of shares of our common stock in the public markets, or the perception that these sales may occur, could cause the market price of our stock to decline, which could adversely affect an investment in our stock and could materially impair our ability to raise capital through the sale of additional equity securities. On the other hand, should the value or market price of our stock rise, the holders of these outstanding warrants, options, and convertible securities have the opportunity to profit, and to exercise purchase or conversion rights at a time when we could obtain equity capital on more favorable terms than those contained in these securities.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We have not received any comments from the Securities and Exchange Commission that remain unresolved.

ITEM 2. PROPERTIES

We lease executive office space in Midvale, UT, a suburb of Salt Lake City, UT. The space consists of approximately 50,000 square feet. The lease provides for six months of free rent for the entire space as well as an additional three months of free rent on 11,000 square feet and then requires monthly lease payment of approximately $95,000, which is subject to 3% escalations per year starting in 2009. The lease for this office space expires in June 2013, but we have an option to renew the lease for an additional five years at the end of the lease period.

UCN also currently utilizes other leased properties obtained in its acquisition of Transtel Communications in 2005. We lease a total of approximately 25,000 square feet of office space in downtown Salt Lake City, UT, at a monthly cost of approximately $23,000, of which approximately $3,000 is being paid under a month-to-month arrangement and the remainder under a lease agreement that expires in September 2009. We also lease office space and related equipment switching space in Los Angeles, CA; Dallas, TX; and Denver, CO.

ITEM 3. LEGAL PROCEEDINGS

UCN is the subject of certain legal matters, which it considers incidental to its business activities. It is the opinion of management, after discussion with legal counsel, that the ultimate disposition of these other matters will not have a material impact on the financial position, liquidity or results of operations of UCN.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the quarter ended December 31, 2007.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER REPURCHASES OF EQUITY SECURITIES

Market Price, Stockholder Matters, and Unregistered Sales

Our common stock began trading on The NASDAQ Capital Market under the symbol UCNN on October 26, 2007. Prior to that date our common stock traded in the over-the-counter market. The following table presents the high and low closing sales prices per share of our common stock as reported on The NASDAQ Capital Market for the fourth calendar quarter of 2007, and the high and low bid prices of the common stock in the over-the-counter market, as reported and summarized on the OTC Bulletin Board, for all earlier quarters presented. Bid prices in the over-the-counter market are based on inter-dealer bid and ask prices, without markup, markdown, commissions, or adjustments and may not represent actual transactions.

Calendar Quarter Ended:	High Bid	Low Bid
March 31, 2007	$ 3.74	$ 2.75
June 30, 2007	$ 4.55	$ 3.64
September 30, 2007	$ 4.40	$ 3.20
December 31, 2007	$ 5.14	$ 3.75
Calendar Quarter Ended:	**Bid**	**Bid**
March 31, 2006	$ 2.50	$ 1.72
June 30, 2006	$ 2.91	$ 2.02
September 30, 2006	$ 2.82	$ 2.25
December 31, 2006	$ 3.22	$ 2.40

As of March 21, 2008, UCN had approximately 3,007 holders of record of its common stock. Since inception, no dividends have been paid on the common stock. UCN intends to retain any earnings for use in its business activities, so it is not expected that any dividends on the common stock will be declared and paid in the foreseeable future.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuances under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	804,383	$ 2.83	122,350
Equity compensation plans not approved by security holders	3,687,125(1)	$ 2.96	N/A
Total	4,491,508	$ 2.94	122,350

(1) This figure includes options issued to officers and employees under individual compensation arrangements. The figure also includes options issued to directors for board and committee service that were approved by the Board of Directors.

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Repurchases of Common Stock

There were no repurchases of equity securities by UCN during 2007.

Unregistered options issued

In the fourth quarter of 2007, UCN issued 210,000 non-qualified unregistered stock options to three employees with exercise price ranges from $3.95 to $4.57. The options are exercisable over a term of five years and vest in three equal annual installments. The options were issued in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933.

In the fourth quarter of 2007, UCN issued 149,000 non-qualified unregistered stock options to members of the board of directors with exercise price of $4.57. The options are exercisable over a term of five years and vest in twelve equal monthly installments. The options were issued in reliance on the exemption from registration set forth in Section 4(2) of the Securities Act of 1933.

