IDERA PHARMACEUTICALS, INC.
Form SC 13G
February 16, 2016

SCHEDULE 13G

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

Under the Securities Exchange Act of 1934
(Amendment No.)*

Idera Pharmaceuticals, Inc.

(Name of Issuer)

Common Stock, par value $0.001 per share
(Title of Class of Securities)

45168K306
(CUSIP Number)

December 31, 2015

(Date of Event which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

xRule 13d-1(b)

¨Rule 13d-1(c)

¨**Rule 13d-1(d)**

***The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.**

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 (the "Act") or otherwise subject to the liabilities of that section of the Act, but shall be subject to all other provisions of the Act (however, see the Notes).

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CUSIP No. 45168K306

1	**NAMES OF REPORTING PERSONS** Baker Bros. Advisors LP
2	**CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)** (a) ¨ (b) ¨
3	**SEC USE ONLY**
4	**CITIZENSHIP OR PLACE OF ORGANIZATION** Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	**SOLE VOTING POWER** 7,117,277 (1)
	6	**SHARED VOTING POWER** -0-
	7	**SOLE DISPOSITIVE POWER**

7,117,277 (1)

SHARED DISPOSITIVE POWER

8

-0-

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

7,117,277 (1)

CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

10 **(See Instructions)**

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

11

6.0% (2)

TYPE OF REPORTING PERSON (See Instructions)

12 IA, PN

(1) Includes 134,170 shares of Common Stock underlying options.

(2) Based on 118,350,364 shares of common stock outstanding as of October 15, 2015 as reported in the Issuer's Form 10-Q filed with the SEC on November 6, 2015.

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CUSIP No. 45168K306

1	**NAMES OF REPORTING PERSONS** Baker Bros. Advisors (GP) LLC
2	**CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)** **(a)** ¨ **(b)** ¨
3	**SEC USE ONLY**
4	**CITIZENSHIP OR PLACE OF ORGANIZATION** Delaware

	5	**SOLE VOTING POWER** 7,117,277(1)
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	**6**	**SHARED VOTING POWER** -0-
	7	**SOLE DISPOSITIVE POWER**

7,117,277(1)

SHARED DISPOSITIVE POWER

8

-0-

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

7,117,277(1)

CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

10 **(See Instructions)**

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

11

6.0% (2)

TYPE OF REPORTING PERSON (See Instructions)

12 HC, OO

(1) Includes 134,170 shares of Common Stock underlying options.
(2) Based on 118,350,364 shares of common stock outstanding as of October 15, 2015 as reported in the Issuer's Form 10-Q filed with the SEC on November 6, 2015.

CUSIP No. 45168K306

1	**NAMES OF REPORTING PERSONS** Felix J. Baker	
2	**CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)**	**(a)** ¨ **(b)** ¨
3	**SEC USE ONLY**	
4	**CITIZENSHIP OR PLACE OF ORGANIZATION** United States	

	5	**SOLE VOTING POWER** 7,117,277(1)
NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	6	**SHARED VOTING POWER** -0-
	7	**SOLE DISPOSITIVE POWER**

7,117,277(1)

SHARED DISPOSITIVE POWER

8

-0-

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

7,117,277(1)

CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

10 (See Instructions)

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

11

6.0% (2)

TYPE OF REPORTING PERSON (See Instructions)

12 IN, HC

(1) Includes 134,170 shares of Common Stock underlying options.

(2) Based on 118,350,364 shares of common stock outstanding as of October 15, 2015 as reported in the Issuer's Form 10-Q filed with the SEC on November 6, 2015.

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CUSIP No. 45168K306

1	**NAMES OF REPORTING PERSONS** Julian C. Baker
2	**CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (See Instructions)** **(a)** ¨ **(b)** ¨
3	**SEC USE ONLY**
4	**CITIZENSHIP OR PLACE OF ORGANIZATION** United States

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH	5	**SOLE VOTING POWER** 7,117,277(1)
	6	**SHARED VOTING POWER** -0-
	7	**SOLE DISPOSITIVE POWER**

7,117,277(1)

SHARED DISPOSITIVE POWER

8

-0-

AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

9

7,117,277(1)

CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES ¨

10 **(See Instructions)**

PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW 9

11

6.0% (2)

TYPE OF REPORTING PERSON (See Instructions)

12 IN, HC

(1) Includes 134,170 shares of Common Stock underlying options.

(2) Based on 118,350,364 shares of common stock outstanding as of October 15, 2015 as reported in the Issuer's Form 10-Q filed with the SEC on November 6, 2015.

Item 1(a) **Name of Issuer:**

Idera Pharmaceuticals, Inc. (the "Issuer")

Item 1(b) **Address of Issuer's Principal Executive Offices:**

167 Sidney Street

Cambridge, MA 02139

Item 2(a) **Name of Person Filing:**

This Schedule 13G is being filed jointly by Baker Bros. Advisors LP (the "Adviser"), Baker Bros. Advisors (GP) LLC (the "Adviser GP"), Felix J. Baker and Julian C. Baker (collectively, the "Reporting Persons").

Item 2(b) **Address of Principal Business Office or, if None, Residence:**

The business address of each of the Reporting Persons is:

c/o Baker Bros. Advisors LP

667 Madison Avenue, 21st Floor

New York, NY 10065

(212) 339-5690

Item 2(c) **Citizenship:**

The Adviser is a limited partnership organized under the laws of the State of Delaware. The Adviser GP is a limited liability company organized under the laws of the State of Delaware. The citizenship of each of Julian C. Baker and Felix J. Baker is the United States of America.

Item 2(d) **Title of Class of Securities:**

Common Stock, par value $0.001 per share ("Common Stock")

Item 2(e) **CUSIP Number:**

45168K306

Item 3. **If this statement is filed pursuant to §§240.13d-1(b) or (c), check whether the person filing is a:**

(a) ¨ Broker or dealer registered under Section 15 of the Exchange Act.

(b) ¨ Bank as defined in section 3(a)(6) of the Exchange Act.

(c) ¨ Insurance company as defined in section 3(a)(19) of the Exchange Act.

(d) ¨ Investment company registered under section 8 of the Investment Company Act of 1940.