ITEM 6. SELECTED FINANCIAL DATA

(in thousands, except per share data)

The following tables set forth selected financial data for each of the years in the five-year period ended December 31, 2007. The consolidated statement of operations data and balance sheet data are derived from the audited Consolidated Financial Statements of UCN. The following selected financial data should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements, including the notes thereto, appearing elsewhere in this report. Information regarding previous years, as available, can be obtained through our web site at www.ucn.net or by writing to UCN, Inc., 7730 So Union Park Avenue, Suite 500, Midvale, UT 84047. In addition, copies of these annual report filings may be obtained through the Securities and Exchange Commission website at www.sec.gov or by visiting the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 800-SEC-0330.

Consolidated Statement of Operations Data (in thousands-except per share data):

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Revenue	$ 79,482	$ 82,800	$ 81,587	$ 65,159	$ 63,313
Net income (loss)	$ (7,537)	$ (7,775)	$ (8,147)	$ (2,113)	$ 1,175
Net income (loss) applicable to common stockholders(1)	$ (7,537)	$ (7,775)	$ (8,185)	$ (2,785)	$ 301
Net income (loss) per share:					
Basic	$ (0.26)	$ (0.32)	$ (0.40)	$ (0.22)	$ 0.05
Diluted	$ (0.26)	$ (0.32)	$ (0.40)	$ (0.22)	$ 0.04

Consolidated Balance Sheet Data (in thousands):

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Total assets	$ 31,368	$ 25,959	$ 35,643	$ 23,405	$ 23,971
Long-term obligations	$ 918	$ 6,569	$ 5,758	$ 272	$ 646

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
The following management discussion and analysis gives effect to the restatement discussed in Note 17 to the accompanying consolidated financial statements.

Overview

We derive the majority of our revenue from traditional long distance services sold to commercial and business users. Beginning in 2005, we began developing and marketing our inContact applications suite of on-demand, hosted, contact handling software in order to become a Software as a Service (SaaS) provider. inContact services are delivered to our users through our proprietary national Voice over Internet Protocol network (VoIP network). We provide long distance service to our users that are related to the inContact applications they use and as a traditional communication service through our VoIP network and through third party long distance providers.

The inContact application suite includes an integrated package of advanced contact handling, reporting and administration applications along with inControl, a unique, rapid application development tool. We are able to provide our users with a platform-based workforce management solution for call centers, which operates through UCN s inContact suite of services. Through our Echo product, we provide our users the ability to monitor their agent effectiveness by surveying their customers experience with that agent.

We also offer a set of traditional connectivity products. The dedicated voice T1 product, the Intelligent-T , and our switched 1+ service enable our users sites to connect to our own national VoIP Network and to gain access to our inContact services. Our users publish toll free numbers to their customer base enabling inbound and outbound calls to be handled through the inContact applications embedded in our VoIP Network. We generate internal growth by pursuing multiple marketing avenues, including using independent agents, value-added resellers and selling through our direct and inside sales forces.

Results of Operations

Revenues

Total revenues decreased nearly four percent to $79.5 million for the year ended December 31, 2007 compared to record revenues of $82.8 million for the previous year. The bulk of the decrease is driven by attrition in the Telecom segment that was not replaced by inContact segment revenue. We expect continued revenue increases in our inContact segment which will be somewhat offset by continued attrition in our Telecom segment.

Early in 2007, we completed two strategic acquisitions, which augmented our suite of SaaS inContact services. Through these acquisitions, UCN now offers companies the ability to monitor both customer satisfaction and agent effectiveness through its Echo product as well as efficiently staff their call center using our work force management solution. We believe these acquisitions provide significant growth potential. The two 2007 acquisitions added a total of $3.8 million of additional revenue primarily from users using our Echo products.

Total revenues increased one percent to a record $82.8 million for the year ended December 31, 2006 as compared to $81.6 million for the same period in 2005. This increase was primarily driven by revenue increases in our inContact segment, which were offset by UCN s decision to discontinue telecommunication services to a few large-volume, low-margin users during the second quarter of 2006.