(e) x An investment adviser in accordance with Rule 13d-1(b)(1)(ii)(E).

(f) ¨ An employee benefit plan or endowment fund in accordance with Rule 13d-1(b)(1)(ii)(F).

(g) x A parent holding company or control person in accordance with Rule 13d-1(b)(1)(ii)(G).

(h) ¨ A savings association as defined in Section 3(b) of the Federal Deposit Insurance Act.

(i) ¨ A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940.

(j) ¨ Group, in accordance with Rule 13d-1(b)(1)(ii)(J).

Item 4. Ownership.

Items 5 through 9 and 11 of each of the cover pages to this Schedule 13G are incorporated herein reference. Set forth below is the aggregate number of shares of Common Stock of the Issuer directly held by each of 667, L.P., Baker Brothers Life Sciences, L.P. and 14159, L.P. (collectively the “Funds”), which may be deemed to be indirectly beneficially owned by the Reporting Persons, as well as shares of Common Stock that may be acquired upon exercise of the warrants (“2018 Warrants”) at an exercise price of $0.47 per share, (“May 2020 Warrants”) at an exercise price of $0.01 per share, (“September 2020 Warrants”) at an exercise price of $0.01 per share and other warrants (“2021 Warrants”, and together with the 2018 Warrants, May 2020 Warrants, September 2020 Warrants, the “Warrants”) at an exercise price of $0.01 per share, by the Funds, subject to the limitation on exercise described below. The information set forth below is based upon 118,350,364 shares of Common Stock outstanding as of October 15, 2015, as reported on the Issuer’s Form 10-Q filed with the SEC on November 6, 2015. Such percentage figures are calculated in accordance with Rule 13d-3 under the Securities Exchange Act of 1934, as amended.

Name	Number of Shares of Common Stock we own or have to right to acquire within 60 days	Percent of Class Outstanding	
667, L.P.	606,472	0.5	%
Baker Brothers Life Sciences, L.P.	6,304,832	5.3	%
14159, L.P.	35,105	0.1	%
Total	6,946,409	5.9	%

The Warrants are only exercisable to the extent that after giving effect to such exercise the holders thereof and their affiliates would beneficially own, for purposes of Rule 13d-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), no more than 4.999% of the outstanding shares of Common Stock of the Issuer. As a result of this restriction, the number of shares that may be issued upon exercise of the Warrants by the above holders may change depending upon changes in the outstanding shares of Common Stock.

Pursuant to the amended and restated management agreements among the Adviser, the Funds and their respective general partners, the Adviser has complete and unlimited discretion and authority with respect to the Funds' investments and voting power over investments.

The Adviser GP, Felix J. Baker and Julian C. Baker as principals of the Adviser GP, and the Adviser may be deemed to be beneficial owners of securities of the Issuer directly held by the Funds, and may be deemed to have the power to vote or direct the vote of and the power to dispose or direct the disposition of such securities.

Julian C. Baker, a principal and Dr. Kelvin Neu, an employee of the Adviser, are Directors of the Issuer. In connection with their service on the Board of Directors of the Issuer (the "Board"), Julian C. Baker and Dr. Neu each hold options to purchase 67,085 shares of Common Stock ("Stock Options"). Julian C. Baker and Dr. Neu directly hold 16,665 shares and 20,033 shares of Common Stock, respectively, received for their service on the Board. Julian C. Baker and Dr. Neu serve on the Board as a representatives of the Funds. The policy of the Funds and the Adviser does not permit principals and employees of the Adviser to receive compensation for serving as Directors of the Issuer. Therefore, Julian C. Baker and Dr. Neu have no pecuniary interest in any Stock Options or shares of Common Stock held directly. The Funds are instead entitled to the pecuniary interest in any Stock Options and shares of Common Stock received as director compensation.

The Reporting Persons disclaim beneficial ownership of the securities held by each of the Funds, and this Schedule 13G shall not be deemed an admission that the Reporting Persons are the beneficial owners of such securities for purposes of Section 13(d) or for any other purpose.

Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following ¨. N/A

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

N/A

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company or Control Person.

The information in Item 4 is incorporated herein by reference.

Item 8. Identification and Classification of Members of the Group.

N/A

Item 9. Notice of Dissolution of Group.

N/A

Item 10. Certification.

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and were not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

February 16, 2016

BAKER BROS. ADVISORS LP

By: Baker Bros. Advisors (GP) LLC, its general partner

By: /s/ Scott L. Lessing
Name: Scott L. Lessing
Title: President

BAKER BROS. ADVISORS (GP) LLC

By: /s/ Scott L. Lessing
Name: Scott L. Lessing
Title: President

/s/ Julian C. Baker
Julian C. Baker

/s/ Felix J. Baker
Felix J. Baker

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>Principal payments on long-term debt assumed in conjunction with the acquisition of ScheduleQ (256)

Proceeds from exercise of options and warrants	302	10
Private placement offering, net of offering costs		(7)
Net cash provided by (used in) financing activities	388	(721)
Net decrease in cash and cash equivalents	(1,149)	(2,541)
Cash and cash equivalents at the beginning of the period	4,559	5,471
Cash and cash equivalents at the end of the period	$3,410	$2,930

(continued)

See notes to condensed consolidated financial statements

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UCN, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(in thousands)

	Three months ended March 31, 2007		2006	
Supplemental cash flow information:				
Cash paid for interest	$	190	$	284
Cash paid for taxes	$	8	$	
Supplemental schedule of non-cash investing and financing activities:				
Issuance of common stock related to acquisition of BenchmarkPortal Inc. (Note 3)	$	4,500	$	
Warrants issued to lender for approval of BenchmarkPortal acquisition (Note 3)		83		
Fee charged by lender for approval of BenchmarkPortal acquisition applied to revolving credit facility (Note 3)		40		
Issuance of common stock related to ScheduleQ acquisition (Note 3)		330		
Issuance of long-term debt related to the acquisition of ScheduleQ (Note 3)		302		
Assumption of long-term debt issued to the acquisition of ScheduleQ (Note 3)		256		
Fee charged by lender for modification of certain debt covenants applied to revolving credit facility		35		
Cashless warrant exercise (Note 8)		189		
Warrant issued in conjunction with consulting agreement		68		
Property and equipment included in accounts payable		17		
Property and equipment financed with capital lease obligations				196

(concluded)

During the first quarter of 2007, UCN completed two acquisitions and acquired all outstanding equity of BenchmarkPortal, Inc. and ScheduleQ, LLC. See Note 3 for a complete listing of assets acquired and liabilities assumed through these acquisitions.