We continued focusing marketing efforts on providing on-demand contact center software and business telecommunications services delivered over our national VoIP network. We believe the opportunity to increase revenues through the sale of enhanced telecommunications services to business users is much greater than through the sale of traditional long distance services to residential users. We have developed a menu of enhanced communication services that we are marketing to our existing and potential users through our multiple sales channels. As a result of these changes, we are experiencing a transition in sales mix, which will continue with the addition of new products and features.

Costs of revenue

Cost of revenue decreased over $9.2 million or seventeen percent to $44.2 million for the year ended December 31, 2007 compared to the $53.5 million during the prior year end. The decrease in our costs of revenue is primarily driven by a significant decline of $14.2 million in our Telecom segment revenue during 2007 that is much lower margin revenue than our technology products and services revenue. In addition to the declines in our long distance revenue, we have been successful in negotiating better terms with our long distance carriers and have moved long distance traffic from our legacy long distance network to our least cost routing technology. Our least cost routing technology routs calls in a manner that chooses most economical path to terminate a call transaction.

Costs of revenue (excluding depreciation and amortization) decreased over one percent to $53.5 million for the year ended December 31, 2006 from $54.2 million for the same period 2005. The decrease is a result of our continued focus on improving our network efficiency throughout the year as well as using lower cost carriers through our least cost routing system. In addition, we were able to shut down significant unneeded portions of the acquired Transtel network which provided significant savings. We are also experiencing a change in our overall product mix from the lower margin Telecom Segment to our higher margin inContact Segment. We also saw a significant improvement in our costs of revenue as a percentage of revenue, which improved nearly two percentage points during 2006 to 64.6 percent.

We continue to focus most of our marketing efforts on promoting our inContact technology services which carry significantly higher margins than the traditional long distance services. As a result, we expect continued improvements in margins from the sales of these technology services as we add inContact users that produce higher overall margins. We continue to support our telecom reseller channel that markets our telecom products to business users and encourage those resellers to refer inContact opportunities to us.

Selling and promotion

Selling and promotion expenses increased $2.1 million or fifteen percent to $16.1 million for the year ended December 31, 2007 from $14.0 million during the same period in 2006 due primarily to our increased efforts to market the inContact suite of services as well as an overall increase in advertising, marketing and lead generation activities. During the first quarter of 2007, we granted a significant number of stock options to our executive management team and other senior members of management that significantly increased our stock-based compensation expense for the year. Our stock-based compensation expense, which is included in Selling and Promotion, increased $265,000 to $487,000 for the year ended December 31, 2007 compared to $222,000 for the same period in 2006.

Selling and promotion expenses increased seven percent to $14.0 million for the year ended December 31, 2006, from $13.1 million during the same period in 2005 primarily due to our increased efforts to market the inContact suite of services as well as an overall increase in advertising and marketing activities and lead generation activities. In addition to these increases, we adopted Statement of Financial Accounting Standard (SFAS 123R) on January 1, 2006, which required us to record stock-based compensation expense in the Consolidated Statements of Operations. During 2006, we recorded $222,000 of stock-based compensation expense.

General and administrative

General and administrative expense for the year ended December 31, 2007 increased $4.2 million or thirty-two percent to $17.3 million compared to $13.1 million in the same period in 2006. During 2007, we increased the number of user support and new user implementation personnel which significantly drove up our general and administrative costs. During the first quarter of 2007, we granted a significant number of stock options to our executive management team and other senior members of management that significantly increased our stock-based compensation expense for the year. Our stock-based compensation expense, which is included in General and Administrative, increased $498,000 to $782,000 for the year ended December 31, 2007 compared to $284,000 for the same period in 2006. Additionally, we paid approximately an additional $267,000 in conjunction with our initial implementation of the requirements of Sarbanes-Oxley to outside consultants and our external auditors.

General and administrative expense for the year ended December 31, 2006 decreased slightly to $13.1 million compared to $13.2 million in the same period in 2005 primarily due to an overall reduction in bad debt expense and salaries and benefits. This reduction was offset by $284,000 of stock-based compensation that we recorded during 2006 due to adopting SFAS 123R.

Research and Development

Research and development expenses for the inContact segment for the year December 31, 2007 increased to $2.5 million compared to $1.2 million during the same period in 2006. This increase is due to our continued to development of the services in this segment to bring to market.

Interest expense

Interest expense during 2007 decreased substantially to just $761,000 from $1.1 million compared to the same period in 2006 primarily due to: 1) the April 2007 conversion of the ComVest Convertible Term Note that saved the Company over $200,000 in interest expense for the remaining period in 2007, and 2) the September 2007 equity raise completed in conjunction with our $8.5 million shelf registration in which we paid down the entire outstanding balance of our revolving credit facility that saved the Company a significant amount of monthly interest.

Interest expense during 2006 and 2005 remained flat at $1.1 million. During 2007, we modified our outstanding term loan and credit facility with ComVest Capital, which allows us to have much more control over borrowing and paying back funds needed in day-to-day operations. Our convertible term note and revolving credit note both incur interest at a flat nine percent per year. With the 2007 amendment, the ComVest convertible note does not require principal payments until November 2007.

Segment Reporting

We manage our business based on two user segments: Telecom and inContact. The Telecom segment includes all voice and data long distance services provided to users not utilizing at least $100 per month of inContact services. The inContact segment includes revenues from users purchasing at least $100 per month of inContact services as well as their long distance voice and data services.

An inContact segment purchase includes any of the inContact solution product features (referred to as SaaS) such as:

- Skills-based routing,
- Automated call distribution,
- Self-service menus,
- Speech recognition based automated interactive voice response,
- Database integration with the contact handling technology,

Multimedia contact management (voice, fax, email, chat),

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Management reporting features,

Performance optimization benchmarking,

Custom call routing and call flow design, and

New hire screening and on-line training tools.

In February 2007, we closed two acquisitions which have been added to the inContact segment. The BenchmarkPortal, Inc. acquisition allows us to provide users a hosted process for measuring the effectiveness of agent interactions with customers. The ScheduleQ, LLC acquisition allows us to provide our users a hosted solution for automating the scheduling, forecasting and alert notification functions common to most contact center/customer service type operations.

Restatement of previously reported segment results

In January 2008, the Audit Committee of UCN received an allegation that its Executive Vice President of Global Alliances had engaged in improper sales activities that resulted in a misallocation of revenue between UCN s Telecom Segment and inContact Segment. Upon receipt of the allegation, the Audit Committee engaged outside counsel to investigate the allegations. Management also conducted its own review of matters related to the recognition and allocation of revenue between segments.

The independent investigators engaged by the Audit Committee have completed the investigation and management has completed its review of segment allocations and results. UCN has determined that the revenue and results of operations for a total of six user accounts previously included in the segment disclosure of UCN s inContact segment in prior periods should have been included in UCN s Telecom segment because, in substance, the revenue was substantially either long distance or still in a trial period for inContact. Accordingly, UCN has restated its previously issued financial statements.

The effects of the restatements of the consolidated financial statements are limited to the footnote disclosure of segment results and do not affect the Consolidated Balance Sheets, Consolidated Statements of Operations, Consolidated Statements of Stockholders Equity and Consolidated Statements of Cash Flows of UCN as of and for the year ended December 31, 2006. The restatement includes the reallocation of the long distance charges, along with insignificant amounts of the inContact software and related service revenue, from the six identified accounts from the inContact segment to the Telecom segment.

The effect of the restatement on the segment results of operations previously reported for the year ended December 31, 2006, is summarized in Note 17 to the consolidated financial statements presented in this report.

The investigations described above have resulted in substantial costs to UCN. As a result of the matters management discovered through these investigations, UCN is exposed to the possibility of future governmental investigations or proceedings or litigation instigated by private litigants, any of which could cause UCN to incur substantial additional costs in the future to resolve or defend any such investigations or proceedings. The costs already incurred related to the accounting and financial reporting matters that were the subject of our investigations are an unexpected cost in the first quarter of 2008 that will adversely affect our results of operations in the first quarter. Any additional costs we may incur in the future with respect to these matters will adversely affect our results of operations in the periods incurred.