See notes to condensed consolidtted financial statements

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UCN, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2007 and 2006

NOTE 1 BASIS OF PRESENTATION

These unaudited interim financial statements of UCN, Inc. and its subsidiaries (collectively UCN) have been prepared in accordance with the rules and regulations of the United States Securities and Exchange Commission (SEC). Such rules and regulations allow the omission of certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States, so long as the statements are not misleading. In the opinion of management, these financial statements and accompanying notes contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position and results of operations for the periods shown. These interim financial statements should be read in conjunction with the audited financial statements and notes thereto contained in the Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the SEC on March 28, 2007. The results of operations for the three month period ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year.

UCN experienced net losses of $1.7 million and $2.1 million for the three months ended March 31, 2007 and 2006, respectively. The primary factors affecting operations during the first quarter of 2007 were: 1) continued investments in the promotion and development of inContact to bring these services to market; 2) $1.8 million of depreciation and amortization; and 3) $196,000 of non-cash stock-based compensation expense (Note 9).

UCN s working capital surplus of $1.6 million at December 31, 2006 decreased to $887,000 at March 31, 2007. The primarily reason for the decrease was a $1.3 million reduction in accounts payable that was offset by a $500,000 increase in the current portion of long-term debt. However, the available borrowings under the revolving credit facility increased $1.0 million to $3.2 million at March 31, 2007 compared to only $2.2 million available at December 31, 2006.

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

UCN has taken the following actions to ensure that UCN will be able to meet its obligations:

In February 2007, UCN closed two acquisitions (Note 3), which improve the overall product offering suite that the Company can offer to existing and potential customers. With these new products, UCN provides customers the ability to monitor agent effectiveness through its customer survey tools and the ability to efficiently monitor their agent needs. These new service offerings provide UCN additional contact and service opportunities to potential customers as well as provide up-sale opportunities to existing customers. During the first quarter, these acquisitions added an additional $535,000 of higher-margin inContact revenue.

The inContact segment experienced its ninth consecutive quarter of revenue growth, which increased to $6.1 million during the quarter, a 105% increase from the same period in 2006. This increase was a result of the selling and promotion effort we have undertaken to bring these products to market. Revenue for the quarter increased over 30% compared to the same period in 2006. Excluding the $535,000 in revenue from the acquisitions, the segment increased 87% compared to the first quarter of 2006. UCN expects to continue to see significant revenue growth in the inContact segment in 2007, which we believe will be enhanced through the BenchmarkPortal and ScheduleQ acquisitions.

For the three months ended March 31, 2007, the inContact segment revenue of $6.1 million includes $3.9 million of related long distance voice and data services and $2.2 million of inContact technology services. For the three months ended March 31, 2006, the inContact segment revenue of $3.0 million includes $2.3 million of long distance voice and data services and $700,000 of inContact technology services.

In addition, in April 2007, ComVest converted the entire $3.4 million convertible note balance into UCN common shares. This conversion will save UCN an estimated $468,000 in cash payments during 2007 and will significantly improve the current ratio in future periods by eliminating the associated current portion of long-term debt.

Management believes these actions will allow UCN to have sufficient cash flows available to meet short-term requirements and to enable UCN to continue as a going concern.

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NOTE 2 ACCOUNTING POLICIES

Adoption of New Accounting Pronouncements

Adoption of FIN 48: In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 requires that entities recognize in their financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 is effective for fiscal years beginning after December 15, 2006. Interest and penalties, if incurred, would be recognized as components of income tax expense. The Company s adoption of FIN 48 on January 1, 2007 had no impact on the Company s condensed consolidated financial statements as the Company does not have any uncertain income tax positions that would require adjustment.

Recent Accounting Pronouncements

Issuance of SFAS 159: In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities, as well as, certain nonfinancial instruments that are similar to financial instruments, at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is selected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact of SFAS 159, but does not expect it to have a material impact on its financial position, results of operations, cash flows or disclosures.

NOTE 3 ACQUISTIONS

BenchmarkPortal, Inc. Acquisition

On February 9, 2007, UCN closed the acquisition of BenchmarkPortal, Inc. to enhance and expand the services offered under the inContact suite of services. Through the acquisition of 100% of BenchmarkPortal s outstanding stock, UCN acquired a call center survey and analysis business, operated under the name of Echo™. The Echo business includes: 1) a customer base; 2) automated survey and analysis software and related service offerings; and 3) the related sales, marketing and technical staff. As consideration for the agreement, UCN paid the following consideration:

- $500,000 in cash to or for the benefit of the BenchmarkPortal stockholders at closing; and
- $4,500,000 by issuing 1,535,836 shares of its restricted common stock to BenchmarkPortal 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 contingent purchase price cash payments to BenchmarkPortal stockholders in 36 equal monthly installments of $55,556, subject to adjustment if monthly recurring revenue during the payout period from customers accounts acquired in the transaction do not remain at certain levels, which are adjusted for estimated attrition; and
- An additional $7.0 million maximum contingent quarterly earn out to BenchmarkPortal 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.

During the first quarter of 2007, UCN paid $55,556 in contingent purchase price payments as described above to BenchmarkPortal stockholders. No earn out payments were made during the first quarter of 2007.

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The following table summarizes the preliminary allocation of estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Current assets	$ 623
Property, plant and equipment	255
Intangibles	5,043
Total assets acquired	5,921
Current liabilities	(203)
Accrued direct acquisition costs	(308)
Deferred revenue	(363)
Other long-term liabilities	(47)
Total liabilities assumed	(921)
Purchase price	$ 5,000
Cash paid	$ 500
UCN common stock issued	4,500
Purchase price	$ 5,000

ScheduleQ, LLC Acquisition

On October 19, 2006, UCN entered into a Reseller License Agreement with ScheduleQ, LLC. Under the terms of the license agreement, UCN 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 the inContact service. At the same time UCN entered into a Purchase Option Agreement with ScheduleQ and the members of that limited liability company. On February 9, 2007, UCN exercised it option to purchase 100% of the outstanding ownership of ScheduleQ, LLC. The acquisition closed on February 15, 2007. To complete the transaction, UCN 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;
- $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 licenses sold by UCN with a minimum aggregate earn out payment of $100,000 and a maximum of $982,000.

The following table summarizes the preliminary allocation of estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in thousands):

Property, plant and equipment	$ 4
Intangibles	919
Total assets acquired	923
Accrued direct acquisition costs	(35)
Assumed notes payable	(256)
Note payable issued	(302)
Total liabilities assumed	(593)
Purchase price	$ 330
UCN common stock issued	$ 330

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The Company has accounted for both the BenchmarkPortal and ScheduleQ transactions using the purchase method of accounting, and has included the operating results of each business in UCN s condensed consolidated statements of operations since the respective date of each acquisition. Management has allocated the purchase price to the acquired tangible and intangible assets and liabilities based on their respective fair values. Management has utilized an independent valuation specialist to assist in estimating the fair values. The following unaudited pro forma financial information presents operating results as if both acquisitions had occurred at the beginning of the respective periods (in thousands except per share data):

	Three months ended March 31, 2007	Three months ended March 31, 2006
Net revenue	$ 20,251	$ 23,270
Net loss	(1,702)	(2,227)
Basic and diluted net loss per share	$ (0.06)	$ (0.10)

These pro forma results have been prepared for comparative purposes only and include certain adjustments such as additional amortization expense as a result of intangible assets arising from the acquisition, additional interest expense as a result of issuing the promissory notes, and depreciation on certain items of equipment acquired. The results are not necessarily indicative either of the results of operations that actually would have resulted had the acquisition been in effect at the beginning of the respective years, or of results to be achieved in the future.

NOTE 4 INTANGIBLE ASSETS

Intangible assets consisted of the following (in thousands):

	March 31, 2007			December 31, 2006		
	Gross Assets	Accumulated Amortization	Intangible assets, net	Gross Assets	Accumulated Amortization	Intangible assets, net
Customer lists acquired	$ 16,495	$ 13,438	$ 3,057	$ 15,684	$ 12,777	$ 2,907
Technology and patents	10,314	5,107	5,207	7,980	4,540	3,440
Trade name and trade marks	1,213		1,213			
Goodwill	1,457		1,457			
Non-compete agreement	376	162	214	154	128	26
	$ 29,855	$ 18,707	$ 11,148	$ 23,818	$ 17,445	$ 6,373

In conjunction with the BenchmarkPortal acquisition (Note 3), UCN recorded the following intangibles (in thousands):

Intangible asset	Estimated Fair Value	Estimated Useful Life	Amortization Method
Technology and patents	$ 1,634	5	Straight line
Goodwill	1,300	Indefinite	Impairment review
Trade name and trade marks	1,194	Indefinite	Impairment review
Customer lists acquired	736	10	Accelerated
Non-compete agreement	179	3	Straight line
Total	$ 5,043		

Also, in conjunction with the BenchmarkPortal acquisition (Note 3), UCN agreed to pay BenchmarkPortal stockholders monthly installments of $55,556 in contingent purchase price payments, subject to adjustment if monthly recurring revenue during the payout period from specified customer accounts acquired does not remain at certain levels, which are adjusted for estimated attrition. During the first quarter, UCN paid BenchmarkPortal stockholders a total of $55,556 in contingent purchase price payments that was recorded to goodwill.

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In conjunction with the ScheduleQ acquisition (Note 3), UCN recorded the following intangibles (in thousands):

Intangible asset	Estimated Fair Value	Estimated Useful Life	Amortization Method
Technology and patents	$ 699	8	Straight line
Goodwill	102	Indefinite	Impairment review
Customer lists acquired	75	5	Accelerated
Non-compete agreement	43	2	Straight line
Total	$ 919		

The goodwill recorded in conjunction with these acquisitions is not deductible for income tax purposes.

NOTE 5 ACCRUED LIABILITIES

Accrued liabilities consisted of the following (in thousands):

	March 31 2007	December 31, 2006
Accrued payroll and other compensation	$ 1,089	$ 656
Accrued payphone and carrier charges	789	782
Current portion of operating lease obligations	207	250
Accrued professional fees	128	164
Other	129	172
	$ 2,342	$ 2,024

NOTE 6 RELATED PARTY TRANSACTIONS

During the three months ended March 31, 2007, UCN paid the Chairman of the Board of Directors (Chairman), $5,000 per month for consulting, marketing, and capital raising activities. The Chairman has also provided certain vendors with his personal guaranty in the amount of up to $800,000, for which UCN has agreed to indemnify the Chairman for any losses for which he may become liable.

NOTE 7 LONG-TERM DEBT, NOTES PAYABLE AND CAPITAL LEASES

Long-term debt, notes payable and capital leases consist of the following (in thousands):

	March 31, 2007	December 31, 2006
Convertible term note to ComVest Capital, LLC of $4.5 million, bearing interest at a fixed 9.0 percent, there are no principal payments due through November 2007 after which the loan requires monthly principal payments of $125,000 with any unpaid amounts due on May 2010, outstanding principal amount is convertible to common stock at $3.00 per share (Note 13)	$ 3,380	$ 3,380
Revolving credit note with ComVest Capital, LLC, with maximum availability of $7.5 million, bearing interest at a fixed 9.0 percent, there are no requirements to repay outstanding principal payments until May 2010	3,833	3,258
Promissory notes payable to former ScheduleQ, LLC shareholders, interest imputed at 9.0 percent, payable monthly, secured by the software code acquired and any improvements thereto. Principal payments due	298	

monthly, final principal payment due February 15, 2011 (Note 3)		
Capital Leases	979	1,042
	8,490	7,680
Current portion of long-term debt, net of debt discounts of $149	(543)	(84)
Current portion of capital lease payments	(693)	(636)
Debt discounts on convertible term note and revolving credit note	(427)	(437)
	$ 6,827	$ 6,523

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NOTE 8 CAPITAL TRANSACTIONS

In January 2007, UCN amended the convertible term note and revolving credit note agreement. In conjunction with this amendment, UCN issued warrants to ComVest Capital, LLC to purchase 55,000 shares of common stock at $2.90 per share. The fair market value of the warrants, using the Black-Scholes pricing model, was $83,000 with an assumed expected volatility of 58.21%, a risk-free rate of return of 4.87%, no dividend yield, and an expected life of 4.3 years. These warrants were included in a registration statement filed with the SEC on Form S-1 to register for resale on April 6, 2007. The registration statement became effective on April 19, 2007.