Segment results

inContact User Segment 2007 compared to 2006

As a result of our continued focus on marketing and improving inContact products and service, the inContact segment generated record revenue of $24.2 million in 2007 compared to $13.3 million during 2006. The inContact segment revenue increased by total of $10.9 million during 2007 resulting from $7.1 million of additional revenue derived from internal sales efforts and $3.8 million of additional revenue from our Echo and Schedule Q acquisitions that were closed in the first quarter of 2007. Revenue for the Echo product has remained relatively constant at just over $1.0 million per quarter since the first full quarter of 2007. We have grown our Schedule Q work force management revenue to $62,000 during the fourth quarter of 2007 from just $11,000 in the first quarter of 2007.

For the year ended December 31, 2007, inContact segment revenue of $24.2 million includes $10.7 million of related long distance voice and data service revenue and $13.5 million of SaaS service revenue. The SaaS service revenue of $13.5 million includes $887,000 of non-recurring services such as setup and call flow scripting. For the year ended December 31, 2006, inContact segment revenue of $13.3 million includes $9.3 million of related long distance voice and data service revenue and $4.0 million of SaaS service revenue. The SaaS service revenue of $4.0 million includes $608,000 of non-recurring services such as setup and call flow scripting. We will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

Costs of revenue (excluding depreciation and amortization) as a percentage of revenue decreased to 30.7 percent during 2007 compared to 47.6 percent during 2006. We have seen continued improvement in our margins primarily due to closing large contracts with new users with higher inContact margins. We anticipate that margins will continue to improve as we add users with more inContact technology services as well as from the addition of the Echo users. We continue to focus a significant amount of resources related to bringing inContact to market and supporting the new customers. As a result, general and administrative expenses increased to $7.3 million in 2007 compared to $3.5 million in 2006 and selling and promotion expenses in the segment increased to $9.8 million during 2007 compared $5.8 million during 2006. The significant increases in general and administrative expenses are a result of our efforts to increase customer to support within the growing inContact customer base. We also continue to develop the services provided in the segment by investments in research and development. During 2007, we spent $2.5 million on research and development costs in this segment compared to $1.2 million during 2006.

inContact User Segment 2006 compared to 2005 (as restated)

As a result of our continued focus on marketing and improving inContact products and service, the inContact segment generated $13.3 million in revenue during 2006 compared to $5.2 million during 2005. For the year ended December 31, 2006, inContact segment revenue of $13.3 million includes $9.3 million of related long distance voice and data service revenue and $4.0 million of SaaS service revenue. The SaaS service revenue of $4.0 million includes $608,000 of non-recurring services such as setup and call flow scripting. We will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

Cost of revenue (excluding depreciation and amortization) as a percentage of revenue decreased to 47.6 percent during 2006 compared to 51.1 percent during 2005. We have seen continued improvement in our margins primarily due to closing large contracts with new users with higher inContact margins. We anticipate that margins will continue to improve as we add users with more inContact technology services as well as from the addition of the Echo users. We continue to focus a significant amount of resources related to bringing inContact to market. As a result, selling and promotion expenses in the segment increased to $5.8 million during 2006 compared $828,000 during 2005. Our general and administrative costs increased $2.7 million from $0.8 million in 2005 to $3.5 million in 2006, as we have devoted more resources to the growing inContact customer base. We also continue to develop the services provided in the segment by investments in research and development. During 2006, we spent $1.2 million in research and development costs in this segment.

Telecom User Segment 2007 compared to 2006 (as restated)

The Telecom Segment revenue decreased just over 20 percent to $55.3 million during 2007 compared to $69.5 million during 2006. The decrease is primarily due to accelerated legacy long distance user attrition as well as our decision to improve our margins by discontinuing service to several large-volume, low-margin users during the 2006 that affected each subsequent quarter. During the year we improved our costs of revenue (excluding the depreciation and amortization) as a percentage of revenue margin by 1.3 percentage points to 66.6 percent. Even with the significant decline in segment revenue, our segment loss from operations remained relatively flat compared to the previous year by dramatically cutting our sales and promotion expenses in the segment by nearly $1.9 million to $6.3 million for 2007. The decrease in depreciation and amortization of approximately $2.1 million was due primarily to previous customer lists becoming fully depreciated. We expect that our Telecom segment revenue will continue to decline as we focus essentially all of our efforts in growing our inContact segment related revenue.