In conjunction with the BenchmarkPortal acquisition, UCN entered a consulting agreement with the founder of BenchmarkPortal and issued warrants to purchase a total of 60,000 share of UCN common stock at $2.95 per share. The fair market value of the warrants, using the Black-Scholes pricing model, was $68,000 with an assumed expected volatility of 48.63%, a risk-free rate of return of 4.76%, no dividend yield, and an expected life of 3.0 years. This amount will be expensed as a consulting expense over the six month term of the agreement.

During the first quarter of 2007, former employees and two members of UCN s Board of Directors exercised options to purchase a total of 120,668 shares of common stock and UCN received total proceeds of $302,000.

In March 2007, a warrant holder converted 164,125 warrants in a cashless exercise into 36,810 shares of UCN common stock.

In conjunction with the BenchmarkPortal acquisition that was closed in February 2007, UCN issued a total of 1,535,836 shares of its restricted common stock to BenchmarkPortal stockholders (Note 3).

In conjunction with the ScheduleQ acquisition that was closed in February 2007, UCN issued a total of 108,912 shares of its restricted common stock to ScheduleQ stockholders (Note 3).

NOTE 9 STOCK-BASED COMPENSATION

The Condensed Consolidated Financial Statements, for the three months ended March 31, 2007 and 2006, reflect the impact of SFAS 123(R). UCN has allocated the compensation to the respective departments based on location of where the employee s regular compensation is charged as follows (in thousands):

	For the three months ended March 31, 2007	2006
Costs of revenue	$ 1	$ 2
Selling and promotion	74	59
General and administrative	107	80
Research and development	14	12
Total	$ 196	$ 153

UCN estimated the fair value of options granted under its employee stock-based compensation arrangements at the date of grant using the Black-Scholes model with the following weighted-average assumptions for the three months ended March 31, 2007 and 2006:

	March 31, 2007	March 31, 2006
Dividend yield	None	None
Volatility	59%	79%
Risk-free interest rate	4.47%	4.64%
Expected life (years)	3.5	4.4
Weighted average fair value of option grants	$ 1.63	$ 1.32
Forfeiture rate	5.3%	5.3%

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The following tables summarize all stock option activity during the three months ended March 31, 2007 and 2006, respectively (in thousands, except per share data):

	Options	Price range ($)	Weighted Average Exercise Price	Intrinsic Value
Balance at January 1, 2007	3,163	$ 2.00 -$5.39	$ 2.39	$ 1,627
Granted	1,285	2.93 - 3.63	3.49	
Exercised	(120)	2.50	2.50	148
Cancelled or expired	(67)	2.50 - 3.17	2.62	
Balance at March 31, 2007	4,261	$ 2.00 -$5.39	$ 2.37	$ 4,390

	Options	Price range ($)	Weighted Average Exercise Price ($)	Intrinsic Value
Balance at January 1, 2006	3,526	$ 2.00 -$5.39	$ 2.37	$ 1,627
Granted	128	2.00 - 2.18	2.22	
Exercised	(5)	2.00	2.00	2
Cancelled or expired	(160)	2.00 - 3.69	2.39	
Balance at March 31, 2006	3,489	$ 2.00 -$5.39	$ 2.37	$ 717

A summary of the options outstanding and options exercisable at March 31, 2007 is as follows (in thousands, except per share amounts):

	Options Outstanding			Options Exercisable	
Exercise price range	Options	Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$2.00-$2.30	1,552	2.7 years	$ 2.04	1,011	$ 2.03
$2.31-$2.66	733	1.9 years	2.50	734	2.49
$2.67-$3.07	575	2.8 years	2.81	483	2.79
$3.08-$5.39	1,401	3.2 years	3.54	46	5.39
	4,261	2.5 years	$ 2.72	2,274	$ 2.41
Intrinsic Value	$ 2,896			$ 3,081	

A summary of the activity for non-vested share awards as of March 31, 2007 and changes during the three month period is as follows (in thousands, except per share amounts):

	Options	Weighted Average Option Fair Value
Balance at January 1, 2007	797	$ 1.10
Granted	1,285	1.63
Vested	(67)	1.37
Cancelled or expired	(28)	1.44

Balance at March 31, 2007	1,987	$	1.43

As of March 31, 2007 and 2006, there was $1,088 and $652,000 of total unrecognized compensation cost related to non-vested share-based compensation awards granted under UCN s stock option plans. That cost is expected to be recognized over a weighted average period of 4.5 and 3.2 years, respectively.

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NOTE 10 MAJOR SUPPLIERS

Approximately 58% and 67% of UCN s cost of revenue for the three months ended March 31, 2007 and 2006, respectively, was generated from three of the largest U.S. telecommunication service providers. UCN owed $2.9 million and $4.8 million to these three providers as of March 31, 2007 and December 31, 2006, respectively.

NOTE 11 SEGMENTS

UCN manages its business based on two customer segments: Telecom and inContact. The Telecom segment includes all voice and data long distance services provided to customers not utilizing any inContact services. The inContact segment includes revenues from customers using any inContact services as well as their long distance voice and data services. InContact services include automatic call distribution, interactive voice response, data storage, email, chat, computer telephony integration, call recording, conferencing and reporting. In mid February 2007, UCN closed two strategic acquisitions which have been added to the inContact segment. The BenchmarkPortal, Inc. acquisition allows us to provide customers a hosted process for measuring the effectiveness of agent interactions with clients. The ScheduleQ, LLC acquisition allows UCN to provide its customers a hosted solution for automating the scheduling, forecasting and alert notification functions common to most contact center/customer service type operations. These additions augment UCN s all-in-one hosted inContact solution.

For the three months ended March 31, 2007, the inContact segment revenue of $6.1 million includes $3.9 million of related long distance voice and data services and $2.2 million of inContact technology services. For the three months ended March 31, 2006, the inContact segment revenue of $3.0 million includes $2.3 million of long distance voice and data services and $700,000 of inContact technology services. Management will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

Operating segment revenues and profitability for the three months ended March 31, 2007 and 2006 were as follows (in thousands):

	Three Months Ended March 31, 2007		
	Telecom	**inContact**	**Consolidated**
Revenue	$ 13,749	$ 6,071	$ 19,820
Costs of revenue (excluding depreciation and amortization shown seperately below)	8,926	2,611	11,537
Selling and promotion	1,739	2,111	3,850
General and administrative	2,248	1,451	3,699
Depreciation and amortization	1,116	676	1,792
Research and development		428	428
Loss from operations	$ (280)	$ (1,206)	$ (1,486)

	Three Months Ended March 31, 2006		
	Telecom	**inContact**	**Consolidated**
Revenue	$ 19,667	$ 2,955	$ 22,622
Costs of revenue (excluding depreciation and amortization shown seperately below)	13,914	1,569	15,483
Selling and promotion	2,220	1,398	3,618
General and administrative	2,554	704	3,258
Depreciation and amortization	1,389	490	1,879
Research and development		309	309
Loss from operations	$ (410)	$ (1,515)	$ (1,925)

NOTE 12 SUBSEQUENT EVENTS

On April 18, 2007, ComVest Capital exercised its right to convert the term note to common stock. UCN issued 1,126,664 shares of common stock on conversion of approximately $3.4 million in principal amount of the convertible term note and paid, in cash, $15,210 of interest and $2 on a fractional share to ComVest in complete payment and satisfaction of that note. The shares of common stock issued to ComVest Capital were previously registered for resale under a registration statement on Form S-1 filed with the Securities and Exchange Commission.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
Basis of presentation

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the December 31, 2006 consolidated financial statements and notes thereto, along with the Management s Discussion and Analysis of Financial Condition and Results of Operations included in UCN s 2006 Annual Report on Form 10-K, filed separately with the U.S. Securities and Exchange Commission.

Overview

UCN, Inc. (UCN or the Company) offers a wide range of hosted contact handling and performance management software services, 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 inbound local 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.

UCN is a Network Applications Provider that provides on-demand, hosted, contact handling software (through our inContact applications suite of services) and business telecommunication services delivered over our own, proprietary national Voice over Internet Protocol Network (VoIP Network). The inContact application suite includes an integrated package of advanced contact handling, reporting and administration applications and performance monitoring and management tools along with a unique rapid application development tool.

We offer a set of traditional connectivity products, which include the dedicated voice T1 product, the Intelligent-T , VoIP connectivity services and our switched 1+ services, that enable our customer sites to connect to UCN s VoIP Network and gain access to our inContact services. Our customers publish toll free and inbound local numbers to their customer base, enabling inbound callers to be handled 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.

Results of Operations

Revenue

Total revenues decreased $2.8 million or 12% to $19.8 million for the three months ended March 31, 2007 from $22.6 million compared to the same period in 2006. The decrease is primarily due to UCN terminating its relationship with several large-volume low-margin customers during the second quarter of 2006. These losses were offset by increases in inContact segment revenue, which were $6.1 million for the quarter compared to $3.0 million during the same period in 2006. In mid February 2007, UCN closed two strategic acquisitions which added $535,000 of additional revenue to our inContact segment. The BenchmarkPortal, Inc. acquisition allows us to provide customers a hosted process for measuring the effectiveness of agent interactions with clients. The ScheduleQ acquisition allows us to provide our customers a hosted solution for automating the scheduling, forecasting and alert notification functions common to most contact center/customer service type operations. These additions augment our all-in-one hosted inContact solution.

We continue focusing marketing efforts on providing on-demand contact center hosted solution 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 customers is much greater than through the sale of traditional long distance services to residential customers. We have developed a menu of enhanced communication services that we are marketing to our existing and potential customers 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

Costs of revenue decreased $3.9 million or 25% to $11.5 million for the three months ended March 31, 2007 from $15.5 million for the same period in 2006. Consistent with other telecommunication companies, we do not included amortization and depreciation in our calculation of costs of revenue. Costs of revenue as a percentage of revenue improved to 58.2% during the quarter compared to 68.4% in the same period in 2006. We have continued to improve our cost of revenue as a percentage of revenue percentage by implementing cost cutting measures, increasing higher margin inContact revenue, and terminating our relationship with large-volume low-margin customers.

As noted above, 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

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margins from the sales of these technology services as we add higher gross margin inContact customers. 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 6% or $232,000 to $3.9 million during the three months ended March 31, 2007, from $3.6 million during the same period in 2006 primarily due to an overall increase in the number of sales and lead generation activities. Our sales force grew substantially through the addition of employees related to the BenchmarkPortal and ScheduleQ acquisitions closed during the quarter.

General and administrative

General and administrative expenses for the three months ended March 31, 2007 increased 14% or $441,000 to $3.7 million compared to $3.3 million in the same period in 2006. The increase is primarily due to an overall increase in salaries and benefits during the year due to the growth of the company. Our general and administrative staff grew substantially through the addition of employees related to the BenchmarkPortal and ScheduleQ acquisitions closed during the quarter.

Segment Reporting

We manage our business based on two customer segments: Telecom and inContact. The Telecom customer segment includes all voice and data long distance services provided to customers not utilizing any inContact services. The inContact customer segment includes revenues from customers using any inContact services as well as their related long distance voice and data services. The inContact segment services include automatic call distribution, interactive voice response, data storage, email, chat, computer telephony integration, call recording, conferencing and reporting. In mid February 2007, UCN closed two strategic acquisitions which have been added to our inContact segment. The BenchmarkPortal, Inc. acquisition allows us to provide customers a hosted process for measuring the effectiveness of agent interactions with clients. The ScheduleQ, LLC acquisition allows us to provide our customers a hosted solution for automating the scheduling, forecasting and alert notification functions common to most contact center/customer service type operations. These additions augment our all-in-one hosted inContact solution. We will continue to evaluate the components of the inContact segment as future strategic initiatives are implemented.

inContact Customer Segment

The inContact segment experienced its ninth consecutive quarter of revenue growth, which increased to $6.1 million during the quarter, which is a 105% increase from the same period in 2006 as a result of the selling and promotion effort we have undertaken to bring these products to market. The BenchmarkPortal and ScheduleQ acquisitions that were closed during mid February added an additional $535,000 of revenue during the quarter. Excluding the $535,000 in revenue from the acquisitions, the segment increased 87% compared to the first quarters of 2006.