Telecom User Segment 2006 (as restated) compared to 2005

The Telecom Segment revenue decreased nine percent to $69.5 million during 2006 compared to $76.4 million during 2005. The decrease is primarily due to our decision to increase our margins by discontinuing service for several large-volume, low-margin users during the 2006. Additionally, when an existing Telecom Segment user started using our inContact services at specified levels, they were moved from the Telecom Segment to the inContact Segment, which included all of their revenue derived from legacy Telecom service. We expect that revenue from the Telecom Segment will continue to decrease due to normal attrition rates as well as movement of users from the Telecom user segment to the inContact user segment. The Telecom Segment loss from operations also improved significantly during 2006 to a loss of $880,000 from a segment loss of $6.3 million for the same period in 2005. This improvement was driven primarily from a significant reduction of selling and promotion expenses as we continue our focus on the inContact segment. Additionally, we have been able to maintain relatively flat costs of revenue (excluding the depreciation and amortization) as a percentage of revenue at 67.8 percent during 2007 compared to 67.5 percent during this continued transition period.

Liquidity and Capital Resources

Early in 2007, we closed two strategic acquisitions, which significantly augmented our suite of services. Through these acquisitions, we now offer companies the ability to monitor customer satisfaction and agent effectiveness through its Echo product as well as efficiently staff their call center using our work force management solution.

BenchmarkPortal, Inc. (BMP) Acquisition

On February 9, 2007, we closed the acquisition of BenchmarkPortal, Inc. (BMP). Through the acquisition we acquired a call center survey and analysis business, operated under the name of Echo. The Echo business includes: 1) a user base, of which over half are Fortune 500 companies; 2) automated survey and analysis software and related service offerings; and 3) the related sales, marketing and technical staff. As consideration for the agreement we paid the following consideration:

- $500,000 in cash to or for the benefit of the BMP stockholders at closing;
- $4.5 million by issuing 1,535,836 million shares of its restricted common stock to BMP stockholders;

In addition to the amounts paid at closing, UCN agreed to pay contingent purchase price payments to BenchmarkPortal stock holders in the following amounts:

- $2.0 million of additional cash to BMP stockholders in 36 equal monthly installments of $55,556, subject to adjustment if monthly recurring revenue during the payout period from users accounts acquired in the transaction do not remain at certain levels, which are adjusted for estimated attrition; and
- Up to an additional $7.0 million maximum contingent quarterly earn out to BMP stockholders paid on a variable percentage of recurring revenue from the sale of Echo services during the four-year period after closing in excess of $900,000 per quarter.

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Prior to the closing of the acquisition, BMP distributed to its stockholders on a pro rata basis cash and property with a total value of approximately $184,000 into a shareholder representative account to satisfy all remaining liabilities of BMP stockholders. After all liabilities are satisfied under the acquisition agreement, the shareholder representative will distribute all remaining funds to stockholders. In addition, prior to closing the acquisition BMP sold certain assets not used in operating the Echo business at a total purchase price of $91,000 to BenchmarkPortal, LLC, a Delaware limited liability company formed by Dr. Jon Anton, Bruce Belfiore, and David Machin, all of whom are former officers, directors and principal stockholders of BMP. UCN and BenchmarkPortal have entered into agreements pursuant to which:

- We are entitled to use on an exclusive basis for a term of three years BenchmarkPortal s RealityCheck service with prospects for UCN services to facilitate the sales effort in exchange for payment to BenchmarkPortal of a fee based on revenue generated by prospects who become users of UCN following the RealityCheck service, and

- We are entitled to offer, for a term of three years, through our sales channel, as an independent sales agent, other services of BenchmarkPortal in exchange for a sales commission equal to a percentage of the revenue generated from the sale, which varies depending on the BenchmarkPortal service sold.

We entered into a consulting agreement with Dr. Jon Anton, BMP s founder, and employment agreements with BMP s former president and Chief Technical Officer.