For the three months ended March 31, 2007, the inContact segment revenue of $6.1 million includes $3.9 million of related long distance voice and data services and $2.2 million of inContact technology services. For the three months ended March 31, 2006, the inContact segment revenue of $3.0 million includes $2.3 million of long distance voice and data services and $700,000 of inContact technology services.

Costs of revenue as a percentage of revenue improved during the three months ended March 31, 2007 to 43.0% from 53.1% during the same period in 2006. These significant improvements are primarily due to closing higher margin inContact deals with new customers. We anticipate that margins will continue to improve as we add customers with more inContact technology services. 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 105% during the quarter compared to the same period in 2006. We also continue to develop the services provided in the segment by investments in research and development. During the quarter, we spent $428,000 in research and development costs.

Telecom Customer Segment

We continue to see decreases in the Telecom segment; however the attrition rates are in line with our expectations. Overall segment revenue decreased 30% during the quarter compared to the same period in 2006. These decreases were primarily due to UCN terminating its relationship with several large-volume low-margin customers during the second quarter of 2006 as well as up selling inContact services to several legacy Telecom customers. When an existing Telecom customer turns up inContact services, all of their Telecom revenue is moved to the inContact segment. We expect that revenue from the Telecom Segment will continue to decrease due to normal attrition rates as well as movement of customers from the Telecom customer segment to the inContact customer segment.

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With the decline in revenues from the segment, we have been able to reduce overall costs in the segment. Our costs of revenue decreased 36% during the quarter compared to the same period in 2006. Net loss from operations for the segment decreased 31% to $281,000 from $407,000 during the same period in 2006.

Liquidity and Capital Resources

Net cash used in operating activities for the three months ended March 31, 2007 was $323,000 primarily due a significant decrease in trade accounts payable of $1.3 million which was partially offset by a decrease in accrued liabilities. Our net loss of $1.7 million includes: 1) $1.8 million of depreciation and amortization; and 2) stock-based compensation expense of $196,000 of non-cash stock-based compensation. Net cash used in investing activities was $1.2 for the three months ended March 31, 2007, which was made up of: 1) $686,000 paid in conjunction with the acquisition of BenchmarkPortal, and 2) $438,000 in purchases of property and equipment. Net cash provided by financing activities was $338,000 for the three months ended March 31, 2007 primarily due to: 1) $500,000 draw on the revolving line of credit, 2) $301,000 received from the exercise of stock options. The cash increases from financing activities were partially offset by: 1) $256,000 paid in conjunction with debt assumed in the ScheduleQ acquisition, and $157,000 of other payments on long-term debt.

In January 2007, UCN amended the convertible term note and revolving credit note agreement. In conjunction with this amendment, UCN issued warrants to ComVest Capital, LLC to purchase 55,000 shares of common stock at $2.90 per share. The fair market value of the warrants, using the Black-Scholes pricing model, was $83,000 with an assumed expected volatility of 58.21%, a risk-free rate of return of 4.87%, no dividend yield, and an expected life of 4.3 years. These warrants were included in a registration statement filed with the SEC on Form S-1 to register for resale on April 6, 2007. The registration statement became effective on April 19, 2007.

In conjunction with the BenchmarkPortal acquisition, UCN entered a consulting agreement with the founder of BenchmarkPortal and issued warrants to purchase a total of 60,000 share of UCN common stock at $2.95 per share. The fair market value of the warrants, using the Black-Scholes pricing model, was $68,000 with an assumed expected volatility of 48.63%, a risk-free rate of return of 4.76%, no dividend yield, and an expected life of 3.0 years.

During the first quarter of 2007, former employees and two members of UCN s Board of Directors exercised options to purchase a total of 120,668 shares of common stock and UCN received total proceeds of $302,000.

In March 2007, a warrant holder converted 164,125 warrants in a cashless exercise into 36,810 shares of UCN common stock.

In conjunction with the BenchmarkPortal acquisition that was closed in February 2007, UCN issued a total of 1,535,836 shares of its restricted common stock to BenchmarkPortal stockholders.

In conjunction with the ScheduleQ acquisition that was closed in February 2007, UCN issued a total of 108,912 shares of its restricted common stock to ScheduleQ stockholders.

Our current ratio as of March 31, 2007 decreased slightly to 1.07:1 from 1.19:1 at December 31, 2006. The primarily reason for the decrease is due to a $1.7 million decrease in accounts receivable and $1.1 million in overall cash balances, These decreases in current assets were offset by a $1.5 million decrease in accounts payable during the quarter offset a by an increase in current portion of long-term debt. At March 31, 2007, we had $3.2 million of remaining available borrowing under the revolving credit facility compared to only $2.2 million available at December 31, 2006. As noted above, in April 2007, ComVest converted the entire convertible note, which will save UCN approximately $468,000 in cash payments during 2007 and will significantly improve the current ratio by eliminating the associated current portion of long-term debt.

We experienced net losses of $1.7 million and $2.1 million for the three months ended March 31, 2007 and 2006, respectively. The primary factors affecting operations during the first quarter of 2007 were: 1) continued investments in the promotion and development of inContact to bring these services to market; 2) $1.8 million of depreciation and amortization; and 3) $196,000 of non-cash stock-based compensation expense (Note 9).

Our working capital surplus of $1.6 million at December 31, 2006 decreased to $887,000 at March 31, 2007. The primarily reason for the decrease was a $1.3 million reduction in accounts payable that was offset by a $500,000 increase in the current portion of long-term debt. However, the available borrowings under our revolving credit facility increased $1.0 million to $3.2 million at March 31, 2007 compared to only $2.2 million available at December 31, 2006.