ScheduleQ Acquisition

In October 2006, we entered into a Reseller License Agreement with ScheduleQ, LLC. Under the terms of the license agreement, we acquired a limited exclusive right and continuing non-exclusive right to market and distribute ScheduleQ software and services to end-users. ScheduleQ software and services consist primarily of a platform-based workforce management system for call centers, which can operate through our inContact service. At the same time we entered into a Purchase Option Agreement with ScheduleQ and the members of that limited liability company, which we exercised and completed in February 2007. To complete the transaction, we paid former members of ScheduleQ the following consideration:

- $360,676 in non-interest bearing promissory notes to be paid in 48 equal monthly installments that are secured by the software code and any improvements thereto discounted to $302,000 using a discount rate of nine percent;

- $330,000 by issuing 108,912 restricted common shares of UCN; and

- $256,324 in notes assumed and paid subsequently to closing.

In addition to the amounts paid at closing, UCN agreed to pay contingent purchase price to ScheduleQ stock holders in the following amounts:

- An earn out to be paid over a term of 48 months based on the number of ScheduleQ licenses sold by UCN with a minimum aggregate earn out payment of $101,000 and a maximum of $982,000.

ComVest Capital

In May 2006, we entered into an agreement with ComVest Capital, LLC, which included a $4.5 million convertible term note and a $7.5 million revolving credit note. These notes are secured by essentially all assets of the Company. As part of the agreement, we issued five-year warrants to purchase 330,000 shares of common stock at $2.75 per share. We recognized a loss on early extinguishment of debt of $364,000 in conjunction with completing the ComVest financing. Lower payoff amounts were negotiated with certain note holders that resulted in a gain of $348,000 from early extinguishment of debt. However, the gain was offset by the write-off of $334,000 in deferred debt financing fees, a $300,000 early termination fee paid to the holder of the previous line of credit, and a $77,000 difference in the book basis due to imputed interest on notes issued to former shareholders of MyACD. In January 2007, we amended the agreement to modify certain financial covenants and delay principal payments required under the term loan.

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On April 18, 2007 ComVest exercised it right to convert the entire $3.4 million outstanding balance of the $4.5 million convertible term note, which was converted into 1,126,664 shares of common stock. In conjunction with the note conversion, ComVest agreed to eliminate the most significant financial covenants.

The revolving credit note matures in May 2010, accrues interest at a fixed nine percent and provides for maximum availability of $7.5 million based on a calculation of 85 percent of billed and 65 percent unbilled accounts receivable at the measurement date. UCN is required to make monthly interest payments and the entire outstanding balance is due at maturity. There was $7.5 million of unused commitment at December 31, 2007 under the revolving credit note.

Transtel Acquisition

On May 1, 2005, UCN agreed to purchase all operating assets and certain liabilities of Transtel Communications, Inc. and its subsidiaries (Transtel). In consideration for the assets acquired and liabilities assumed, UCN issued a promissory note of $2.1 million to Transtel. In conjunction with the term loan and credit facility we closed with ComVest Capital in May 2006, we negotiated lower early payoff discount and paid the outstanding principle balance of the note, which resulted in a gain of $205,000 from the early extinguishment of debt. As part of the acquisition, UCN incurred additional acquisition costs of approximately $2.7 million.

MyACD Acquisition

On January 5, 2005, UCN closed the acquisition of MyACD, Inc. (MyACD) and purchased all of the outstanding capital stock of MyACD from its stockholders. The Company issued promissory notes of $4.3 million to acquire the net assets from MyACD stockholders, which were paid in full in May 2006 with the proceeds of the ComVest Capital transaction and resulted in the recognition of a loss of $56,000 from the early extinguishment of debt. In addition to the promissory notes, the Company paid cash of $427,000 and issued 562,985 shares of UCN common stock.

Liquidity of Auction Rate Preferred Investments

As of December 31, 2007, we held $2.0 million in auction rate preferred with investment grades of AAA. Auction rate preferred investments are similar in nature to auction rate securities in that they are long-term bonds or preferred stocks that act like short-term debt; however unlike auction rate securities, these investments require at least 200% collateral by the issuer. Interest rates for these investments reset in Dutch auctions held daily, weekly or monthly, which historically provided liquidity for these investments as determined by the purchaser. Despite the long-term contractual maturities of the auction rate preferred investments, all of these securities have been classified as available for sale and were available to fund the Company s current operations at December 31, 2007. During January and February 2008, we converted $1.0 million of the $2.0 million balance into cash equivalents. In February and March 2008, uncertainties in the credit markets caused all auctions of our remaining short term investments to be unsuccessful. An unsuccessful auction is an event when there are fewer securities bid for than are available for sale. Upon an unsuccessful auction, the security is reset at a predetermined interest rate. Given that the Company has the ability and intent to hold the investments until a successful auction occurs, we do not believe that the current state of the credit markets requires us to adjust the fair value of our portfolio of auction rate preferred investments or to reclassify them as long-term marketable securities at December 31, 2007. To date, we have collected all interest payable on all of our auction rate preferred investments as it came due. If the auction rate preferred investments continue to experience unsuccessful auctions, or if the credit rating of the issuer of the auction rate preferred investments or the third party insurer of the instruments deteriorates, we may be required to reclassify the securities and/or adjust the carrying value of the auction rate preferred investments through an impairment charge. While the recent auction failures will limit our ability to liquidate these investments for some period of time, we do not believe the auction failures will materially impact our ability to fund our working capital needs, capital expenditures, or other business requirements. We will continue to monitor the state of the credit markets and its potential impact, if any, on the fair value and classification of our auction rate preferred investments.

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Other Items

Our current ratio (current assets divided by current liabilities) as of December 31, 2007 increased to 1.26:1 from 1.13:1 at December 31, 2006. Additionally, our working capital improved by approximately $1.7 million to $3.3 million at December 31, 2007 compared to a $1.6 million surplus at December 31, 2006. The improvement was due to a sale of stock during 2007.

During 2007, employees and former employees exercised the option to purchase 392,340 shares of our common stock. We received total proceeds of $921,000 from these exercises.

We are potentially liable under surety bonds aggregating $156,000 in favor of two municipalities with whom UCN has contracts to provide long distance services. The municipalities routinely require all telecommunication service providers to maintain such surety bonds.

During 2007, we entered into a $1.0 million lease agreement with an equipment finance company for new computer equipment and related software in conjunction with our network expansion activities.

We experienced net losses of $7.5 million, $7.8 million and $8.2 million in 2007, 2006 and 2005 respectively. The primary factors affecting operations during 2007 were: 1) continued investments in the promotion and development of inContact to bring these services to market; 2) $6.2 million of depreciation and amortization; 3) $1.4 million of non-cash stock-based compensation expense; and 4) $227,000 in non-cash expense related to two consulting agreements that were satisfied through the issuance of warrants.

Our working capital surplus increased $1.7 million to $3.3 million at December 31, 2007 from $1.6 million at December 31, 2006. The primary reason for the increase in working capital was due to a cash infusion of $7.9 million, net of certain offering expenses, from the sale of 2.4 million shares of common stock. Immediately subsequent to receiving the cash infusion, we paid down the entire $3.8 million balance of the revolving credit facility.

In addition to the cash amount listed on the consolidated balance sheets, we also have access to additional available borrowings under the revolving credit facility. The available borrowings under the revolving credit facility increased $5.0 million to $7.2 million at December 31, 2007 compared to only $2.2 million available at December 31, 2006. These actions resulted in total cash and additional cash availability under the revolving credit facility of $10.0 million at the end of 2007. We believe that in spite of the net losses, that we will continue to be able to meet all of our future short term obligations with the resources available as of December 31, 2007.

Also, in February 2007, we closed two key acquisitions that have been added to the inContact segment and have enhanced the overall inContact product suite. With these new products, we provide users the ability to monitor agent effectiveness through the Echo user survey tool and also allow the users the ability to efficiently monitor their agent needs through the workforce management tool. These new service offerings provide us with additional contact and service opportunities to potential users as well as provide up-sale opportunities to existing users. These acquisitions added an additional $3.8 million of higher-margin inContact revenue during 2007.

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Contractual Obligations

The following table discloses aggregate information about our contractual obligations including notes payable and lease obligations, and the periods in which payments are due as of December 31, 2007 (in thousands):

	Total	Less Than 1 Year	1-3 Years	4-5 Years	After 5 Years
Notes payable	$ 248	$ 71	$ 177	$	$
Capital leases	1,478	794	684		
Interest	110	65	45		
Operating leases	6,661	886	3,825	1,950	
Purchase commitments(1)	1,754	1,104	650		