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The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might be necessary should we be unable to continue as a going concern. Our continuation as a going concern is dependent upon the ability to generate sufficient cash flow to meet obligations on a timely basis and ultimately to achieve successful operations.

We have taken the following actions to ensure that we will be able to meet its obligations:

In February 2007, we closed two acquisitions (Note 3), which improve the overall product offering suite that the Company can offer to existing and potential customers. With these new products, we provide customers the ability to monitor agent effectiveness through its customer survey tools and the ability to efficiently monitor their agent needs. These new service offerings provide us additional contact and service opportunities to potential customers as well as provide up-sale opportunities to existing customers. During the first quarter, these acquisitions added an additional $535,000 of higher-margin inContact revenue.

Our inContact segment experienced its ninth consecutive quarter of revenue growth, which increased to $6.1 million during the quarter, a 105% increase from the same period in 2006. This increase is a result of the selling and promotion effort we have undertaken to bring these products to market. Revenue for the quarter increased over 30% compared to the same period in 2006. Excluding the $535,000 in revenue from the acquisitions, the segment increased 87% compared to the first quarter of 2006. We expect to continue to see significant revenue growth in the inContact segment in 2007, which we believe will be enhanced through the BenchmarkPortal and ScheduleQ acquisitions.

For the three months ended March 31, 2007, the inContact segment revenue of $6.1 million includes $3.9 million of related long distance voice and data services and $2.2 million of inContact technology services. For the three months ended March 31, 2006, the inContact segment revenue of $3.0 million includes $2.3 million of long distance voice and data services and $700,000 of inContact technology services.

In addition, in April 2007, ComVest converted the entire $3.4 million convertible note balance into UCN common shares. This conversion will save us an estimated $468,000 in cash payments during 2007 and will significantly improve the current ratio in future periods by eliminating the associated current portion of long-term debt.

We believe these actions will allow us to have sufficient cash flows available to meet short-term requirements and to enable us to continue as a going concern.

Critical accounting policies and estimates

A summary of our other significant accounting policies is discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations and in Note 1 of our Annual Report on Form 10-K for the year ended December 31, 2006.

The preparation of the financial statements in accordance with U.S. generally accepted accounting principles requires us to make judgments, estimates and assumptions regarding uncertainties that affect the reported amounts of assets and liabilities. Significant areas of uncertainty that require judgments, estimates and assumptions include the accounting for derivatives, retirement plans, income taxes, environmental and other contingencies as well as asset impairment, inventory valuation and collectibility of accounts receivable. We use historical and other information that we consider to be relevant to make these judgments and estimates. However, actual results may differ from those estimates and assumptions that are used to prepare our financial statements.

Adoption of New Accounting Pronouncements

Adoption of FIN 48: In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 requires that entities recognize in their financial statements the impact of a tax position if that position is more likely than not of being sustained on audit, based on the technical merits of the position. FIN 48 is effective for fiscal years beginning after December 15, 2006. Interest and penalties, if incurred, would be recognized as components of income tax expense. The Company s adoption of FIN 48 on January 1, 2007 had no impact on the Company s condensed consolidated financial statements as the Company does not have any uncertain income tax positions that would require adjustment.

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Recent Accounting Pronouncements

Issuance of SFAS 159: In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS 159). SFAS 159 allows entities to voluntarily choose, at specified election dates, to measure many financial assets and financial liabilities, as well as, certain nonfinancial instruments that are similar to financial instruments, at fair value (the fair value option). The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is selected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. The Statement is effective as of the beginning of an entity s first fiscal year that begins after November 15, 2007. The Company is currently assessing the impact of SFAS 159, but does not expect it to have a material impact on its financial position, results of operations, cash flows or disclosures.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk is limited to interest rate sensitivity, which is affected by changes in the general level of U.S. interest rates. Our cash equivalents are invested with high quality issuers and limit the amount of credit exposure to any one issuer. Due to the short-term nature of the cash equivalents, we believe that we are not subject to any material interest rate risk as it relates to interest income. All outstanding debt instruments at March 31, 2007 have fixed interest rates and are therefore not subject to interest rate risk.

We did not have any foreign currency hedges or other derivative financial instruments as of March 31, 2007. We do not enter into financial instruments for trading or speculative purposes and do not currently utilize derivative financial instruments. Our operations are conducted in the United States and as such are not subject to foreign currency exchange rate risk.

ITEM 4. CONTROLS AND PROCEDURES

With the participation of management, UCN s chief executive officer and chief financial officer evaluated disclosure controls and procedures on March 31, 2007. Based on this evaluation, the chief executive officer and the chief financial officer concluded that the disclosure controls and procedures are effective in connection with UCN s filing of its quarterly report on Form 10-Q for the three months ended March 31, 2007.

During the three months ended March 31, 2007 there have been no significant changes in UCN s internal controls or in other factors that could significantly affect these controls, including any significant deficiencies or material weaknesses of internal controls that would require corrective action.

PART II

ITEM 1A. RISK FACTORS

The Private Securities Litigation Reform Act of 1985 provides a safe harbor for forward-looking statements made by UCN, except where such statements are made in connection with an initial public offering. All statements, other than statements of historical fact, which address activities, actions, goals, prospects, or new developments that we expect or anticipate will or may occur in the future, including such things as expansion and growth of our operations and other such matters are forward-looking statements. Any one or a combination of factors could materially affect our operations and financial condition. These factors include competitive pressures, success or failure of marketing programs, changes in pricing and availability of services and products offered to customers, legal and regulatory initiatives affecting customer marketing and rebate programs or long distance service, and conditions in the capital markets. Forward-looking statements made by us are based on knowledge of our business and the environment in which we operate as of the date of this report. Because of the factors discussed below, as well as other factors set forth under the Item 1A. Risk Factors in our Annual Report on Form 10-K for 2006, actual results may differ from those in the forward-looking statements.

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ITEM 6. EXHIBITS

Exhibit No.	Title of Document
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certifications of the Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
99.1	UCN Reports First Quarter 2007 Results

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UCN, INC.

Date: May 14, 2007

By: /s/ Paul Jarman
Paul Jarman
Chief Executive Officer

Date: May 14, 2007

By: /s/ Brian S. Moroney
Brian S. Moroney
Principal Financial and Accounting Officer